THE CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Vanke Property (Overseas) Limited, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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vanke

萬科置業（海外）有限公司
VANKE PROPERTY (OVERSEAS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01036)

(1)VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; (2) CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

SUCCESS NEW SPRING CAPITAL LIMITED
實德新源資本有限公司
SUCCESS

A letter from the Board is set out on pages 8 to 39 of this circular. A letter from the Independent Board Committee is set out on pages 40 to 41 of this circular. A letter from Success New Spring Capital, the independent financial adviser, containing its advice to Independent Board Committee and the Independent Shareholders is set out on pages 42 to 91 of this circular.

A notice convening the extraordinary general meeting of the Company to be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 6 June 2019 at 11:00 a.m. (or immediately after the conclusion of the annual general meeting of the Company) is set out on pages EGM-1 to EGM-3 to this circular. Whether or not you are able to attend and/or vote at the extraordinary general meeting in person, you are requested to complete the enclosed proxy form and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjournment thereof in person should you so wish.

21 May 2019

CONTENTS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

"Acquisitions"	the London Property Acquisition, the San Francisco Property Acquisition and the New York Investment Instrument Acquisition
"Acquisition Agreements"	the London Property Acquisition Agreement, the San Francisco Property Acquisition Agreement and the New York Investment Instrument Acquisition Agreement
"affiliate"	in relation to a body corporate, any subsidiary undertaking or parent undertaking of such body corporate, and any subsidiary undertaking of any such parent undertaking for the time being
"Announcement"	the announcement of the Company dated 8 March 2019 in relation to the Acquisition Agreements and the Management Services Framework Agreement
"Annual Caps"	the proposed annual caps in relation to the transactions contemplated under the Management Services Framework Agreement for the three years ending 31 December 2019, 2020 and 2021
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Bravo"	Bravo J Limited, a company incorporated in the Cayman Islands with limited liability and an indirect wholly-owned subsidiary of China Vanke
"Business Day(s)"	means a day (excluding a Saturday or Sunday and any day on which a tropical cyclone warning signal no. 8 or above or a "black" rainstorm warning signal is hoisted or remains hoisted in Hong Kong at any time between 9:00 a.m. to 5:00 p.m.) on which licensed banks in Hong Kong are open for general banking business
"China Vanke"	China Vanke Co., Ltd.* (萬科企業股份有限公司), a joint stock company established in the PRC with limited liability, the issued H Shares of which are listed on the Stock Exchange (stock code: 2202) and the issued A Shares of which are listed on the Shenzhen Stock Exchange (stock code: 000002)

"China Vanke Group"	China Vanke and its subsidiaries from time to time, excluding the Enlarged Group
"Company"	Vanke Property (Overseas) Limited (萬科置業 (海外) 有限公司), a company incorporated in the Cayman Islands with limited liability, the issued Shares of which are listed on the Stock Exchange (stock code: 01036)
"Completion"	completion of the Acquisitions in accordance with the Acquisition Agreements
"Completion Date"	the business day to perform Completion which shall be within 30 Business Days immediately following the satisfaction (or waiver) of all the conditions precedent pursuant to the Acquisition Agreements (or any other date as agreed between the parties in writing)
"connected person"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions"	the continuing connected transactions contemplated under the Management Services Framework Agreement
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company proposed to be convened and held on 6 June 2019 for the Shareholders to consider and, if thought fit, approve, among others, (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps
"Enlarged Group"	the Group as enlarged by the Sale Companies, VPO Management Holding, VPO UK and VPO US upon Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	Hong Kong Special Administrative Region of the PRC

"Independent Board Committee"	the independent board committee of the Board, comprising Mr. Chan Wai Hei, William, Ms. Law Chi Yin, Cynthia, Mr. Zhang Anzhi, being all the independent non-executive Directors, established for the purpose of, among other things, advising the Independent Shareholders in respect of the Acquisitions contemplated under the Acquisition Agreements and the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps
"Independent Financial Adviser" or "Success New Spring Capital"	Success New Spring Capital Limited (實德新源資本有限公司), a licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO, being the appointed independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps
"Independent Shareholders"	the shareholders of the Company other than China Vanke and its associates
"Independent Third Party(ies)"	a party who is not a connected person of the Company and is independent of the Company and its connected persons
"Jersey"	the Bailiwick of Jersey, a British Crown Dependency
"Knight Frank"	Knight Frank Petty Limited, a firm of qualified valuers engaged by the Company, and an Independent Third Party
"Latest Practicable Date"	17 May 2019, being the latest practicable date for the purpose of ascertaining certain information contained in this circular prior to its publication
"Listing Rules"	The Rules Governing the Listing of Securities on The Hong Kong Stock Exchange of Hong Kong Limited
"London Property"	the property located at Ryder Court, 13–17 Bury Street and 12, 14 and 16 Ryder Street, St James's, London, SW1, the United Kingdom
"London Property Acquisition"	the acquisition of the London Sale Shares pursuant to the terms and conditions of the London Property Acquisition Agreement

"London Property Acquisition Agreement"	the agreement dated 7 March 2019 entered into between Vanke UK Investment and VPHK in respect of the London Property Acquisition
"London Sale Shares"	999,479 ordinary shares and 172,419 redeemable preference shares of the London Target, representing approximately 99.95% of the entire issued share capital of the London Target
"London Target"	Lithium TopCo Limited, a company incorporated in the British Virgin Islands with limited liability and a 99.95%-owned subsidiary of VPHK immediately before the Completion
"London Target Group"	London Target and its subsidiaries
"Long Stop Date"	31 December 2019 or such other date as the parties may agree in writing
"Management Services Framework Agreement"	the agreement dated 7 March 2019 entered into between the VPO Parties and the VPHK Parties in relation to the provision of Overseas Management Services from the VPO Parties to the VPHK Parties (including other subsidiaries of China Vanke which may become interested in any real estate development and/or investment projects (other than investments in the funds managed by an Independent Third Party and its subsidiaries))
"Mission Venture Group"	Mission Venture LLC and its subsidiaries
"Mission Venture LLC"	657–667 Mission Street Venture LLC, a company incorporated in the United States of the America and a 45% interested associated company of the SF Target Group
"New York Investment Instrument Acquisition"	the acquisition of the NY Sale Share and the NY Sale Loan pursuant to the terms and conditions of the New York Investment Instrument Acquisition Agreement
"New York Investment Instrument Acquisition Agreement"	the agreement dated 7 March 2019 entered into between Vanke US Investment and the NY Vendor in respect of the New York Investment Instrument Acquisition
"NY Intermediate Companies"	NY SPV 1 and NY SPV 2
"NY Property"	the property located at 25 Park Row, New York, the United States of America

"NY Sale Loan"	the entire amount of the principal, interest (if any) and other sums and indebtedness due, owing or payable to the NY Vendor by the NY Target as at Completion
"NY Sale Share"	1 share of the NY Target, representing the entire issued share capital of the NY Target
"NY SPV 1"	Park Row 23 Equity LLC, a company incorporated in the State of Delaware with limited liability
"NY SPV 2"	Park Row 23 Mezz LLC, a company incorporated in the State of Delaware with limited liability
"NY Target"	Supreme J Limited, a company incorporated in the Cayman Islands with limited liability
"NY Vendor"	Chogori Investment (Hong Kong) Limited, a company incorporated in Hong Kong with limited liability and an indirect wholly-owned subsidiary of China Vanke
"Overseas Management Services"	the services to be provided by the VPO Parties to the VPHK Parties (including other subsidiaries of China Vanke which may become interested in any real estate development and/or investment projects (other than investments in the funds managed by an Independent Third Party and its subsidiaries)) pursuant to the Management Services Framework Agreement
"Overseas Management Team"	the employees of the VPO Parties who are responsible for overseeing and managing the business of property development and investment in the United Kingdom and the United States of America which will be employed by the relevant VPO Party(ies) upon Completion
"PRC"	the People's Republic of China and for the purposes of the matters referred to in this circular, excluding Hong Kong, the Macau Special Administrative Region and Taiwan
"Sale Companies"	the London Target Group, the SF Target Group and the NY Target
"San Francisco Property Acquisition"	the acquisition of the SF Sale Share and SF Sale Loan pursuant to the terms and conditions of the San Francisco Property Acquisition Agreement
"San Francisco Property Acquisition Agreement"	the agreement dated 7 March 2019 entered into between Vanke US Investment and VPHK in respect of the San Francisco Property Acquisition

"SF Property"	the property located at 657 and 663–667 Mission Street, San Francisco, California, the United States of America
"SF Sale Share"	1 share in the share capital of the SF Target, representing the entire issued share capital of the SF Target
"SF Sale Loan"	the entire amount of the principal, interest (if any) and other sums and indebtedness due, owing or payable to VPHK by the SF Target Group as at Completion
"SF Target"	657–667 Mission Limited, a company incorporated in the Cayman Islands with limited liability and a wholly-owned subsidiary of VPHK immediately before the Completion
"SF Target Group"	SF Target and its subsidiary
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholders"	holder(s) of the Share(s)
"sq.ft."	square feet
"sq. m."	square metre(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiaries"	has the meaning ascribed to it under the Listing Rules
"substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"Target Cities"	London, San Francisco and New York
"Target Properties"	the London Property, the SF Property and the NY Property
"USD"	United States dollar(s), the lawful currency of the United States of America
"Vanke UK Investment"	Vanke UK Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Vanke US"	Vanke Holdings USA LLC, a limited liability company incorporated in the State of Delaware and a wholly-owned subsidiary of China Vanke

"Vanke US Investment"	Vanke US Investment Company Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"VPHK"	Vanke Property (Hong Kong) Company Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of China Vanke which indirectly holds 75% of the issued share capital of the Company and is a controlling Shareholder
"VPHK Group"	VPHK and its subsidiaries
"VPHK Parties"	Vanke US, VPHK and NY Vendor, each a VPHK Party
"VPO Management Holding"	Vanke Overseas Management Holding Company Limited, a company incorporated in British Virgin Islands with limited liability and is a wholly-owned subsidiary of the Company
"VPO Parties"	VPO Management Holding, VPO UK and VPO US, each a "VPO Party"
"VPO UK"	Vanke Overseas UK Management Limited, a company incorporated in England and Wales with limited liability and a 80%-owned subsidiary of the Company with the remaining 20% beneficially owned by key members of the Overseas Management Team in the United Kingdom
"VPO US"	Vanke US Management LLC, a limited liability company incorporated in the State of Delaware and a 80%-owned subsidiary of the Company with the remaining 20% beneficially owned by key members of the Overseas Management Team in the United States of America
"Wkland Investments"	Wkland Investments Company Limited, a company incorporated in the British Virgin Islands with limited liability and an indirect wholly-owned subsidiary of China Vanke
"%"	per cent
"£" or "GBP"	British pound sterling, the lawful currency of the United Kingdom

* *For identification purpose only*

In this circular, conversion of USD into HK$ is based on the exchange rate of USD1 to HK$7.8472 and conversion of £ into HK$ is based on the exchange rate of £1 to HK$10.3279. The exchange rates have been used, where applicable, for the purposes of illustration only and do not constitute a representation that any amounts in USD, £ or HK$ were or may have been exchanged at this or any other rates or at all.

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萬科置業(海外)有限公司

VANKE PROPERTY (OVERSEAS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01036)

Executive Directors:
Mr. ZHANG Xu *(Chairman)*
Ms. QUE Dongwu *(Chief Executive Director)*

Non-executive Directors:
Mr. CHAN Chi Yu
Mr. LEE Kai-Yan
Ms. LIN Lily

Independent Non-executive Directors:
Mr. CHAN Wai Hei, William
Ms. LAW Chi Yin, Cynthia
Mr. ZHANG Anzhi

Registered office:
P.O. Box 309,
Ugland House,
Grand Cayman, KY1-1104,
Cayman Islands

Principal place of business in Hong Kong:
55/F, Bank of China Tower,
1 Garden Road,
Central,
Hong Kong

21 May 2019

To: The Shareholders

Dear Sir or Madam,

(1)VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; (2) CONTINUING CONNECTED TRANSACTIONS; AND (3) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the announcement of the Company dated 8 March 2019 in relation to the Acquisition Agreements and the Management Services Framework Agreement.

The purpose of this circular is to provide you with, among other things, (i) details of the Acquisition Agreements and the transactions contemplated thereunder; (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps; (iii) a letter form the Independent Board Committee to the Independent Shareholders regarding the Acquisition Agreements and the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps; (iv) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent

Shareholders regarding the Acquisition Agreements and the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps; (v) financial information of the Group; (vi) financial information of the Sale Companies; (vii) unaudited pro forma financial information of the Enlarged Group; and (viii) valuation report on the Target Properties.

I. THE ACQUISITIONS

On 7 March 2019 (after trading hours), the Company (through its subsidiaries) entered into three separate agreements with certain wholly-owned subsidiaries of China Vanke for the proposed acquisitions of equity interests or investment instrument (as the case may be) in certain properties in London, the United Kingdom, and San Francisco and New York in the United States of America, namely, (1) approximately 99.95% effective interest in Ryder Court, 13–17 Bury Street and 12, 14 and 16 Ryder Street, St James's, London, SW1, the United Kingdom; (2) 45% effective interest in the property located at 657 and 663–667 Mission Street, San Francisco, California, the United States of America; and (3) 100% of the holding entity which participates in 49% effective interest in the investment instruments for funding the development of the property located at 25 Park Row, New York, the United States of America, for a total cash consideration equivalent to approximately HK$1,138.34 million, subject to the terms and conditions as set out in the respective agreements for the Acquisitions.

Save as waived by the relevant subsidiaries (as the case may be) of the Company in their entire discretion, the Acquisitions are inter-conditional and shall be completed simultaneously.

(1) London Property Acquisition

On 7 March 2019 (after trading hours), Vanke UK Investment entered into the London Property Acquisition Agreement with VPHK, pursuant to which Vanke UK Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the London Sale Shares, representing approximately 99.95% of the entire issued share capital of the London Target for a consideration of approximately £42.38 million (approximately HK$437.70 million) by way of cash. The London Target indirectly owns and operates the London Property (which is valued at no less than £115.45 million (equivalent to approximately HK$1,192.36 million) based on 100% basis).

The London Property Acquisition Agreement

The principal terms of the London Property Acquisition Agreement are set out below:

Date

7 March 2019

Parties

(1) Vanke UK Investment, as the purchaser; and

(2) VPHK, as the vendor.

Assets to be acquired

Pursuant to the London Property Acquisition Agreement, Vanke UK Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the London Sale Shares, being 99.95% of the entire issued share capital of the London Target.

The remaining approximately 0.05% of the issued share capital of the London Target is beneficially owned by certain employees of China Vanke (including a non-executive Director) who are investing in the London Target and are responsible for managing the London Target as a co-investment arrangement and will remain to be the case after Completion. As the investment of the non-executive Director, as a connected person of the Company, in the London Target through such employee co-investment mechanism is less than HK$3 million, such co-investment will be regarded as a fully exempt connected transaction on the part of the Company.

Consideration

The consideration is approximately £42.38 million (approximately HK$437.70 million), subject to adjustment, of which (i) approximately £2.12 million (approximately HK$21.89 million) was paid by Vanke UK Investment to VPHK within 5 Business Days of the date of signing of the London Property Acquisition Agreement as refundable deposit; (ii) approximately £38.14 million (approximately HK$393.92 million) will be payable by Vanke UK Investment to VPHK in cash on the Completion Date; and (iii) with the remaining £2.12 million (approximately HK$21.89 million) (the "**London Retention Amount**") will be payable within 5 Business Days after the date of determination of the consolidated net asset value of the London Target as at the Completion Date (the "**London Completion NAV**") on the basis of the value of the London Property being fixed at £115.45 million and a cash-free and debt-free position of the London Target Group. The London Completion NAV will be determined based on adding all the assets held by the London Target Group, and subtracting all the account payables (other than the Existing London Loan) and accrued liabilities, as at the date of Completion.

If the London Completion NAV is higher or lower than £115.45 million, the consideration shall be adjusted upward or downward (subject to a maximum of approximately £5.86 million (approximately HK$60.52 million)) by 99.95% of the difference between the London Completion NAV and the value of the London Property being fixed at £115.45 million, in each case, on a GBP for GBP basis and the London Retention Amount (or part thereof) shall be released to VPHK or kept by Vanke UK Investment (as the case may be) accordingly.

Further, Vanke UK Investment will at Completion indirectly assume the existing bank loan (which is in the principal amount of approximately £74.70 million (approximately HK$771.51 million) as at the date of the London Property Acquisition Agreement) (the "**Existing London Loan**") granted to the immediate holding company of the London Property.

Basis of determination of the consideration

The consideration was determined after arm's length negotiations between Vanke UK Investment and VPHK with reference to:

(1) the preliminary property valuation of the London Property of being no less than £115.45 million (equivalent to HK$1,192.36 million) as at 28 February 2019; and

(2) the consolidated current net asset value of the London Target Group of approximately HK$407.11 million as at 31 December 2018.

The valuation of the London Property is carried out by Knight Frank, an independent valuer to the Company. The appraised value of the London Property by the "income approach — term and reversion method" was £115.45 million (equivalent to approximately HK$1,192.36 million) as at 28 February 2019. Please refer to Appendix VII to this circular for the valuation report of the London Property.

Conditions precedent

Completion is subject to the satisfaction or waiver by Vanke UK Investment and VPHK (as the case may be) of certain conditions precedent, including:

(a) all necessary corporate authorisations or shareholders' approvals being obtained, including approvals from the Independent Shareholders at the EGM for, among others, (i) the London Property Acquisition Agreement and the transactions contemplated thereunder; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps;

(b) all necessary approvals, licenses, authorisations, consents, waivers or notifications necessary from third parties (including the landlord of the headlease and the financing banks), governmental or regulatory authorities including the Stock Exchange in connection with the transactions contemplated under the London Property Acquisition Agreement required to be obtained having been granted and in effect;

(c) each of the representations and warranties made by VPHK remains true and accurate in all material respects as of the date of the Completion Date;

(d) the legal and financial due diligence on the London Target's business, operations and the London Property by or on behalf of Vanke UK Investment having been completed to the satisfaction of Vanke UK Investment; and

(e) the San Francisco Property Acquisition Agreement and the New York Investment Instrument Acquisition Agreement having become unconditional in all respects except for any condition requiring that the London Property Acquisition Agreement shall have become unconditional.

The parties may waive the conditions precedent above in writing at any time on or before the Long Stop Date, except for conditions precedent (a)(i) and (b) above which are not capable of being waived in any event. If any condition precedent has not been satisfied or waived (as the case may be) by the Long Stop Date, either Vanke UK Investment or VPHK may terminate the London Property Acquisition Agreement by serving written notice to the other party, and the 5% refundable deposit paid to VPHK shall be refunded to Vanke UK Investment within 15 Business Days thereof.

As at the Latest Practicable Date, none of the conditions had been fulfilled or waived by the parties and they had no intention to waive any of the conditions.

Completion

Completion shall take place on the date agreed by the parties which shall be within 30 Business Days of the fulfillment (or waiver, as the case may be) of all the conditions precedent (or any other dates as agreed between the parties in writing).

Upon Completion, the London Target will become an approximately 99.95%-owned subsidiary of the Company and the assets, liabilities and the financial results of the London Target Group will be consolidated into the consolidated financial statements of the Company, in particular, Vanke UK Investment will indirectly assume the Existing London Loan.

(2) San Francisco Property Acquisition

On 7 March 2019 (after trading hours), Vanke US Investment entered into the San Francisco Property Acquisition Agreement with VPHK, pursuant to which Vanke US Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the SF Sale Share and SF Sale Loan, representing the entire issued share capital of and shareholder's loan due from the SF Target for a total consideration of approximately USD22.22 million (approximately HK$174.34 million) by way of cash. The SF Target indirectly owns 45% effective interest in the SF Property (whose market value is no less than USD167.00 million (equivalent to approximately HK$1,310.48 million) based on 100% interest).

The San Francisco Property Acquisition Agreement

The principal terms of the San Francisco Property Acquisition Agreement are set out below:

Date

7 March 2019

Parties

(1) Vanke US Investment, as the purchaser; and

(2) VPHK, as the vendor.

Assets to be acquired

Pursuant to the San Francisco Property Acquisition Agreement, Vanke US Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the SF Sale Share and SF Sale Loan, representing the entire issued share capital of the SF Target.

The SF Target indirectly owns 45% effective interest in the SF Property. 49.705% of the effective interest of the SF Property is owned by a wholly-owned subsidiary of China Vanke, 5% of the effective interest is owned by an Independent Third Party and approximately 0.295% of the effective interest of the SF Property is beneficially owned by certain employees of China Vanke (including a non-executive Director), who are responsible for managing or investing the SF Property, as a co-investment arrangement and will remain to be so after Completion. As the investment of the non-executive Director, as a connected person of the Company, in the SF Target through such employee co-investment mechanism is less than HK$3 million, such co-investment will be regarded as a fully exempt connected transaction on the part of the Company.

Consideration

The consideration is approximately USD 22.22 million (approximately HK$174.34 million), subject to adjustment, of which (i) USD1.11 million (approximately HK$8.72 million) was paid by Vanke US Investment to VPHK within 5 Business Days of the date of signing of the San Francisco Property Acquisition Agreement as refundable deposit; (ii) approximately USD20.00 million (approximately HK$156.90 million) will be payable by Vanke US Investment to VPHK in cash on the Completion Date; and (iii) with the remaining USD1.11 million (approximately HK$8.72 million) (the "**SF Retention Amount**") will be payable within 5 Business Days after the date of determination of the consolidated net asset value of the SF Target as at the Completion Date (the "**SF Completion NAV**") on the basis of the market value of the SF Property being fixed at USD167.00 million (approximately HK$1,310.48 million) and a cash-free and debt free position of the SF Target Group. The SF Completion NAV will be determined based on adding all the assets held by the SF Target Group, and subtracting all the account payables (other than the Existing SF Loan and the SF Sale Loan) and accrued liabilities, as at the date of Completion.

If the SF Completion NAV is higher or lower than 45% of USD167.00 million, the consideration shall be adjusted upward or downward (subject to a maximum of approximately USD3.76 million (approximately HK$29.51 million)), in each case, on a dollar for dollar basis and the SF Retention Amount (or part thereof) shall be released to VPHK or kept by Vanke US Investment (as the case may be) accordingly.

Further, Vanke US Investment will at Completion on a proportionate basis indirectly assume the existing bank loan (which is in the principal amount of approximately USD93.11 million (approximately HK$730.69 million) as at the date of the San Francisco Property Acquisition Agreement) (the "**Existing SF Loan**") granted to the holding companies of the SF Property. Hence, the principal amount of loan to be borne by the Enlarged Group is approximately USD41.90 million (approximately HK$328.81 million).

Basis of determination of the consideration

The consideration was determined after arm's length negotiations between Vanke US Investment and VPHK with reference to:

(1) the preliminary market value of the SF Property of being no less than USD167.00 million (equivalent to approximately HK$1,310.48 million) as at 28 February 2019; and

(2) the preliminary consolidated net asset value of the SF Target Group of approximately HK$116.64 million as at 31 December 2018.

The valuation of the SF Property is carried out by Knight Frank, an independent valuer to the Company. The appraised value of the SF Property by the "income approach — term and reversion method" was USD167.00 million (equivalent to approximately HK$1,310.48 million) as at 28 February 2019. Please refer to Appendix VII to this circular for the valuation report of the SF Property. The appraised value of the SF Property as set out in the valuation report has not taken into account the outstanding renovation cost of the SF Property. The Board believes the valuation of the SF Property is fair and reasonable considering that the parties have already deducted the outstanding renovation cost of the SF Property (which is incurred on the project company level) from the consideration.

Conditions precedent

Completion is subject to the satisfaction or waiver by Vanke US Investment and VPHK (as the case may be) of certain conditions precedent, including:

(a) all necessary corporate authorisations or shareholders' approvals being obtained, including approvals from the Independent Shareholders at the EGM for, among others, (i) the San Francisco Property Acquisition Agreement and the transactions contemplated thereunder; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps;

(b) all necessary approvals, licenses, authorisations, consents, waivers or notifications necessary from third parties (including the financing bank), governmental or regulatory authorities including the Stock Exchange in connection with the transactions contemplated under the San Francisco Property Acquisition Agreement required to be obtained having been granted and in effect;

(c) each of the representations and warranties made by VPHK remains true and accurate in all material respects as of the date of the Completion Date;

(d) the legal and financial due diligence on the SF Target's business, operations and the SF Property by or on behalf of Vanke US Investment having been completed to the satisfaction of Vanke US Investment; and

(e) the London Property Acquisition Agreement and the New York Investment Instrument Acquisition Agreement having become unconditional in all respects except for any condition requiring that the San Francisco Property Acquisition Agreement shall have become unconditional.

The parties may waive the conditions precedent above in writing at any time on or before the Long Stop Date, except for conditions precedent (a)(i) and (b) above which are not capable of being waived in any event. If any condition precedent has not been satisfied or waived (as the case may be) by the Long Stop Date, either Vanke US Investment or VPHK may terminate the San Francisco Property Acquisition Agreement by serving written notice to the other party and the 5% refundable deposit paid to VPHK shall be refunded to Vanke US Investment within 15 Business Days thereof.

As at the Latest Practicable Date, none of the conditions had been fulfilled or waived by the parties and they had no intention to waive any of the conditions.

Completion

Completion shall take place on the date agreed by the parties which shall be within 30 Business Days of the fulfillment (or waiver, as the case may be) of all the conditions precedent (or any other dates as agreed between the parties in writing).

Upon completion, the SF Target will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the SF Target Group (but excluding the results of the underlying owners of the SF Property) will be consolidated into the consolidated financial statements of the Company. In particular, Vanke US Investment will on a proportionate basis indirectly assume the Existing SF Loan.

(3) New York Investment Instrument Acquisition

On 7 March 2019 (after trading hours), Vanke US Investment entered into the New York Investment Instrument Acquisition Agreement with the NY Vendor, pursuant to which Vanke US Investment has conditionally agreed to acquire and the NY Vendor has conditionally agreed to sell the NY Sale Share and NY Sale Loan, representing the entire issued share capital of and shareholder's loan due from the NY Target for a consideration of approximately USD67.07 million (approximately HK$526.30 million, assuming the Completion occurs on 30 June 2019 and taking into account the estimated accrued return from the date of New York Investment Instrument Acquisition Agreement up to 30 June 2019) by way of cash. The NY Target participates in 49% of the investment instrument (with a total outstanding investment amount of approximately USD63.51 million (approximately HK$498.35 million) as at the date of the New York Investment Instrument Acquisition Agreement) made in each of the Intermediate Companies which indirectly holds the entire interest in the NY Property.

The New York Investment Instrument Acquisition Agreement

The principal terms of the New York Investment Instrument Acquisition Agreement are set out below:

Date

7 March 2019

Parties

(1) Vanke US Investment, as the purchaser; and

(2) NY Vendor, as the vendor.

Assets to be acquired

Pursuant to the New York Investment Instrument Acquisition Agreement, Vanke US Investment has conditionally agreed to acquire and the NY Vendor has conditionally agreed to sell the NY Sale Share and NY Sale Loan, representing the entire issued share capital of and shareholder's loan due from the NY Target, which participates in 49% of the investment instrument (with a total outstanding investment amount of USD63.51 million (approximately HK$498.35 million) as at the date of the New York Investment Instrument Acquisition Agreement and an estimated accrued returns from the date of the New York Investment Instrument Acquisition

Agreement to 30 June 2019 (assuming Completion occurs on such date) of USD3.56 million (approximately HK$27.95 million)) to each of the NY Intermediate Companies which indirectly holds the entire interest in the NY Property.

Approximately 50.17% of the investment instrument made to each of the NY Intermediate Companies is and will continue to be indirectly held by the NY Vendor after completion of the New York Investment Instrument Acquisition. Approximately 0.83% of the effective interest of the investment instrument made to each of the NY Intermediate Companies is indirectly owned by certain employees of China Vanke (including a non-executive Director and an executive Director) who are responsible for initiating and managing the underlying investment instrument as a co-investment arrangement and will remain to be so after Completion. As the investments of the said non-executive Director and executive Director, as connected persons of the Company, in the investment instruments to the NY Intermediate Companies through such employee co-investment mechanism, in aggregate, is less than HK$3 million, such co-investment will be regarded as a fully exempt connected transaction on the part of the Company. By way of the New York Investment Instrument Acquisition, Vanke US Investment proposes to participate effectively an approximate 49% interest in the investment instrument made for funding the development of the NY Property.

Consideration

The consideration is USD67.07 million (approximately HK$526.30 million), subject to adjustment, of which (i) USD3.35 million (approximately HK$26.29 million) was paid by Vanke US Investment to the NY Vendor within 5 Business Days of the date of signing of the New York Investment Instrument Acquisition Agreement as refundable deposit; (ii) USD60.37 million (approximately HK$473.72 million) will be payable by Vanke US Investment to the NY Vendor in cash on the Completion Date; and (iii) with the remaining USD3.35 million (approximately HK$26.29 million) (the "**NY Retention Amount**") will be payable within 5 Business Days after the date of determination of the net asset value of the NY Target as at the Completion Date (the "**NY Completion NAV**") on the basis of a cash-free and debt-free position of the NY Target. The NY Completion NAV will be determined based on adding all the cash held by the NY Target and all the accrued returns from the date of the New York Investment Instrument Acquisition Agreement up to Completion (both dates inclusive), and subtracting all the account payables (other than NY Sale Loan) and accrued liabilities as at the date of Completion, and the difference between the estimated accrued return of USD3.56 million (approximately HK$27.95 million) up to 30 June 2019 (assuming Completion occurs on such date) and the actual accrued return up to the date of Completion.

If the NY Completion NAV is higher or lower than USD67.07 million, the consideration shall be adjusted upward or downward (subject to a maximum of USD3.35 million (approximately HK$26.29 million)), in each case, on a dollar for dollar basis and the NY Retention Amount (or part thereof) shall be released to the NY Vendor or kept by Vanke US Investment (as the case may be) accordingly.

Basis of determination of the consideration

The consideration was determined after arm's length negotiations between Vanke US Investment and the NY Vendor with reference to (i) the outstanding face value of the investment instrument as at the date of Completion and the date of the New York Investment Instrument Acquisition Agreement; and (ii) the net liabilities of the NY Target of approximately HK$52,000 as at 31 December 2018. The recoverability of the investment instrument is assessed after taking into account the preliminary gross development value of the NY property of no less than USD382.00 million (approximately of HK$2,997.63 million) as at 28 February 2019.

A valuation of the NY Property has been carried out by Knight Frank, an independent valuer to the Company. The appraised value of the NY Property by the market approach was USD476.00 million (equivalent to approximately HK$3,735.27 million) as at 28 February 2019. Please refer to Appendix VII to this circular for the valuation report of the NY Property.

Conditions precedent

Completion is subject to the satisfaction or waiver by Vanke US Investment and the NY Vendor (as the case may be) of certain conditions precedent, including:

(a) all necessary corporate authorisations or shareholders' approvals being obtained, including approvals from the Independent Shareholders at the EGM for, among others, (i) the New York Investment Instrument Acquisition Agreement and the transactions contemplated thereunder; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps;

(b) all necessary approvals, licenses, authorisations, consents, waivers or notifications necessary from third parties, governmental or regulatory authorities including the Stock Exchange in connection with the transactions contemplated under the New York Investment Instrument Acquisition Agreement required to be obtained having been granted and in effect;

(c) each of the representations and warranties made by the NY Vendor in the New York Investment Instrument Acquisition Agreement remaining true and accurate in all material respects as of the date of the Completion Date;

(d) the legal and financial due diligence on the NY Target's business, operations and the NY Property by or on behalf of Vanke US Investment having been completed to the satisfaction of Vanke US Investment; and

(e) the London Property Acquisition Agreement and the San Francisco Property Acquisition Agreement having become unconditional in all respects except for any condition requiring that the New York Investment Instrument Acquisition Agreement shall have become unconditional.

The parties may waive the conditions precedent above in writing at any time on or before the Long Stop Date, except for conditions precedent (a)(i) and (b) above which are not capable of being waived in any event. If any condition precedent has not been satisfied or waived (as the case may be) by the Long Stop Date, either Vanke US Investment or the NY Vendor may terminate the New York Investment Instrument Acquisition Agreement by serving written notice to the other party and the 5% refundable deposit paid to the NY Vendor shall be refunded to Vanke US Investment within 15 Business Days thereof.

As at the Latest Practicable Date, none of the conditions had been fulfilled or waived by the parties and they had no intention to waive any of the conditions.

Completion

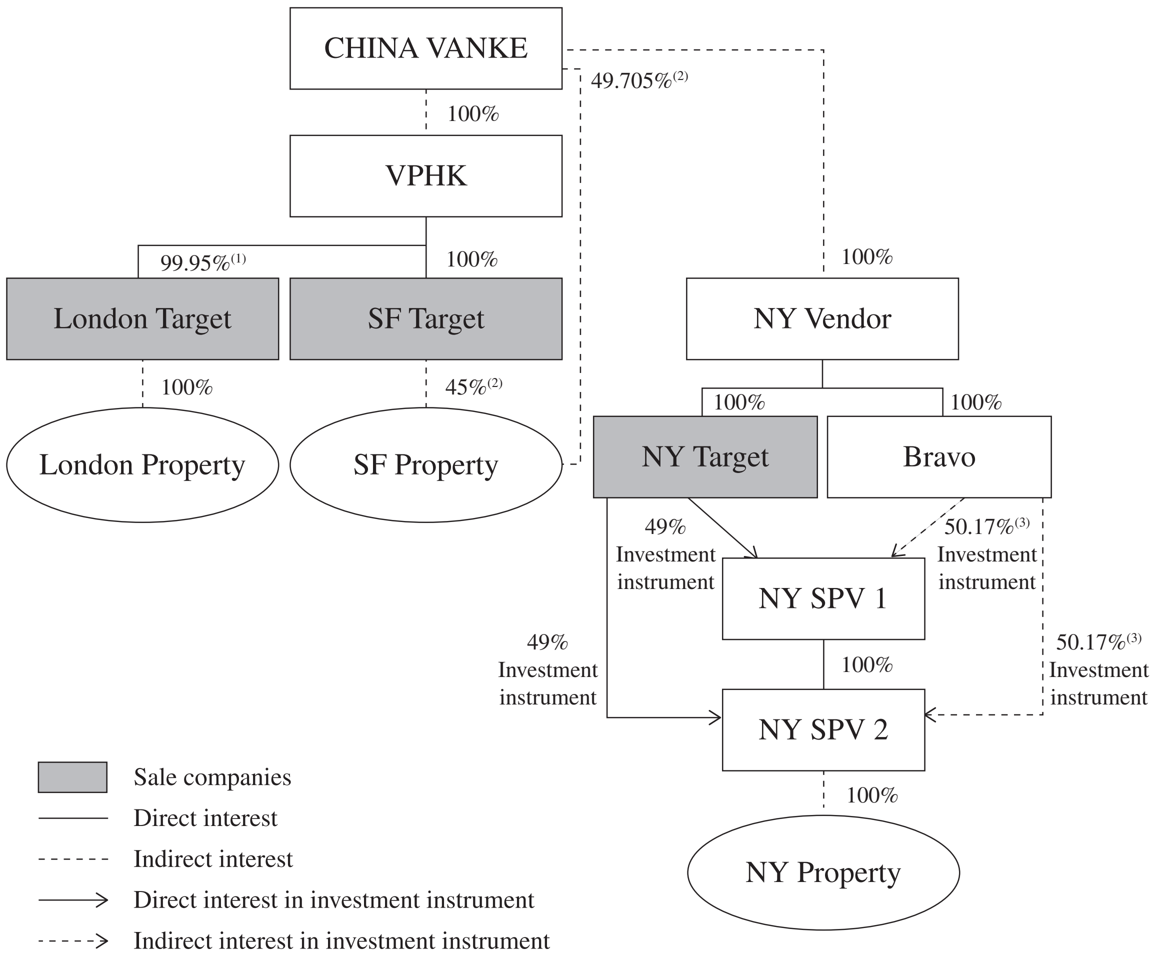
Completion shall take place on the date agreed by the parties which shall be within 30 Business Days of the fulfillment (or waiver, as the case may be) of all the conditions precedent (or any other dates as agreed between the parties in writing).

Upon completion, the NY Target will become a wholly-owned subsidiary of the Company and the assets, liabilities and the financial results of the NY Target will be consolidated into the consolidated financial statements of the Company.

SHAREHOLDING STRUCTURE

The following diagrams illustrate a simplified corporate and shareholding structure of the Sale Companies (i) before the Completion; and (ii) immediately after the Completion:

The corporate structure of the Sale Companies before the Completion



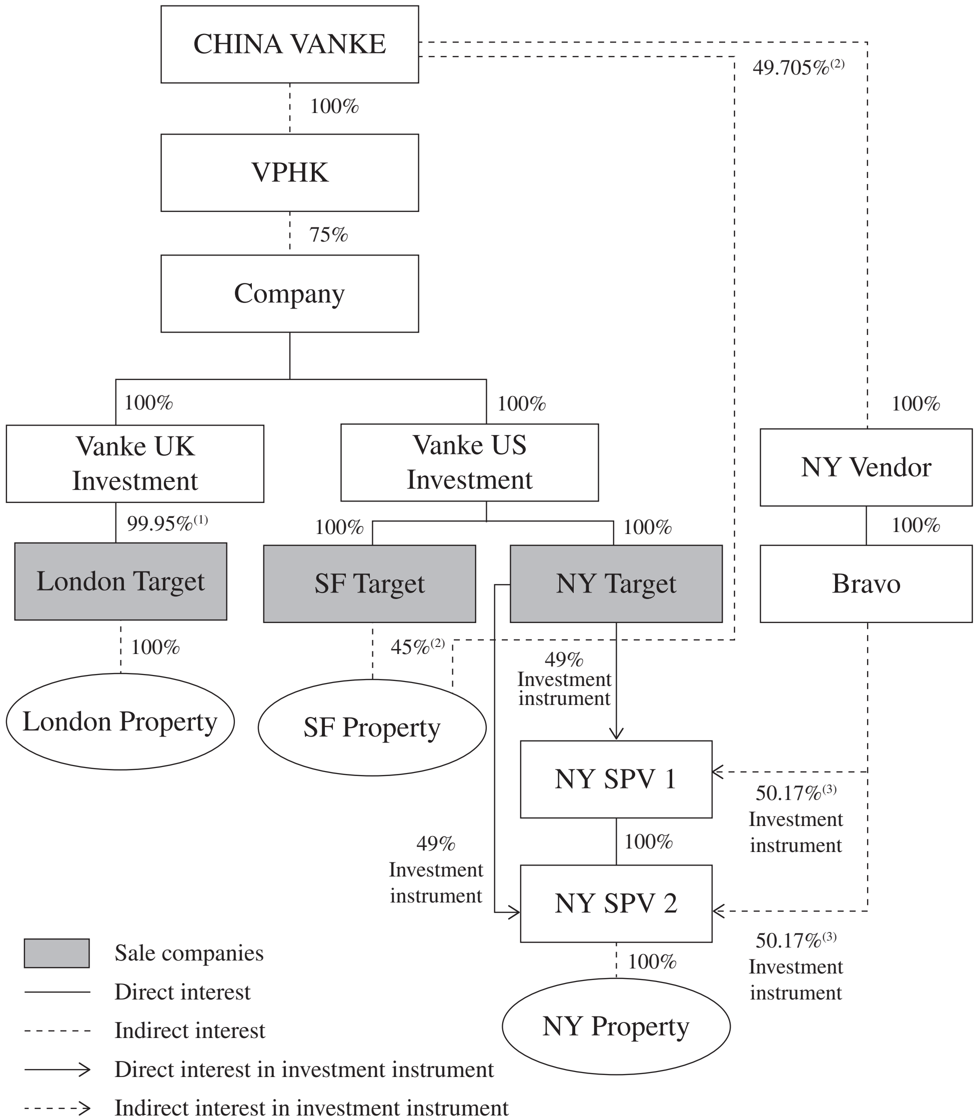
Notes:

(1) Approximately 0.05% interest of the London Target is beneficially owned by certain employees of China Vanke (including a non-executive director of the Company) who are responsible for managing or investing the London Target as a co-investment arrangement.

(2) Approximately 49.705% of the effective interest of the SF Property is owned by a wholly-owned subsidiary of China Vanke, 5% of the effective interest is owned by an Independent Third Party and 0.295% of the effective interest of the SF Property is beneficially owned by certain employees of China Vanke (including a non-executive Director of the Company) who are responsible for managing or investing the SF Property as a co-investment arrangement.

(3) Approximately 0.83% of the effective interest in the investment instrument made to each of the NY Intermediate Companies is owned by certain employees of China Vanke (including a non-executive Director and an executive Director of the Company) who are responsible for initiating and managing the underlying investment instrument as a co-investment arrangement.

Immediately after the Completion



Notes:

(1) Approximately 0.05% interest of the London Target is beneficially owned by certain employees of China Vanke (including a non-executive director of the Company) who are responsible for managing or investing the London Target as a co-investment arrangement.

(2) Approximately 49.705% of the effective interest of the SF Property is owned by a wholly-owned subsidiary of China Vanke, 5% of the effective interest is owned by an Independent Third Party and 0.295% of the effective interest of the SF Property is beneficially owned by certain employees of China Vanke (including a non-executive Director of the Company) who are responsible for managing or investing the SF Property as a co-investment arrangement.

(3) Approximately 0.83% of the effective interest in the investment instrument made to each of the NY Intermediate Companies is owned by certain employees of China Vanke (including a non-executive Director and an executive Director of the Company) who are responsible for initiating and managing the underlying investment instrument as a co-investment arrangement.

INFORMATION ON THE PARTIES

Information on the Group

The Company and its subsidiaries are principally engaged in property development and financing, and property rental and management activities in Hong Kong.

Information on the Vendors

VPHK is an investment holding company which engaged in the principal business of property development. It is one of the investment platforms of the property business of China Vanke.

The NY Vendor is an indirect wholly-owned subsidiary of China Vanke and is an investment holding company.

Information on the Sale Companies and the London Property, SF Property and NY Property

The London Target is an approximately 99.95%–owned subsidiary of VPHK and is an investment holding company which indirectly holds the entire interest in the London Property.

The SF Target is a wholly-owned subsidiary of VPHK and is an investment holding company which indirectly holds 45% of the effective interest in the SF Property. Approximately 49.705% of the effective interest of the SF Property is owned by a wholly-owned subsidiary of China Vanke, 5% of the effective interest is owned by an Independent Third Party and approximately 0.295% of the effective interest of the SF Property is beneficially owned by certain employees of China Vanke (including a non-executive Director) who are responsible for managing or investing the SF Property as a co-investment arrangement and will remain to be so after Completion.

The NY Target is an investment holding company which participates in 49% of the investment instrument in the total principal amount of USD63.51 million (approximately HK$498.35 million) (as at the date of the New York Investment Instrument Acquisition Agreement) for funding the development of the NY Property. Approximately 50.17% of the investment instrument made to each of the NY Intermediate Companies is and will continue to be indirectly held by the NY Vendor after completion of the New York Investment Instrument Acquisition. Approximately 0.83% of the effective interest of the investment instrument made to each of the NY Intermediate Companies is owned by certain employees of China Vanke (including a non-executive Director and an executive Director) who are responsible for initiating and managing the underlying investment instrument as a co-investment arrangement and will remain to be so after Completion.

Set out below are the extracts from the audited financial information of the Sale Companies for the two years ended 31 December 2017 and 2018:

	For the financial period/year ended	
	31 December 2017	**31 December 2018**
	HK$'000	*HK$'000*
The London Target Group		
Revenue	51,269	52,680
Profit before taxation	71,169	10,752
Profit after taxation	68,810	8,535
Net assets	464,166	407,109
The SF Target Group		
Revenue	— *(Note 1)*	— *(Note 2)*
Profit/(Loss) before taxation	14,014 *(Note 1)*	(5,644) *(Note 3)*
Profit/(Loss) after taxation	14,014 *(Note 1)*	(5,644) *(Note 3)*
Net assets	102,382	116,639
The NY Target		
Revenue	N/A *(Note 4)*	— *(Note 5)*
Loss before taxation	N/A *(Note 4)*	52 *(Note 5)*
Loss after taxation	N/A *(Note 4)*	52 *(Note 5)*
Net liabilities	N/A *(Note 4)*	52 *(Note 5)*

Notes:

1. The figures are recorded for the period since the incorporation date of the SF Target from 29 September 2017 to 31 December 2017. The SF Target did not record any revenue during the relevant period as the property holding company is not a subsidiary of SF Target, and there is no revenue contributed to SF Target from accounting perspective.

2. The SF Target Group did not record any revenue for the financial year ended 31 December 2018 as the property holding company of the SF Property is not a subsidiary of SF Target, and there is no revenue contributed to SF Target from accounting perspective.

3. The SF Target Group recorded net loss before taxation and after taxation for the financial year ended 31 December 2018 because it shared the losses of the associates that incurred operating losses (determined based on equity accounting method) for the SF Property. The associates recorded net losses in 2018 as (i) the SF Property was under renovation from the first quarter of 2018 and did not generate revenue during the renovation period; and (ii) it incurred operating costs including one-off termination fees for the relevant tenancies of approximately HK$3.07 million (the SF Target Group's shared portion) and finance costs of HK$13.33 million (the SF Target Group's shared portion).

4. No financial figures are available for the financial year ended 31 December 2017 as the NY Target was incorporated on 14 December 2018.

5. The figures are recorded for the period from the incorporation date of the NY Target (i.e. 14 December 2018) to 31 December 2018. The NY Target did not record any revenue during the relevant period as it was inactive.

Further details on the financial information of the Sale Companies are set out in Appendices II to IV to this circular.

Set out below are the relevant details in connection with the original acquisition of the London Target, the SF Target and the NY Target by the relevant vendors or their associates:

Assets	**Date of acquisition by VPHK**	**Percentage acquired by VPHK (%)**	**Original acquisition cost incurred by the relevant vendors up to 31 December 2018 (in respect of 100% effective interest)**	**Original acquisition cost incurred by the relevant vendors up to 31 December 2018 (in respect of the percentage of interest to be disposed to the Company)**
London Property	October 2016	100	£112.20 million (approximately HK$1,158.79 million)	£112.20 million (approximately HK$1,158.79 million)
SF Property	December 2016	95	USD29.17 million*(note 1)* (approximately HK$228.90 million)	USD13.82 million*(note 2)* (approximately HK$108.43 million)
Investment instrument for development of the NY Property	April 2017	100	USD128.35 million (approximately HK$1,007.21 million)	USD62.89 million (approximately HK$493.51 million)

Notes:

1. Remaining equity commitment in addition to the cost incurred as shown in the above table as at 31 December 2018 was USD24.25 million (approximately HK$190.37 million).

2. Remaining equity commitment in addition to the cost incurred as shown in the above table as at 31 December 2018 was USD11.49 million (approximately HK$90.14 million).

Particulars of the London Property, the SF Property and the NY Property are as follows:

Project/Property	Location	Type of Property	Area available for lease (sq.ft.)	Occupancy Rate as at 31 December 2018
London Property	Ryder Court, 13–17 Bury Street and 12, 14 and 16 Ryder Street, St James's, London, SW1, the United Kingdom	Office and commercial	75,813	100%
SF Property	657 and 663–667 Mission Street, San Francisco, California the United States of America	Office and commercial	154,891	96.70%(Note 1)
NY Property	25 Park Row, New York, the United States of America	Residential	241,563(Note 2)	N/A(Note 2)

Notes:

1. The office portion of the SF Property has been pre-leased to a tenant for a term of 12 years, while the retail portion of the SF Property is not leased out yet as at the Latest Practicable Date.

2. As at the Latest Practicable Date, the NY Property is still under development. According to the information provided by the NY Vendor, it is expected that development of the NY Property will complete in or about December 2019.

The followings are the details of the investment instrument in the principal amount of USD63.51 million (as at the date of the New York Investment Instrument Acquisition Agreement) for funding the development of the NY Property:

Total investment principal amount	:	USD63.51 million (approximately HK$498.35 million)
Fixed returns	:	14.15% per annum
Maturity Date	:	20 December 2020 (with an option to extend for 12 months, subject to conditions)
Users of amount invested	:	Developers of the NY Property who are Independent Third Parties of the Company
Security	:	Share charge in respect of the entire issued shares of the users of the amount invested

FINANCIAL EFFECTS OF THE ACQUISITIONS

Upon Completion, the London Target will become an approximately 99.95%-owned indirect subsidiary of the Company and each of the SF Target and the NY Target will become an indirect wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the London Target Group, the SF Target Group and the NY Target will be consolidated into the consolidated financial statements of the Company.

Assets and liabilities

As at 31 December 2018, the consolidated total assets and liabilities of the Group amounted to approximately HK$3,746.53 million and HK$79.76 million, respectively. Assuming Completion took place on 31 December 2018, the unaudited pro forma consolidated total assets and liabilities of the Enlarged Group would have increased to approximately HK$4,557.78 million and HK$900.51 million, respectively, as a result of the Acquisitions.

Earnings

As set out in Appendices II to IV to this circular, for the year ended 31 December 2018, the consolidated profit after tax of the London Target Group was approximately HK$8.54 million, the consolidated loss after tax of the SF Target Group was approximately HK$5.64 million and the loss after tax of the NY Target was approximately HK$52,000.

As the financial results of the Sale Companies will be consolidated with those of the Group after Completion, the earnings of the Group will be affected by the performance of the Sale Companies as from Completion. Since the London Target Group has been generating revenues and cash inflow, it is expected that the Acquisitions would broaden the Group's earnings base.

Further details of the financial effect of the Acquisitions together with the bases in preparing the unaudited pro forma financial information are set out in Appendix VI to this circular.

REASONS FOR AND BENEFITS OF THE ACQUISITIONS

The Group's revenue is mainly derived from the leasing of units and car parking spaces in Regent Centre in Hong Kong. As part of the Group's business policy, the Group will continue to seek opportunities in both Hong Kong and overseas property markets for business diversification and expansion. The properties/projects owned and operated by the Sale Companies are situated at the prime location or central business district of the Target Cities. The Board believes the Acquisitions, in conjunction with the joining of the relevant management personnel who possess the relevant expertise and experience in property markets in the United Kingdom and United States of America by the time of Completion, will allow the Enlarged Group to invest and expand in the United Kingdom and the United States of America and thus can minimise the risk of solely investing in Hong Kong.

The Board further believes the Acquisitions will lay a solid foundation in terms of financial and intellectual capital as well as business know-how and connections by leveraging on the stable income generated from the acquired properties/projects, the experience and proven capability of the Overseas Management Team, the brand name and business connections established by China Vanke in recent years. It is expected that the Acquisitions are beneficial to the development and expansion of the existing businesses of property investment into the new geographical locations and will boost the overall revenue of the Enlarged Group and will strengthen the Enlarged Group's operational cashflow. With the established business relationship of China Vanke and its appropriate assistance, the Enlarged Group will continue to develop its business of property investment, property development and financing, property leasing and asset management businesses so that it will be an important investment platform.

The total cash consideration for the Acquisitions of approximately HK$1,138.34 million is determined based on the assets and liabilities (including banks loans) of the Sale Companies and the valuation of the Target Properties, which is intended to be funded by the internal resources of the Company. The payment schedule and consideration adjustment mechanism for each Acquisition is in line with market practice and afford adequate protection to the Company.

For the foregoing reasons, the Directors (including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee on page 40 to page 41 of this circular after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the Acquisitions pursuant to the Acquisition Agreements which have been agreed after arm's length negotiations among the parties, are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

II. CONTINUING CONNECTED TRANSACTIONS

With the Company's intention to branch out to the business of property asset management through tapping into the expertise and experience of the Overseas Management Team and in light of the existing property interests of China Vanke Group, the VPO Parties and the VPHK Parties have entered into the Management Services Framework Agreement, pursuant to which the VPHK Parties will retain the VPO Parties on an exclusive basis for, and the Enlarged Group, through the VPO Parties (who will enter into employment contracts with Overseas Management Team and acquire at nominal consideration the company in charge of the administrative matters and/or the rights and obligations of the administrative contracts, as the case may be, by the time of Completion), will provide, the Overseas Management Services to the VPHK Parties, subject to terms and conditions of the Management Services Framework Agreement. The Management Services Framework Agreement will be effective immediately upon the Completion Date and remain effective until 31 December 2021.

Management Services Framework Agreement

The principal terms of the Management Services Framework Agreement are set out below:

Date : 7 March 2019

Parties : (1) VPO UK;

(2) VPO US;

(3) VPO Management Holding (together with VPO UK and VPO US, collectively referred to as the "**VPO Parties**", and each a "**VPO Party**");

(4) VPHK;

(5) NY Vendor; and

(6) Vanke US (together with VPHK and NY Vendor, referred to as the "**VPHK Parties**", and each a "**VPHK Party**")

Term

The term will commence on the Completion Date and will expire on 31 December 2021.

Services

Pursuant to the Management Services Framework Agreement, the VPHK Parties will retain the VPO Parties on an exclusive basis for, and the Enlarged Group, through the VPO Parties, will provide the Overseas Management Services including but not limited to:

(a) Market research and investment sourcing;

(b) Investment management and project management (including construction and sales and marketing management);

(c) Divestment of the relevant investment;

(d) Financing and cash flow management;

(e) Overall financial management;

(f) Legal and compliance management; and

(g) Company secretarial services.

Fees and basis of determination

The fees payable by the payer to the VPO Parties shall comprise of the management fee calculated as 1.25% per annum of the invested capital of the relevant project(s). The invested capital shall include funding, capital or financing provided by the VPHK Parties (but exclude funding, capital or financing provided by third parties to the VPHK Parties, for making the investments).

The figure of 1.25% per annum is determined with reference to the rate of management fees charged by real estate fund managers (who are Independent Third Parties) for providing similar services. The parties agree that the VPO Parties shall provide the Overseas Management Services to the VPHK Parties on normal commercial terms or on terms which are no less favourable to the VPO Parties than those that the VPO Parties may transact with Independent Third Parties from time to time.

The management fees for each transaction under the Management Services Framework Agreement will be paid on a quarterly basis, and shall be free of all taxes, deductions, duties, tariffs and charges.

Annual Caps and basis of determination

The Annual Caps for the transactions under the Management Services Framework Agreement are equivalent to approximately HK$75 million, HK$165 million and HK$185 million for the three years ending 31 December 2019, 2020 and 2021, respectively.

In arriving at the above Annual Caps, the Directors have considered, among others, (i) the historical management cost incurred by VPHK and its subsidiaries for its projects; (ii) the current invested capital made by the VPHK Parties as at 30 April 2019 of about HK$9.9 billion (thus translating into an annual fee of about HK$124 million, assuming no change of increase or decrease of invested capital); (iii) a buffer for additional capital to be invested for acquisition of new projects by VPHK and its subsidiaries of HK$1,500 million in average for each of the years 2019 (with only about 6 months for 2019, and hence the annual fee being halved), 2020 and 2021; (iv) the development stage of the project to be managed under the Management Services Framework Agreement; and (v) the economic conditions and performance of the property market in the Target Cities.

Conditions precedent

Subject to the following conditions precedent, the Management Services Framework Agreement will be effective immediately upon the Completion Date:

(a) the approval of the Independent Shareholders being obtained at the EGM; and

(b) the employment of the management personnel designated by the VPO Parties who are currently responsible for overseeing and managing the operations of all property projects of the VPHK Parties in the United Kingdom and the United States of America on substantially the same terms as the existing employment agreements of these personnel, on or before Completion.

The parties may waive the condition precedent (b) above, whereas condition precedent (a) above is non-waivable. If the conditions precedent fail to be satisfied or waived on or before 31 December 2019 (or such later date as agreed between the parties), the Management Services Framework Agreement shall lapse and neither party shall have a claim against the others.

As at the Latest Practicable Date, none of the conditions had been fulfilled or waived by the parties and they had no intention to waive any of the conditions.

Exclusive engagement by VPHK

The VPHK Parties will engage the VPO Parties to provide the Overseas Management Services in the United States of America and the United Kingdom on an exclusive basis unless the relevant VPO Party has indicated to the relevant VPHK Party in writing that it has decided not to accept the engagement in respect of any specific project whereupon the VPHK Parties or such other subsidiary of China Vanke are entitled to retain any third party for the provision of the Overseas Management Services in respect of the project concerned.

Each of the VPHK Parties undertakes to the VPO Parties that it shall notify the VPO Parties as soon as practicable when any other subsidiaries of China Vanke become interested in any property development and/or investment projects (other than investments in the funds managed by an Independent Third Party and its subsidiaries) in the United Kingdom and the United States of America.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTIONS

The Overseas Management Team has been established in the United States of America and United Kingdom since 2013 and 2015, respectively. The Overseas Management Team has accumulated valuable assets management competencies and experience in these countries. In particular, key members of the Overseas Management Team were previously working at renowned fund management firms, investment banks and/or private equity firms with rich experience in asset management, equity acquisition and debt origination, real estate development and financing and management of investments prior to joining China Vanke. In particular, Mr. Kai-Yan Lee, a non-executive Director and a key member of the Overseas Management Team who is overseeing the business in the United States of America, has more than 14 years of professional experience in real estate and financial markets, including through his prior work at the World Economic Forum LLC between 2010 and 2013, Federal Reserve Bank of Boston between 2007 and 2010, and San Joaquin Council of Governments from 2001 to 2004. He has joined China Vanke since 2013 and has been leading the development of the entire project portfolio in the United States of America for VPHK Parties. Further, Ms Lin Lily, a non-executive Director and a key member of the Overseas Management Team who is overseeing the business in the United Kingdom, worked at UBS AG in London between 2007 and 2015. Prior to that Ms. Lin Lily worked on the investment team at Ascendas in Shanghai between 2003 and 2005. Ms. Lin joined China Vanke since 2015 and has been leading the development of the entire project portfolio in the United

Kingdom for VPHK Parties. They are familiar with the relevant operating environments and have strong capability for assets management and had assisted to develop and manage the projects portfolio of VPHK Parties in the UK and the US whose value has increased from zero to a total invested capital of around HK$9.9 billion as at 30 April 2019 (without taking into account the investment in the Target Properties). The satisfactory pace of development of projects portfolio of the VPHK Parties since 2013 is already demonstrating the capability of the Overseas Management Team in deal sourcing, project management and project financing. Subject to Completion, the Overseas Management Team will help strengthen the capabilities of the Enlarged Group in its property development, investment and management business in the United Kingdom and United States of America which in turn is expected to improve management efficiency and attract new projects so as to facilitate future expansion of the Enlarged Group to provide assets management services to third parties. As VPHK will be retaining interest in the SF Property, the NY Property through its interest in the investment instrument and other overseas properties, the entering into the Management Services Framework Agreement will allow the Overseas Management Team to continue to manage the Target Properties and future projects and thus minimising disruption to the businesses of the Target Properties, and the sharing of the same asset management team among the Enlarged Group and China Vanke will help achieve synergies as well as securing members of the Enlarged Group a stable stream of income. The major pricing policies, principal terms and indicators set out in the Management Services Framework Agreement also provide a fair and reasonable basis for the parties to determine the management fee without lengthy negotiations and incurring substantial time and costs for different projects in the future. The Continuing Connected Transactions will be entered into in the ordinary and usual course of business of the Group on normal commercial terms and the Board is of the general view that it is in the interests of the Company and the Shareholders as a whole to enter into the Continuing Connected Transactions. The Directors (including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee on page 40 to page 41 of this circular after taking into account the advice of the Independent Financial Adviser) are of the view that the transactions contemplated under the Management Services Framework Agreement and the Annual Caps for the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

For purpose of monitoring the transactions under the Management Services Framework Agreement, the following key internal control measures will be adopted by the Company:

(i) any individual overseas management services agreement should be reviewed by an executive Director and relevant legal and/or compliance personnel to ensure the terms and the management fee are in accordance with the Management Services Framework Agreement and that the annual caps will not be exceeded. In particular, to ensure the management fee to be received by the Company from time to time is no less favourable than those offered by the Independent Third Parties, the Company will review the management fee to be received by the Company annually by referring to the trend of the management fee in the market based on statistics of management fee rates of real estate funds globally provided by financial data company and fees charged by listed issuers providing similar services and may enter into amended agreement to adjust the percentage of management fee to be received by the Company where necessary;

(ii) the Company has designated certain members of the management to closely monitor and will periodically review the subsisting agreements and pricing terms (at least once every quarter) to ensure that the transactions contemplated under the Management Services Framework Agreement will be conducted on normal commercial terms or terms which are no less favourable to the VPO Parties than those that the VPO Parties may transact with Independent Third Parties in similar services;

(iii) the independent non-executive Directors will conduct annual review and confirm whether the transactions contemplated under the Management Services Framework Agreement are entered into in the ordinary course of business of the Group, on normal commercial terms or better and according to the Management Services Framework Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole and ensure the Group has complied with the Listing Rules; and

(iv) The Company will engage its auditors to report on the Continuing Connected Transactions every year. The auditors will confirm to the Board in writing annually as to whether anything has come to their attention that causes them to believe that the Continuing Connected Transactions: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the Management Framework Services Agreement; and (iv) have exceeded the annual caps as set out therein. The Company will allow, and ensure that the counterparties to the Management Framework Services Agreement will allow, the auditors sufficient access to their records for the purpose of reporting on the transactions.

REVENUE CONTRIBUTION FROM VPHK PARTIES/CHINA VANKE GROUP

Despite the fact that a portion of the revenue of the Enlarged Group following Completion may be derived from the VPHK Parties or other members of the China Vanke Group out of the provision of Overseas Management Services based on the Annual Caps with reference to the consolidated revenue of the Company as at 31 December 2018, the Directors do not consider this as an issue of undue reliance on the China Vanke Group on the following grounds:

(a) following the Completion, it is expected that the revenue of the Enlarged Group will be increased by, at least, the revenue to be generated by the Sales Companies which mainly derives from the leasing of the Target Properties and the returns on investment instruments relating to the NY Property. Based on the Annual Caps of approximately HK$75 million, HK$165 million and HK$185 million for the three years ending 31 December 2019, 2020 and 2021, respectively, the expected percentages of revenue to be generated from the provision of Overseas Management Services to the VPHK Group are expected to account for less than half of the total consolidated revenues to be generated by the Enlarged Group for each of the three years ending 31 December 2019, 2020 and 2021, on the assumptions that the total revenue will comprise of (i) the revenue from Regent Centre, the current investment property of the Group based on its revenue for the year ended 31 December 2018; (ii) the revenue of the Sales Companies; and (iii) the revenue from the Overseas Management Services, and disregarding the revenue to be generated from the provision of Overseas Management Services to third party customers and possible future acquisition of other assets or business by the Group to broaden the scope of revenue for the sake of prudence.

(b) the management fee is calculated as 1.25% per annum of the invested capital of the relevant projects from VPHK Group. It is not uncommon for a single asset/project, in particular those sizeable asset/project, to have a large invested capital. As a result of the sizeable projects with substantial amount of invested capital, VPHK Group or other customers would easily become the major customers of the Enlarged Group even when the number of properties/projects to be managed by the Enlarged Group (through the VPO Parties) is minimal. This is especially the case for China Vanke Group, as one of the largest residential companies in China since its founding in 1984 and one of the world's largest real estate companies as a Fortune Global 500 company, which has various properties/projects with sizeable invested capital.

(c) the business relationship and transaction amount between the Enlarged Group and VPHK Group for purpose of the Overseas Management Services are unlikely to substantially decrease in the near future, at least for purpose of management of the SF Property and the investment instrument for NY Property as VPHK/China Vanke will be retaining interest in these properties. The provision of the Overseas Management Services to VPHK Group/China Vanke Group are essential for continuation of the existing property asset management for the existing portfolio of properties which will be required to be carried out on normal commercial terms in the ordinary course of business. The continuation of the provision of the Overseas Management Services to VPHK Group for the SF Property and the investment instrument for NY Property will allow the Overseas Management Team to continue to manage the properties and thus minimizing disruption to the businesses of both the Enlarged Group and the VPHK Group, and enhancing the experience, reputation and business profile of the Enlarged Group for attracting more third party customers. Accordingly, the benefit is mutual and complementary to both the Enlarged Group and VPHK Group/China Vanke Group as such arrangement can enable both Enlarged Group and VPHK Group/China Vanke Group to achieve synergy.

(d) the Board believes that customer concentration is not uncommon for property asset management companies/teams as it is an industrial norm that proven track record, experience and reputation of the property management personnel are crucial considerations by property investors/project owners when engaging property management services providers. It is not uncommon for a single property asset management services provider to provide management services to various properties or projects of a single property investor customer given the relationship, trust and mutual understanding of the respective business practices established, not to mention the reputation and proven track record of the property management personnel. Furthermore, most property asset management companies/teams are also inclined to manage more properties or sizeable properties for a few customers instead of various customers, hence giving rise to perceived customer concentration, for easy management and/or more efficient use of available financial or human resources. Such arrangement or common market phenomenon is mutually beneficial to the management services provider and property investors/owners.

(e) the Directors are confident that the Enlarged Group would use its best endeavors to generate its revenue from third party in the future, as it is an industrial norm in the United States and the United Kingdom that property asset and development managers and property equity investors/project owners are separate persons, and proven track record, experience and reputation of the property asset and development management personnel are crucial considerations by property equity investors/project owners when engaging property management services providers. The Overseas Management Team, which will become part of the workforce of the Enlarged Group, was established in the United States of America and United Kingdom since 2013 and 2015, respectively and has accumulated valuable financing, investing, and project management competencies and experience for commercial, industrial and residential properties in these countries for various third party property owners and/or developers. They are familiar with the relevant operating environments and have strong capability for assets management. Subject to Completion, the Overseas Management Team will help strengthen the capabilities of the Enlarged Group in its property development, investment and management business in the United States of America and United Kingdom which in turn is expected to improve management efficiency and attract new projects so as to facilitate future expansion of the Enlarged Group to provide assets management services to third parties.

(f) the Overseas Management Team are currently managing various projects of China Vanke in the Target Cities with a total invested capital of around HK$9.9 billion as at 30 April 2019 and some of these projects already involve capital contributed from third party customers (who are sourced by the Overseas Management team since 2013). Besides, the Overseas Management Team had also been making continuous efforts to diversify its scope and type of projects and expand its customer base. Given the capabilities and experience of the respective members of the Overseas Management Team, they had developed an in-depth understanding of the requirements of various types of customers such as property developers, investment funds and financial institutions over the years with proven track record. Riding on the reputation, capability and experience of the Overseas Management Team (which are crucial considerations by property equity investors/project owners when engaging property management services providers), it is expected that the Overseas Management Team will bring in other management projects from third party customers to the Enlarged Group and thus diversifying the source of revenue of the Enlarged Group in the future and boarden its customer base beyond VPHK Group/China Vanke Group.

(g) there is no issue of management, financial or operational reliance on VPHK Group/China Vanke Group in relation to the provision of the Overseas Management Services on the basis that (i) the day-to-day management of the business of the Enlarged Group rests primarily with the Board and the senior management of the Enlarged Group; (ii) the Enlarged Group will have an independent accounting, financial and internal controls system, and will make financial decisions according to its own business needs; and (iii) with the joining of the Overseas Management Team to the Enlarged Group as part of the workforce of the Enlarge Group, the Enlarged Group will possess all the necessary human capital and expertise that are necessary to carry on and operate its business and has sufficient operational capacity in terms of capital and employees to operate independently from VPHK Group/China Vanke Group to provide the Overseas Management Services and has direct and independent access to suppliers and customers.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined under the Listing Rules) by aggregating the London Property Acquisition, the San Francisco Property Acquisition and the New York Investment Instrument Acquisition exceed 100%, the Acquisitions constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Further, as (1) VPHK, an indirect wholly-owned subsidiary of China Vanke, is a controlling Shareholder indirectly holding 75% of the issued share capital of the Company; and (2) NY Vendor is a fellow subsidiary of VPHK in the China Vanke

Group, both VPHK and NY Vendor are connected persons and the Acquisitions also constitute connected transactions under Chapter 14A of the Listing Rules. Accordingly, the Acquisition Agreements and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders.

Given that each of VPHK, NY Vendor and Vanke US is an indirect wholly-owned subsidiary of China Vanke, the controlling Shareholder, and thus each a connected person of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Management Services Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Management Services Framework Agreement exceed 5% on an annual basis, the transactions contemplated under the Management Services Framework Agreement and the Annual Caps are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

Save for the independent non-executive Directors who expressed their views after considering the advice from the Independent Financial Adviser, none of the Directors have any material interest in the Acquisitions and the Continuing Connected Transactions, nor have they abstained from voting on the Board resolutions approving the Acquisition Agreements, the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps.

For the reasons as detailed in the paragraphs headed "Reasons for and benefits of the Acquisitions" and "Reasons for and benefits of the continuing connected transactions" in this circular, the Directors (including the independent non-executive Directors whose views have been set out in the letter from the Independent Board Committee after taking into account the advice of the Independent Financial Adviser) are of the view that the terms of the Acquisitions pursuant to the Acquisition Agreements and the Management Services Framework Agreement and the transactions contemplated thereunder, as well as the Annual Caps are in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. As such, the Directors recommend the Independent Shareholders to vote in favour of the approving (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps at the EGM.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

An Independent Board Committee comprising all the independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Acquisitions, the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps.

Success New Spring Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

EGM

A notice convening the EGM to be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 6 June 2019 at 11:00 a.m. (or immediately after the conclusion of the annual general meeting of the Company) is set out on pages EGM-1 to EGM-3 to this circular.

Whether or not you are able to attend and/or vote at the extraordinary general meeting in person, you are requested to complete the enclosed proxy form and return it to the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not later than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjournment thereof (as the case may be). Completion and return of the proxy form will not preclude you from subsequently attending and voting at the extraordinary general meeting or any adjournment thereof in person should you so wish.

Only Independent Shareholders will be entitled to vote at the EGM on the resolutions to approve the Acquisition Agreements and the Management Services Framework Agreement, the transactions contemplated thereunder and the Annual Caps. To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, no Shareholder apart from China Vanke and its associates shall abstain from voting on the resolutions approving the Acquisition Agreements, the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps. Wkland Investments, being an associate of China Vanke, is interested in 292,145,949 Shares representing 75% of the entire issued share capital of the Company as at the Latest Practicable Date, and will abstain from voting on such resolutions.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Therefore, the resolution put to the vote at the EGM will be taken by way of poll. The chairman of the EGM will explain the detailed procedures for conducting a poll at the commencement of the EGM.

After the conclusion of the EGM, the poll results will be published on the respective websites of the Stock Exchange and the Company.

CLOSURE OF REGISTER OF MEMBERS

Reference is made to the notice of annual general meeting of the Company dated 6 May 2019 (the "**AGM Notice**") and the announcement of the Company dated 17 May 2019 (the "**Book Closure Announcement**"). As stated in the AGM Notice and the Book Closure Announcement, in order to determine the entitlement to attend and vote at the annual general meeting to be held on Thursday, 6 June 2019, the register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, both days inclusive (the "**AGM Book Closure Period**"), during which period no transfer of shares of the Company will be registered. For the purpose of the EGM, the record date for determining the entitlement of the shareholders of the Company to attend and vote at the EGM will be Wednesday, 5 June 2019. In light of the AGM Book Closure Period, in order to be eligible to attend and vote at the EGM, all transfers of the Shares accompanied by the relevant share certificates must be lodged with the branch share registrar and transfer office of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration by no later than 4:30 p.m. on Friday, 31 May 2019.

RECOMMENDATIONS

Your attention is drawn to the letter from the Independent Board Committee set out on pages 40 to 41 of this circular and the letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders set out on pages 42 to 91 of this circular in connection with the transactions contemplated under the Acquisition Agreements and the Management Services Framework Agreement and reasons considered in arriving at such advice.

The Independent Board Committee, having taken into account the advice of Independent Financial Adviser, considers that the Acquisition Agreements and the Management Services Framework Agreement and the transactions contemplated thereunder were entered into on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the ordinary and usual course of business of the Group. In addition, the Independent Board Committee considers that each of (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps is in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of resolution(s) approving (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps at the EGM. The Board (including the independent non-executive Directors) also recommends the Independent Shareholders to vote in favour of the resolutions approving (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps at the EGM.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Completion of the Acquisitions and the Continuing Connected Transactions are subject to the satisfaction (or, if applicable, waiver) of the conditions precedent thereto and as such, the Acquisitions and the Continuing Connected Transactions may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares and other securities of the Company.

By order of the board of
Vanke Property (Overseas) Limited
Que Dongwu
Executive Director and
Chief Executive Officer

萬科置業(海外)有限公司
VANKE PROPERTY (OVERSEAS) LIMITED
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 01036)

21 May 2019

To the Independent Shareholders

Dear Sir or Madam,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; AND (2) CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 21 May 2019 issued by the Company of which this letter forms part (the "**Circular**"). Capitalised terms used in this letter shall have the same meaning as those defined in the Circular unless otherwise specified.

We have been appointed by the Board as the members of the Independent Board Committee to consider and to give recommendation to the Independent Shareholders on (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps. We wish to draw your attention to the letter from the Board set out on pages 8 to 39 of the Circular and the letter from Success New Spring Capital Limited set out on pages 42 to 91 of the Circular.

Having considered the factors and reasons considered by and the opinion of Success New Spring Capital Limited as stated in its letter, we are of the view that each of (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps are in the ordinary and usual course of business of the Company, on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. We therefore recommend the Independent Shareholders to vote in favour of the resolution(s) approving (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps at the EGM.

Yours faithfully,
Independent Board Committee

Chan Wai Hei, William	**Law Chi Yin, Cynthia**	**Zhang Anzhi**
Independent Non-Executive Director	*Independent Non-Executive Director*	*Independent Non-Executive Director*

The following is the full text of a letter of advice from Success New Spring Capital Limited, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, setting out their opinion in respect of (i) the Acquisitions contemplated under the Acquisition Agreements; and (ii) the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps for the purpose of inclusion in this circular.

SUCCESS
SUCCESS NEW SPRING
CAPITAL LIMITED
實德新源資本有限公司

16/F., Great Eagle Centre,
23 Harbour Road, Wanchai, Hong Kong

21 May 2019

To: the Independent Board Committee and the Independent Shareholders of Vanke Property (Overseas) Limited

Dear Sirs or Madams,

(1) VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION; AND (2) PROPOSED CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the London Property Acquisition Agreement, the San Francisco Property Acquisition Agreement, the New York Investment Instrument Acquisition Agreement and the transactions contemplated thereunder, the Management Services Framework Agreement and the transactions contemplated thereunder and the Annual Caps, details of which are set out in the letter from the Board (the "**Letter from the Board**") contained in the circular of the Company dated 21 May 2019 (the "**Circular**") issued by the Company to the Shareholders, of which this letter of advice forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

On 7 March 2019 (after trading hours), the Company (through its subsidiaries) entered into three separate agreements with certain wholly-owned subsidiaries of China Vanke (the "**Vendors**") for the proposed acquisitions of equity interests or investment instrument (as the case may be) in certain properties in London, the United Kingdom and San Francisco and New York, the United States of America, namely, (i) approximately 99.95% effective interest in Ryder Court, 13–17 Bury Street and 12, 14 and 16 Ryder Street, St James's, London, SW1, the United Kingdom; (ii) 45% effective interest in the property located at 657 and 663–667 Mission Street, San Francisco, California, the United States of America; and (iii) 100% of the holding entity which participates in 49% effective interest in the investment instrument for funding the development of the NY Property located at 25 Park Row, New York, the United States of America, for a total cash consideration equivalent to approximately HK$1,138.34 million, subject to the terms and conditions as set out in the respective agreements for the Acquisitions.

On the same day, the VPO Parties and the VPHK Parties have entered into the Management Services Framework Agreement, pursuant to which the VPHK Parties will retain the VPO Parties on an exclusive basis for, and the Enlarged Group, through the VPO Parties (who will enter into employment contract with the Overseas Management Team by the time of Completion), will provide, the Overseas Management Services to the VPHK Parties, subject to terms and conditions of the Management Services Framework Agreement. The Management Services Framework Agreement will be effective immediately upon the Completion Date and remain effective until 31 December 2021.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) by aggregating the London Property Acquisition, the San Francisco Property Acquisition and the New York Investment Instrument Acquisition exceed 100%, the Acquisitions constitute a very substantial acquisition for the Company under Chapter 14 of the Listing Rules. Further, as (1) VPHK, an indirect wholly-owned subsidiary of China Vanke, holds 75% of the issued share capital of the Company; and (2) the NY Vendor is a fellow subsidiary of VPHK in the China Vanke Group, both VPHK and the NY Vendor are connected persons of the Company and the Acquisitions also constitute connected transactions under Chapter 14A of the Listing Rules. Accordingly, the Acquisition Agreements and the transactions contemplated thereunder are subject to the approval of the Independent Shareholders.

Given VPHK, an indirect wholly-owned subsidiary of China Vanke, is the controlling Shareholder and thus a connected person of the Company under Chapter 14A of the Listing Rules, the transactions contemplated under the Management Services Framework Agreement will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Management Services Framework Agreement exceed 5% on an annual basis, the transactions contemplated under the Management Services Framework Agreement and the Annual Caps are subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising Mr. Chan Wai Hei, William, Ms. Law Chi Yin, Cynthia and Mr. Zhang Anzhi, being all the independent non-executive Directors has been formed to give recommendation to the Independent Shareholders as to (i) whether the terms of the Acquisitions Agreements and the Management Services Framework Agreement are on normal commercial terms, and are fair and reasonable; (ii) whether the Acquisitions, the Continuing Connected Transactions and the Annual Caps are in the ordinary and usual course of business of the Company; (iii) whether the terms of the Acquisition Agreements, the Management Services Framework Agreement and the Annual Caps are in the interests of the Company and the Independent Shareholders as a whole; and (iv) how the Independent

Shareholders should vote on the resolutions in relation to the Acquisition Agreements and the transactions contemplated thereunder, and the Management Services Framework Agreement and the transaction contemplated thereunder and the Annual Caps at the EGM.

OUR INDEPENDENCE

We do not have any relationship with or interest in the Company, the China Vanke Group or any other parties that could reasonably be regarded as relevant to our independence as at the Latest Practicable Date. In the last two years, we have not acted as the independent financial adviser to the independent board committee and the independent shareholders of the Company in relation to other transactions. Apart from normal professional fees for our services to the Company in connection with the engagement described above as well as this appointment as the Independent Financial Adviser, no arrangement exists whereby we will receive any fees and benefits from the Group or any other parties that could reasonably be regarded as relevant to our independence. Accordingly, as at the Latest Practicable Date, there were no circumstances exist under Rule 13.84 of the Listing Rules that could reasonably be regarded as a hindrance to our independence to act as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the Acquisitions, the Continuing Connected Transactions and the Annual Caps as detailed in the Circular.

BASIS OF OUR OPINION

In formulating our opinion and recommendation to the Independent Board Committee and the Independent Shareholders, we have reviewed, amongst other things:

(i) the annual reports of the Company for the years ended 31 December 2016, 2017 and 2018 (the "**Annual Report(s)**");

(ii) the Acquisition Agreements;

(iii) the Management Services Framework Agreement;

(iv) the valuation report on the Target Properties issued by Knight Frank, an independent qualified valuer (the "**Independent Valuer**") as at 28 February 2019 (the "**Valuation Report**"); and

(v) other information as set out in the Circular.

We have also discussed the valuation methodologies, bases and assumptions adopted for the valuation of each of the London Property, the SF Property and the NY Property with the Independent Valuer. We have conducted site visits on the London Property, the SF Property and the NY Property and discussed with the management of the Company in relation to the London Property, the SF Property and the NY Property.

We have relied on the truth, accuracy and completeness of the statements, information, opinions and representations contained or referred to in the Circular and the information and representations made to us by the Company, the Directors and the management of the Company (collectively, the "**Management**"). We have assumed that all information and representations contained or referred to in the Circular and provided to us by the Management, for which they are solely and wholly responsible, are true, accurate and complete in all respects and not misleading or deceptive at the time when they were provided or made and will continue to be so up to the Latest Practicable Date.

We have also assumed that all statements of belief, opinion, expectation and intention made by the Management in the Circular (or otherwise provided to us by the Management) were reasonably made after due enquiries and careful consideration and there are no other facts not contained in the Circular, the omission of which make any such statement contained in the Circular misleading. We have no reasons to suspect that any relevant information has been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, nor are we aware of any fact or circumstance which would render the information provided and representations and opinions expressed by the Management to us untrue, inaccurate or misleading.

We consider that we have been provided with sufficient information to enable us to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular to provide a reasonable basis for our opinions and recommendations. We consider that we have performed all the necessary steps as required under Rule 13.80 of the Listing Rules to enable us to reach an informed view and to justify our reliance on the information provided and representations made to us so as to form a reasonable basis for our opinions. However, we have not carried out any independent verification of the information provided by the Management, nor have we conducted any independent investigation into the business, financial conditions and affairs of the Group or its future prospect.

Shareholders should note that subsequent developments (including material change in market and economic conditions) may affect and/or change our opinion (which does not limit to the potential risks that may affect the Acquisitions, the Continuing Connected Transactions and the Annual Caps as stated in this letter) and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. Nothing contained in this letter of advice should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company.

The Directors jointly and severally accept full responsibility for the accuracy of the information disclosed and confirm, having made all reasonable enquiries that to the best of their knowledge and belief, there are no other facts not contained in this letter, the omission of which would make any statement herein misleading.

This letter is issued to the Independent Board Committee and the Independent Shareholders solely in connection with their consideration in respect of the Acquisitions, the Continuing Connected Transactions and the Annual Caps, and except for its inclusion in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

A. THE ACQUISITIONS

1. Background of the Acquisitions

On 7 March 2019 (after trading hours), the Company (through its subsidiaries) entered into three separate agreements with certain wholly-owned subsidiaries of China Vanke for the proposed acquisitions of equity interests or investment instrument (as the case may be) in certain properties (as the case may be) in London, the United Kingdom, and San Francisco and New York, the United States of America, for a total cash consideration equivalent to approximately HK$1,138.34 million, subject to the terms and conditions as set out in the respective agreements for the Acquisitions.

In formulating our opinion in respect of the Acquisitions and the transactions contemplated thereunder, we have taken into account the following principal factors and reasons:

2. Information on the Group, the Vendors and the Sale Companies

2.1 Information on the Group

The Group is an investment holding company and is principally engaged in the property development and financing, and property rental and management activities in Hong Kong.

The table below sets out a summary of the audited consolidated financial information of the Group for the three years ended 31 December 2016, 2017 and 2018, as extracted from the Annual Reports:

Summarised financial results of the Group

	For the year ended 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	91,244	96,460	101,780
Profit before taxation	141,891	167,791	689,790
Profit after taxation	131,320	155,149	676,843

The Group's revenue is derived from the leasing of units and car parking spaces in Regent Centre in Hong Kong. We note that the Group's revenue had increased by approximately 5.7% to HK$96.5 million for the year ended 31 December 2017 as compared to the year ended 31 December 2016, which was mainly due to (i) the improved occupancy for the units in Regent Centre; and (ii) the increase in income generated from leasing of car parking spaces. We also note that the Group's revenue had further increased by approximately 5.5% to HK$101.8 million for the year ended

31 December 2018 as compared to the year ended 31 December 2017, which was mainly due to (i) the improved occupancy; and (ii) the increase in passing rent for the units in Regent Centre during the year.

We note that the Group's profit after taxation had increased by approximately 18.1% to HK$155.1 million for the year ended 31 December 2017 as compared to the year ended 31 December 2016, which was mainly due to (i) the increase in fair value of investment properties of Regent Centre in Hong Kong; and (ii) the increase in finance income, which were partially offset by the increase in administrative, leasing and marketing expenses. We also note that the Group's profit after taxation had further increased by approximately 4.36 times to HK$676.8 million for the year ended 31 December 2018 as compared to the year ended 31 December 2017, which was mainly due to (i) the increase in revenue from the Group's rental and property management business; (ii) the increase in interest income; and (iii) the share of profits of associates of HK$465.7 million for the year ended 31 December 2018, which was mainly due to the recognition of profits from an associate, Ultimate Vantage Limited ("**Ultimate Vantage**") on the sale of units of the West Rail Tsuen Wan West Station TW6 property development project, The Pavilia Bay.

Summarised financial position of the Group

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Bank balances and cash	703,922	865,905	1,425,085
Current assets	734,873	1,023,408	1,439,959
Current liabilities	30,873	37,606	38,798
Net assets	2,858,147	3,001,610	3,666,767

As at 31 December 2018, the Group's total bank balances and cash amounted to approximately HK$1,425.1 million, which represented an increase of approximately 64.6% from approximately HK$865.9 million as at 31 December 2017, which was mainly attributable to (i) the remaining proceeds of HK$392.9 million from the rights issue of the Company took place in August 2015; (ii) the receipt of the repayment of amount due from Ultimate Vantage of approximately HK$207.1 million (out of the sales proceeds received by Ultimate Vantage on The Pavilia Bay); (iii) the partial repayment of amount due from Gold Value Limited ("**Gold Value**") of approximately HK$20.8 million (out of the repayment of mortgages by the buyers of The Pavilia Bay to Gold Value); and (iv) the receipt of dividends from Ultimate Vantage of approximately HK$325.0 million, the details of which please refer to the Annual Report for the year ended 31 December 2018. As the Group had no interest-bearing debts and undrawn banking facilities as at 31 December 2017 and 2018, the comparison of the Group's net gearing ratio is not indicative. The Group's net assets amounted to approximately HK$3,666.8 million as at 31 December 2018, which represented an increase of approximately 22.2% from approximately HK$3,001.6 million as at 31 December 2017, which was mainly due to an increase in fair value of investment properties, interests in associates and bank balances and cash as at 31 December 2018.

2.2 Information on the Vendors

2.2.1 Information on VPHK

VPHK is an investment holding company which is engaged in the principal business of property development. It is one of the investment platforms of the property business of China Vanke. VPHK is being the vendor under the London Property Acquisition Agreement and the San Francisco Property Acquisition Agreement.

2.2.2 Information on the NY Vendor

Chogori Investment (Hong Kong) Limited, as the NY Vendor, is an indirect wholly-owned subsidiary of China Vanke and is an investment holding company, and being the vendor under the New York Investment Instrument Acquisition Agreement.

2.3 Information on the Sale Companies

2.3.1 Information on the London Target

As stated in the Letter from the Board, the London Target is an approximately 99.95%-owned subsidiary of VPHK and is an investment holding company. The remaining approximately 0.05% of the London Target is beneficially owned by certain employees of China Vanke (including a non-executive Director) who are investing in the London Target and are responsible for managing the London Target as a co-investment arrangement and will remain to be the case after Completion. The London Target indirectly holds the entire interests in the London Property.

The London Property is located at Ryder Court, 13–17 Bury Street and 12, 14 and 16 Ryder Street, St James's, London, SW1, the United Kingdom and was built before 1947 and was substantially redeveloped in 1980s and was subsequently partially refurbished in 2010 and 2016. The London Property is an office and commercial building comprising six floors and a lower ground area with a site area of approximately 23,088 sq. ft. and a total floor area of approximately 75,813 sq. ft.. As at 31 December 2018, the occupancy rate of the London Property is 100% with the total current rental of the London Property of approximately £5.9 million per annum and an average unexpired lease tenor of more than eight years.

The table below sets out a summary of the audited consolidated financial information of the London Target Group for the period from 12 August 2016 (date of incorporation) to 31 December 2016 and the two years ended 31 December 2017 and 2018, as extracted from the accountants' report of the London Target Group as set out in Appendix II to the Circular:

Summarised financial results of the London Target Group

	For the period from 12 August 2016 (date of incorporation) to 31 December	For the year ended 31 December	
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	8,457	51,269	52,680
(Loss)/Profit before taxation	(60,350)	71,169	10,752
(Loss)/Profit after taxation	(60,350)	68,810	8,535

As shown above, we note that the London Target Group's revenue for the year ended 31 December 2018 is derived from rental income of leasing of units and had increased by approximately 2.8% to HK$52.7 million as compared to the year ended 31 December 2017, which was mainly attributable to the improvement on average monthly rental rate of the London Property. The London Target Group's profit after taxation for the year ended 31 December 2018 had decreased by approximately 87.6% to HK$8.5 million as compared to the year ended 31 December 2017, which was mainly due to a decrease in fair value of London Property of approximately HK$13.0 million caused by general decline in the property market condition in London for the year ended 31 December 2018; while an increase in fair value of investment property of approximately HK$43.7 million for the year ended 31 December 2017, which was mainly due to the refurbishment work of the London Property being completed in 2016 and the improving property market in London.

For the year ended 31 December 2017, the London Target Group's revenue had increased by approximately 6.1 times as compared to the period from 12 August 2016 to 31 December 2016, which was mainly attributable to (i) the increase in the areas and/or units leased out following the completion of the refurbishment works of the London Property in 2016; and (ii) the full year effect for 2017. The London Target Group's profit after taxation for the year ended 31 December 2017 had substantially improved as compared to its loss for the period from 12 August 2016 to 31 December 2016, which was mainly attributable to an increase in fair value of the London Property of approximately HK$43.7 million for the year ended 31 December 2017; while the loss for the period from 12 August 2016 to 31 December 2016 was mainly due to a decrease in fair value of the London Property of approximately HK$65.2 million during the period.

Summarised financial position of the London Target Group

	As at 31 December		
	2016	**2017**	**2018**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	1,095,215	1,271,338	1,218,070
Total liabilities	75,210	807,172	810,961
Net assets	1,020,005	464,166	407,109

The London Target Group's total assets had decreased by approximately 4.2% from HK$1,271.3 million as at 31 December 2017 to HK$1,218.1 million as at 31 December 2018, which was mainly due to the decrease in the fair value of the London Property; while the total liabilities had increased by approximately 0.5% from HK$807.2 million as at 31 December 2017 to HK$811.0 million as at 31 December 2018, which was mainly due to the increase in other payables of HK$5.0 million as at 31 December 2018. The net assets of the London Target Group was approximately HK$407.1 million as at 31 December 2018, which was primarily attributed by (i) the distribution of dividend and redemption of preference shares of approximately HK$23.9 million during the year; and (ii) the decrease in the fair value of the London Property of approximately HK$80.9 million during the year.

The London Target Group's total assets had increased by approximately 16.1% from HK$1,095.2 million as at 31 December 2016 to HK$1,271.3 million as at 31 December 2017, which was mainly due to the increase in the fair value of the London Property; while the total liabilities had increased by approximately 10.7 times from HK$75.2 million as at 31 December 2016 to HK$807.2 million as at 31 December 2017, which was attributable to the bank loan of approximately HK$741.5 million. The net assets of the London Target Group was approximately HK$464.2 million as at 31 December 2017, which was primarily attributed by the distribution of dividend and redemption of preference shares of approximately HK$689.4 million during the year.

2.3.2 Information on the SF Target

As stated in the Letter from the Board, the SF Target is a wholly-owned subsidiary of VPHK and is an investment holding company which indirectly holds 45% of the effective interest in the SF Property. Approximately 49.705% of the effective interest of the SF Property is owned by a wholly-owned subsidiary of China Vanke, 5% of the effective interest is owned by an Independent Third Party and approximately 0.295% of the effective interest of the SF Property is beneficially owned by certain employees of China Vanke (including a non-executive Director) who are responsible for managing and investing the SF Property as a co-investment arrangement and will remain to be so after Completion.

The SF Property is located at 657 and 663–667 Mission Street, San Francisco, California, the United States of America. As advised by the Management, the SF Property was built in the 1930s. The renovation of the SF Property was commenced in May 2018 and is expected to be completed in October 2019. The SF Property is an office and commercial building combining two adjacent buildings after renovation, with a site area of approximately 25,160 sq. ft. and a total floor area of approximately 154,891 sq. ft.. As at 31 December 2018, the entire office portion of the SF Property with a floor area of approximately 149,391 sq. ft. is pre-leased to a single tenant for a term of 12.5 years commencing from October 2019 to April 2031 at an annual base rent of USD9.5 million for the first year with a rental increment of 3% per annum; while the retail portion of the SF Property with a floor area of approximately 5,500 sq. ft. has not been leased.

The table below sets out a summary of the audited consolidated financial information of the SF Target Group for the period from 29 September 2017 (date of incorporation) to 31 December 2017 and the year ended 31 December 2018, as extracted from the accountants' report of the SF Target Group as set out in Appendix III to the Circular:

Summarised financial results of the SF Target Group

	For the period from 29 September 2017 (date of incorporation) to 31 December 2017	**For the year ended 31 December 2018**
	HK$'000	*HK$'000*
Revenue	—	—
Profit/(loss) before taxation	14,014	(5,644)
Profit/(loss) after taxation	14,014	(5,644)

As the holding company of the SF Property was not a subsidiary of the SF Target Group, no revenue was contributed to the SF Target Group from accounting perspective. Therefore, we note that the SF Target Group did not record any revenue for the period from 29 September 2017 to 31 December 2017 and the year ended 31 December 2018.

The SF Target Group recorded net loss before taxation and after taxation of approximately HK$5.6 million for the year ended 31 December 2018 as it shared the losses of the Mission Venture Group, in which the Mission Venture Group recorded net losses for the year ended 31 December 2018 as the SF Property was under renovation since the first quarter of 2018 and did not generate revenue during the renovation period, and it incurred operating costs including (i) one-off termination fees of the relevant tenancies of approximately HK$3.1 million (the SF Target Group's shared portion); and (ii) finance costs of HK$13.3 million (the SF Target Group's shared portion). The SF Target Group recorded profit before taxation and after taxation of approximately HK$14.0 million for the period from 29 September 2017 to 31 December 2017 was attributed to the profit share of results of an associate, which was contributed by the rental income of the SF Property during 2017.

Summarised financial position of the SF Target Group

	As at 31 December	
	2017	**2018**
	HK$'000	*HK$'000*
Total assets	102,412	116,671
Total liabilities	30	32
Net assets	102,382	116,639

The SF Target Group's total assets had increased by approximately 13.9% from HK$102.4 million as at 31 December 2017 to HK$116.7 million as at 31 December 2018, which was attributable to the increase of the carrying amount of its interest in associates. The increase in net assets of the SF Target Group was in line with the increase in total assets of the same period.

2.3.3 Information on the NY Target

As stated in the Letter from the Board, the NY Target is an investment holding company which participates in 49% of the investment instrument in the total principal amount of USD63.51 million (approximately HK$498.35 million), as at the date of the New York Investment Instrument Acquisition Agreement, for funding the development of the NY Property (the "**NY Investment Instrument**"). Approximately 50.17% of the investment instrument made to each of the NY Intermediate Companies is and will continue to be indirectly held by the NY Vendor after completion of the New York Investment Instrument Acquisition. Approximately 0.83% of the effective interest of the investment instrument made to each of the NY Intermediate Companies is owned by certain employees of China Vanke (including a non-executive Director and an executive Director) who are responsible for initiating and managing the underlying investment instrument as a co-investment arrangement and will remain to be so after Completion.

As extracted from the Letter from the Board, the followings are the details of the NY Investment Instrument in the principal amount of USD63.51 million as at the date of the New York Investment Instrument Acquisition Agreement for funding the development of the NY Property:

Total investment principal amount	:	USD63.51 million (approximately HK$498.35 million)
Fixed returns	:	14.15% per annum
Maturity Date	:	20 December 2020 (with an option to extend for 12 months, subject to conditions)
Users of amount invested	:	Developers of the NY Property who are independent third parties of the Company
Security	:	Share charge in respect of the entire issued shares of the users of the amount invested

The NY Property is located at 25 Park Row, New York, the United States of America and will be developed into a residential building comprising condominiums units and retail units, with a site area of approximately 17,801 sq. ft. and a total floor area of approximately 241,563 sq. ft. upon completion of development. As at the Latest Practicable Date, the NY Property is still under development, and it is expected that the development of the NY Property will be completed in the fourth quarter of 2019. As at the Latest Practicable Date, a total saleable area of approximately 4,379 sq. ft. of the residential portion of the NY Property has been pre-sold at a total consideration of approximately USD7.8 million.

The table below sets out a summary of the audited financial information of the NY Target for the period from 14 December 2018 (date of incorporation) to 31 December 2018, as extracted from the accountants' report of the NY Target as set out in Appendix IV to the Circular:

Summarised financial results of the NY Target

	For the period from 14 December 2018 (date of incorporation) to 31 December 2018 *HK$'000*
Revenue	—
Loss before taxation	52
Loss after taxation	52

As shown above, the NY Target did not record any revenue for the period from 14 December 2018 (date of incorporation) to 31 December 2018.

Summarised financial position of the NY Target

	As at 31 December 2018 *HK$'000*
Total assets	—
Total liabilities	52
Net liabilities	52

The total liabilities of the NY Target as at 31 December 2018 is equivalent to the amount of the net loss of the NY Target for the same period. It recorded total deficit representing the net liabilities of approximately HK$52,000 as a result of the administrative expenses incurred from 14 December 2018 to 31 December 2018. According to the "Management Discussion and Analysis of the Sale Companies" as set out in Appendix V in the Circular, the NY Target participated in the NY Investment Instrument relating to the NY Property after 31 December 2018 and therefore the accrued investment returns from the NY Investment Instrument are not reflected in the financial statement of the NY Target for the period from 14 December 2018 (date of incorporation) to 31 December 2018.

3. The principal terms of the Acquisition Agreements

3.1 The London Property Acquisition

On 7 March 2019 (after trading hours), Vanke UK Investment entered into the London Property Acquisition Agreement with VPHK, pursuant to which Vanke UK Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the London Sale Shares, representing approximately 99.95% of the entire issued share capital of the London Target for a consideration of approximately £42.38 million (equivalent to approximately HK$437.70 million) by way of cash. The London Target indirectly owns and operates the London Property (which is valued at no less than £115.45 million (equivalent to approximately HK$1,192.36 million based on 100% basis).

The principal terms of the London Property Acquisition Agreement are set out below:

Date

7 March 2019

Parties

(1) Vanke UK Investment, as the purchaser; and

(2) VPHK, as the vendor.

Assets to be acquired

Pursuant to the London Property Acquisition Agreement, Vanke UK Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the London Sale Shares, being 99.95% of the entire issued share capital of the London Target.

The remaining approximately 0.05% of the issued share capital of the London Target is beneficially owned by certain employees of China Vanke (including a non-executive Director) who are investing in the London Target and are responsible for managing the London Target as a co-investment arrangement and will remain to be the case after Completion.

Consideration

The consideration is approximately £42.38 million (approximately HK$437.70 million), subject to adjustment, of which (i) approximately £2.12 million (approximately HK$21.89 million) was paid by Vanke UK Investment to VPHK within 5 Business Days of the date of signing of the London Property Acquisition Agreement as refundable deposit; (ii) approximately £38.14 million (approximately HK$393.92 million) will be payable by Vanke UK Investment to VPHK in cash on the Completion Date; and (iii) with the remaining £2.12

million (approximately HK$21.89 million) (the "**London Retention Amount**") will be payable within five Business Days after the date of determination of the consolidated net asset value of the London Target as at the Completion Date (the "**London Completion NAV**") on the basis of the market value of the London Property being fixed at £115.45 million (approximately HK$1,192.36 million) and a cash-free and debt-free position of the London Target Group. The London Completion NAV will be determined based on adding all the assets held by the London Target Group, and subtracting all the account payables (other than the Existing London Loan (as defined below)) and accrued liabilities, as at the date of Completion.

If the London Completion NAV is higher or lower than £115.45 million, the consideration shall be adjusted upward or downward (subject to a maximum of approximately£5.86 million (approximately HK$60.52 million)) by 99.95% of the difference between the London Completion NAV and the value of the London Property being fixed at £115.45 million, in each case, on a GBP for GBP basis and the London Retention Amount (or part thereof) shall be released to VPHK or kept by Vanke UK Investment (as the case may be) accordingly.

Further, Vanke UK Investment will at Completion indirectly assume the existing bank loan (which is in the principal amount of approximately £74.70 million (approximately HK$771.51 million) as at the date of the London Property Acquisition Agreement) (the "**Existing London Loan**") granted to the immediate holding company of the London Property.

Basis of determination of the consideration

The consideration was determined after arm's length negotiations between Vanke UK Investment and VPHK with reference to:

(1) the preliminary property valuation of the London Property of being no less than £115.45 million (equivalent to HK$1,192.36 million) as at 28 February 2019; and

(2) the consolidated current net asset value of the London Target Group of approximately HK$407.11 million as at 31 December 2018.

The valuation of the London Property is carried out by Knight Frank, an independent valuer to the Company. The appraised value of the London Property by the "term and reversion method of income approach" was £115.45 million (equivalent to approximately HK$1,192.36 million) as at 28 February 2019. Please refer to Appendix VII to the Circular for the valuation report of the London Property.

For terms related to the conditions precedent and Completion, please refer to the paragraphs headed "Conditions precedent" and "Completion" under the section headed "London Property Acquisition" in the Letter from the Board.

3.1.1 Analysis on the consideration

The table below summarises the basis of arriving at the initial cash consideration for the London Sale Shares after taking into account the valuation of the London Property as at 28 February 2019 and the Existing London Loan:

	£'000
The market value of the London Property as at 28 February 2019	115,450
Less: Existing London Loan	74,700
Net value of the London Property	40,750
99.95% of net value of the London Property	40,730
Premium	1,650
London Initial Cash Consideration (as defined below)	42,380

We note that the initial cash consideration for the London Sale Shares of £42.38 million (the "**London Initial Cash Consideration**") is based on the market value of the London Property as at 28 February 2019 and the Existing London Loan of approximately £74.70 million which will be assumed by Vanke UK Investment at Completion. We note that London Initial Cash Consideration represents a premium of approximately £1.65 million (equivalent to approximately 4.05%) to 99.95% net value of the London Property contributed to the London Sale Shares. Such premium was arrived at after arm's length negotiations between Vanke UK Investment and VPHK taking into consideration (i) the immediate revenue and profit to be contributed to the Enlarged Group upon Completion; (ii) an attractive return that the yield of the London Property is expected to be around 4.53% for 2018 which is higher than the average prime yield in St. James's district of approximately 3.75% in the fourth quarter of 2018 (as further elaborated under the section headed "4. Reasons for and benefits of the Acquisitions" under the paragraph headed "Central London's commercial property sector" in this letter); and (iii) long-term leases having been entered into for the entire London Property thus providing a steady rental income stream. We concur with the view of the Directors that the premium is acceptable. Furthermore, the Management advised that adjustment on the London Initial Cash Consideration would have to be made to reflect the latest consolidated net asset value position in the London Target at Completion, being the London Completion NAV. The adjustment mechanism is based on the London Completion NAV and will be increased or decreased on a GBP to GBP basis if the London Completion NAV is higher or lower than £115.45 million, respectively, subject to a maximum of approximately £5.86 million (approximately HK$60.52 million), being 5% of the total of the market value of the London Property of £115.45 million and the premium of £1.65 million. We are of the view that the above adjustment mechanism is fair and reasonable to the Company and the Independent Shareholders as (i) the downward adjustment could reduce the London Initial Cash Consideration as a result of the London Completion NAV is lower than the market value of the London Property of £115.45 million; and (ii) the adjusted upward maximum protects the Company from material deviation from the London Initial Cash Consideration and hence the Company's cashflow requirement under the London Property Acquisition after the adjustment mechanism and the Management does not anticipate the necessary adjustment will be beyond the adjusted upward maximum.

In assessing the fair and reasonableness of the London Initial Cash Consideration, we consider that it is appropriate and necessary to focus our analysis on the valuation of the London Property. Details of the aforesaid analysis are set out in this letter below.

Valuation of the London Property

Pursuant to the Valuation Report issued by the Independent Valuer, the appraised value of the London Property was £115.45 million as at 28 February 2019. For our due diligence purpose, we have reviewed and discussed with the Independent Valuer (i) the methodology of, and basis and assumptions adopted; (ii) the steps and due diligence measures taken by the Independent Valuer; and (iii) details of the comparable transactions adopted for the valuation of the London Property as set out in the Valuation Report in Appendix VII to the Circular. We note that the Independent Valuer has adopted the term and reversion method of the income approach to assess the market value of the London Property, based on the existing unexpired contractual tenancies of the London Property, while vacant units or expired tenancies are assumed to be let at their respective market rents as at the valuation date. We also understand from the Independent Valuer that (a) the term and reversion method of income approach is a common adopted approach for valuation of the subject property; and (b) such approach is commonly used to value assets which is income-producing. Therefore, we have reviewed similar property valuations conducted by other listed companies on the Stock Exchange and note that such approach is commonly adopted valuation methodology in valuing property subject to tenancies. Since the London Property will be deriving income from its existing tenancies and is held for investment, we consider that such approach is an appropriate valuation methodology to appraise the London Property.

As a supporting approach, the market approach is used to counter-checking the appraised value for the London Property. In this regard, comparable transactions of office and commercial properties in St James's district in the United Kingdom were collected and analysed. We note that comparable transactions are adjusted where the Independent Valuer considered appropriate based on the differences in several aspects including size, age, location and building quality between the comparable properties and the London Property. We have discussed with the Independent Valuer on its selection criteria and note that the selection criteria for the comparable transactions are the nature and location compared with the London Property. As a result, three comparable transactions were identified, which were transacted in 2017 and 2018. As advised by the Independent Valuer, they cannot identify any available comparable transaction according to its selection criteria prior the date of valuation (i.e. 28 February 2019) during 2019. Therefore, we consider the selection basis for the said comparable transactions is fair and reasonable. It is also noted that the unit rate of these comparable transactions ranges from £1,278 to £1,574 per sq. ft.; while the average unit rate of the London Property is around £1,523 per sq. ft.. For cross-checking purpose, we have conducted independent desktop search and reviewed the unit rates of these comparable transactions used in the market approach by the Independent Valuer, and note that the unit rates of these comparable transactions are similar to that adopted in the market approach.

We have reviewed valuations on rental income properties conducted by other listed companies on the Stock Exchange and note that (i) the term and reversion method of income approach is commonly adopted valuation methodology in valuing property subject to tenancies; and (ii) counter-checking by market approach to the appraised value of the property is generally in line with market practice which has taken into consideration recent transacted prices of comparable properties in similar areas to the London Property.

Based on the above and our view on the valuation report on the Target Properties under the sub-section headed "3.4 View on the valuation report on the Target Properties" of this letter, we concur with the Independent Valuer's view that (i) the valuation methodology adopted by the Independent Valuer are common and appropriate for determining the market value of the London Property; and (ii) the bases and assumptions for the valuation of the London Property are fair and reasonable, therefore, we did not cross-check the valuation of the London Property using other methodologies. Nevertheless, the Independent Shareholders should note that valuation of properties usually involves certain assumptions and therefore the appraised value of the London Property of £115.45 million as at 28 February 2019 may not reflect the actual transaction value sold in the market.

We note that the Board was aware of the London Initial Cash Consideration (before reduction of the existing bank loan) is higher than the original acquisition cost of the London Property incurred by VPHK up to 31 December 2018 (in respect of the percentage of interest to be disposed to the Company of £112.20 million (equivalent to HK$1,158.79 million) by approximately £4.84 million. The Board considered (i) the original acquisition cost of the London Property incurred by VPHK was determined with reference to the valuation of the London Property at the time when the original acquisition was agreed, which was at a different time from the valuation of London Property as at 28 February 2019, and the market sentiment of London property market in late 2016 following the Brexit referendum in June 2016; and (ii) the London Initial Cash Consideration was negotiated on an arm's length basis with reference to (a) the valuation of the London Property of approximately £115.45 million (equivalent to HK$1,192.36 million) as at 28 February 2019; and (b) the current net asset value of the London Target Group as at 31 December 2018. Taking into account the above and the premium was arrived at after arm's length negotiations considering (i) the immediate revenue and profit to be contributed to the Enlarged Group upon Completion; (ii) an attractive return that the yield of the London Property is expected to be around 4.53% which is higher than the average yield in St. James's district of approximately 3.75% in the fourth quarter of 2018; and (iii) long-term leases having been secured for the entire London Property thus providing a very steady rental income stream, we consider that the original acquisition cost of the London Property should not be the determining factor for determination of the London Initial Cash Consideration, and we are of the view the London Initial Cash Consideration is fair and reasonable.

3.2 The SF Property Acquisition

On 7 March 2019 (after trading hours), Vanke US Investment entered into the San Francisco Property Acquisition Agreement with VPHK, pursuant to which Vanke US Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the SF Sale Share and SF Sale Loan, representing the entire issued share capital and shareholder's loan due from the SF Target for a total consideration of approximately USD22.22 million (equivalent to approximately HK$174.34 million) by way of cash. The SF Target indirectly owns 45% effective interest in the SF Property (whose market value is no less than USD167.00 million (equivalent to approximately HK$1,310.48 million) based on a 100% interest).

The principal terms of the San Francisco Property Acquisition Agreement are set out below:

Date

7 March 2019

Parties

(1) Vanke US Investment, as the purchaser; and

(2) VPHK, as the vendor.

Assets to be acquired

Pursuant to the San Francisco Property Acquisition Agreement, Vanke US Investment has conditionally agreed to acquire and VPHK has conditionally agreed to sell the SF Sale Shares and SF Sale Loan, representing the entire issued share capital of the SF Target.

The SF Target indirectly owns 45% effective interest in the SF Property. 49.705% of the effective interest of the SF Property is owned by a wholly-owned subsidiary of China Vanke, 5% of the effective interest is owned by an Independent Third Party and approximately 0.295% of the effective interest of the SF Property is beneficially owned by certain employees of China Vanke (including a non-executive Director), who are responsible for managing and investing the SF Property, as a co-investment arrangement and will remain to be so after Completion.

Consideration

The consideration is approximately USD22.22 million (approximately HK$174.34 million), subject to adjustment, of which (i) USD1.11 million (approximately HK$8.72 million) was paid by Vanke US Investment to VPHK within five Business Days of the date of signing of the San Francisco Property Acquisition Agreement as refundable deposit; (ii) approximately USD20.00 million (approximately HK$156.90 million) will be payable by Vanke US Investment to VPHK in cash on the Completion Date; and (iii) with the remaining USD1.11 million (approximately HK$8.72 million) (the "**SF Retention Amount**") will be payable within 5 Business Days after the date of determination of the consolidated net asset value of the SF Target as at the Completion Date (the "**SF Completion NAV**") on the basis of the market value of the SF Property being fixed at USD167.00 million (approximately HK$1,310.48 million) and a cash-free and debt-free position of the SF Target Group. The SF Completion NAV will be determined based on adding all the assets held by the SF Target Group, and subtracting all the account payables (other than the Existing SF Loan (as defined below) and the SF Sale Loan) and accrued liabilities, as at the date of Completion.

If the SF Completion NAV is higher or lower than USD75.15 million (being 45% of the market value of the SF Property as at 28 February 2019), the consideration shall be adjusted upward or downward (subject to a maximum of approximately USD3.76 million (approximately HK$29.51 million)), in each case, on a dollar for dollar basis and the SF Retention Amount (or part thereof) shall be released to VPHK or kept by Vanke US Investment (as the case may be) accordingly.

Further, Vanke US Investment will at Completion on a proportionate basis indirectly assume the existing bank loan (which is in the principal amount of approximately USD93.11 million (approximately HK$730.69 million) as at the date of the San Francisco Property Acquisition Agreement) (the "**Existing SF Loan**") granted to the holding companies of the SF Property. Hence, the principal amount of loan to be borne by the Enlarged Group is approximately USD41.90 million (approximately HK$328.81 million).

Basis of determination of the consideration

The consideration was determined after arm's length negotiations between Vanke US Investment and VPHK with reference to:

(1) the preliminary market value of the SF Property of being no less than USD167.00 million (equivalent to approximately HK$1,310.48 million) as at 28 February 2019; and

(2) the preliminary consolidated net asset value of the SF Target Group of approximately HK$116.64 million as at 31 December 2018.

The valuation of the SF Property is carried out by Knight Frank, an independent valuer to the Company. The appraised value of the SF Property by the "term and reversion method of income approach" was USD167.00 million (equivalent to approximately HK$1,310.48 million) as at 28 February 2019. Please refer to Appendix VII to the Circular for the valuation report of the SF Property. The appraised value of the SF Property as set out in the valuation report has not taken into account the outstanding renovation cost of the SF Property. According to the Letter from the Board, the Board believes the valuation of the SF Property is fair and reasonable considering that the parties have already deducted the outstanding renovation cost of the SF Property (which is incurred on the project company level) from the consideration.

For terms related to the conditions precedent and Completion, please refer to the paragraphs headed "Conditions precedent" and "Completion" under the section headed "San Francisco Property Acquisition" in the Letter from the Board.

3.2.1 Analysis on the consideration

The table below summarises the basis of arriving at the initial cash consideration for the SF Sale Share and SF Sale Loan after taking into account the valuation of the SF Property as at 28 February 2019 and the Existing SF Loan:

	USD'million
The market value of the SF Property as at 28 February 2019	167.00
Less: Existing SF Loan	93.11
Net value of the SF Property	73.89
45% of net value of the SF Property	33.25
Less: Remaining outstanding renovation cost as at 30 June 2019	*11.03*
SF Initial Cash Consideration (as defined below)	22.22

We note that the initial cash consideration for SF Sale Share and SF Sale Loan of USD22.22 million (the "**SF Initial Cash Consideration**") is based on 45% of market value of the SF Property as at 28 February 2019 less (i) the Existing SF Loan which will be assumed by Vanke US Investment upon Completion; and (ii) the remaining of the outstanding renovation cost to be payable by SF Target Group (which, for the avoidance of doubt, will be borne by the Group when the construction progresses). The Management advised that the adjustment on the SF Initial Cash Consideration would have to be made to reflect the latest consolidated net asset value position in the SF Target at Completion, being the SF Completion NAV. The adjustment mechanism is based on the SF Completion NAV and will be increased or decreased on a dollar to dollar basis if the SF Completion NAV is higher or lower than USD75.15 million (being 45% of the market value of the SF Property as at 28 February 2019), respectively, with adjusted upward maximum of USD3.76 million, being 5% of the 45% effective interest of the market value of the SF Property as at 28 February 2019. We are of the view that the above adjustment mechanism is fair and reasonable to the Company and the Independent Shareholders as (i) the downward adjustment could reduce the SF Initial Cash Consideration as a result of the SF Completion NAV is lower than the 45% of the market value of the SF Property of USD167.00 million; and (ii) the adjusted upward maximum protects the Company from material deviation from the SF Initial Cash Consideration and hence the Company's cashflow requirement under the SF Property Acquisition after the adjustment mechanism and the Management does not anticipate the necessary adjustment will be beyond the adjusted upward maximum.

In assessing the fair and reasonableness of the SF Initial Cash Consideration, we consider that it is appropriate and necessary to focus our analysis on the market value of the SF Property. Details of the aforesaid analysis are set out in this letter below.

Valuation of the SF Property

Pursuant to the Valuation Report issued by the Independent Valuer, the appraised value of the SF Property was USD167.00 million as at 28 February 2019. For our diligence purpose, we have reviewed and discussed with the Independent Valuer (i) the methodology of, and basis and assumptions adopted; (ii) the steps and due diligence measures taken by the Independent Valuer; and (iii) details of the comparable transactions adopted for the valuation of the SF Property as set out in the Valuation Report in Appendix VII to the Circular. We note that the Independent Valuer has adopted the term and reversion method of the income approach to assess to the market value of the SF Property based on the existing unexpired contractual tenancies of the SF Property, while vacant units or expired tenancies are assumed to be let at their respective market rents as at the valuation date. We also understand from the Independent Valuer that (i) the term and reversion method of income approach is a common adopted approach for valuation of the subject property; and (ii) such approach is commonly used to value assets which is income-producing. Therefore, we have reviewed similar property valuations conducted by other listed companies on the Stock Exchange and note that such approach is commonly adopted valuation methodology in valuing property subject tenancies. Further, since the SF Property has been pre-leased to a single tenant and will be deriving income and is held for investment, we consider such approach is an appropriate valuation methodology to appraise the SF Property.

As a supporting approach, the market approach is used to counter-checking the appraised value for the office and retail portions of the SF Property. In this regard, comparable transactions of office and commercial properties in San Francisco, the United States of America were collected and analysed. We note that the comparable transactions are adjusted where the Independent Valuer considered appropriate based on the differences in several aspects including size, age, location and building quality between the comparable properties and the SF Property. We have discussed with the Independent Valuer on its selection criteria and note that the selection criteria for the comparable transactions are the nature and location compared with the SF Property. As a result, three comparable transactions were identified, which were transacted in 2019. It is also noted that the unit rate of these comparable transactions ranges from USD898 to USD1,268 per sq. ft.; while the average unit rate of the SF Property is around USD1,078 per sq. ft.. For cross checking purposes, we have conducted independent desktop search and reviewed the unit rates of these comparable transactions used in the market approach by the Independent Valuer, and note that the unit rates of these comparable transactions are similar to that adopted in the market approach.

We have reviewed valuations in similar nature of properties conducted by other listed companies on the Stock Exchange and note that (i) the term and reversion method of income approach is a commonly adopted valuation methodology in valuing property subject tenancies; and (ii) counter-checking by market approach to the appraised value of the property is generally in line with market practice which have taken into consideration recent transacted prices of comparable properties in similar areas to the SF Property.

Based on the above and our view on the valuation report on the Target Properties under the sub-section headed "3.4 View on the valuation report on the Target Properties" of this letter, we concur with the Independent Valuer's view that (i) the valuation methodologies adopted by the Independent Valuer are common and appropriate for determine the market value of the SF Property; and (ii) the bases and assumptions for the valuations of the SF Property are fair and reasonable, therefore, we did not crosscheck the valuation of the SF Property using other methodologies. Nevertheless, the Independent Shareholders should note that valuation of properties usually involves certain assumptions and therefore the appraised value of the SF Property of USD167.00 million as at 28 February 2019 may not reflect the actual transaction value sold in the market.

We note that the Board was aware of the SF Initial Cash Consideration is higher than the original acquisition cost of the SF Property incurred by VPHK up to 31 December 2018 (in respect of the percentage of interest to be disposed to the Company of USD13.82 million (equivalent to HK$108.43 million) by approximately USD8.4 million. The Board considered (i) the original acquisition cost of the SF Property incurred by VPHK was determined with reference to the valuation of the SF Property at the time when the original acquisition was agreed, which was at a different time from the valuation of SF Property as at 28 February 2019; (ii) the total renovation and construction expenditures on the SF Property incurred and to be incurred since acquisition by VPHK; and (iii) the SF Initial Cash Consideration was negotiated on an arm's length basis with reference to (a) the market value of the SF Property of approximately USD167.00 million (equivalent to HK$1,310.48 million) as at 28 February 2019; (b) the consolidated net asset value of the SF Target as at 31 December 2018; and (c) the remaining outstanding renovation cost. Taking into account of the factors mentioned above, we consider that the original acquisition cost of the SF Property should not be the determining factor for the determination of the SF Initial Cash Consideration, and we are of the view the SF Initial Cash Consideration is fair and reasonable.

3.3 The New York Investment Instrument Acquisition

On 7 March 2019 (after trading hours), Vanke US Investment entered into the New York Investment Instrument Acquisition Agreement with the NY Vendor, pursuant to which Vanke US Investment has conditionally agreed to acquire and the NY Vendor has conditionally agreed to sell the NY Sale Share and NY Sale Loan, representing the entire issued share capital and shareholder's loan due from the NY Target for a consideration of approximately USD67.07 million (approximately HK$526.30 million, assuming the Completion occurs on 30 June 2019 and taking into account the estimated accrued return from the date of New York Investment Instrument Acquisition Agreement up to 30 June 2019) by way of cash. The NY Target participates in 49% of the investment instrument (with a total outstanding investment amount of approximately USD63.51 million (approximately HK$498.35 million) as at the date of the New York Investment Instrument Acquisition Agreement) made in each of the NY Intermediate Companies which indirectly holds the entire interest in the NY Property.

The principal terms of the New York Investment Instrument Acquisition Agreement are set out below:

Date

7 March 2019

Parties

(1) Vanke US Investment, as the purchaser; and

(2) NY Vendor, as the vendor.

Assets to be acquired

Pursuant to the New York Investment Instrument Acquisition Agreement, Vanke US Investment has conditionally agreed to acquire and the NY Vendor has conditionally agreed to sell the NY Sale Share and NY Sale Loan, representing the entire issued share capital of and shareholder's loan due from the NY Target, which participates in 49% of the investment instrument (with a total outstanding investment amount of USD63.51 million (approximately HK$498.35 million) as at the date of the New York Investment Instrument Acquisition Agreement and an estimated accrued returns from the date of the New York Investment Instrument Acquisition Agreement up to 30 June 2019 (assuming Completion occurs on such date) of USD3.56 million (approximately HK$27.95 million)) to each of the NY Intermediate Companies which indirectly holds the entire interest in the NY Property.

Approximately 50.17% of the investment instrument made to each of the NY Intermediate Companies is and will continue to be indirectly held by the NY Vendor after completion of the New York Investment Instrument

Acquisition. Approximately 0.83% of the effective interest of the investment instrument made to each of the NY Intermediate Companies is indirectly owned by certain employees of China Vanke (including a non-executive Director and an executive Director) who are responsible for initiating and managing the underlying investment instrument as a co-investment arrangement and will remain to be so after Completion.

Consideration

The consideration is USD67.07 million (approximately HK$526.30 million), subject to adjustment, of which (i) USD3.35 million (approximately HK$26.29 million) was paid by Vanke US Investment to the NY Vendor within five Business Days of the date of signing of the New York Investment Instrument Acquisition Agreement as refundable deposit; (ii) USD60.37 million (approximately HK$473.72 million) will be payable by Vanke US Investment to the NY Vendor in cash on the Completion Date; and (iii) with the remaining USD3.35 million (approximately HK$26.29 million) (the "**NY Retention Amount**") will be payable within five Business Days after the date of determination of the net asset value of the NY Target as at the Completion Date (the "**NY Completion NAV**") on the basis of a cash-free and debt-free position of the NY Target. The NY Completion NAV will be determined based on adding all the cash held by the NY Target and all the accrued returns from the date of the New York Investment Instrument Acquisition Agreement up to Completion (both dates inclusive), and subtracting all the account payables (other than NY Sale Loan) and accrued liabilities as at the date of Completion, and the difference between the estimated accrued return of USD3.56 million (approximately HK$27.95 million) up to 30 June 2019 (assuming Completion occurs on such date) and the actual accrued return up to the date of Completion.

If the NY Completion NAV is higher or lower than USD67.07 million, the consideration shall be adjusted upward or downward (subject to a maximum of USD3.35 million (approximately HK$26.29 million)), in each case, on a dollar for dollar basis and the NY Retention Amount (or part thereof) shall be released to the NY Vendor or kept by Vanke US Investment (as the case may be) accordingly.

Basis of determination of the consideration

The consideration was determined after arm's length negotiations between Vanke US Investment and the NY Vendor with reference to (i) the outstanding face value of the investment instrument as at the date of Completion and the date of the New York Investment Instrument Acquisition Agreement; and (ii) the net liabilities of the NY Target of approximately HK$52,000 as at 31 December 2018. The recoverability of the NY Investment Instrument is assessed after taking into account the preliminary market value of the NY property of no less than USD476.00 million (approximately of HK$3,735.27 million) as at 28 February 2019.

A valuation of the NY Property has been carried out by Knight Frank, an independent valuer to the Company. The appraised value of the NY Property by the market approach was USD476.00 million (approximately of HK$3,735.27 million) as at 28 February 2019. Please refer to Appendix VII to the Circular for the valuation report of the NY Property.

For terms related to the conditions precedent and Completion, please refer to the paragraphs headed "Conditions precedent" and "Completion" under the section headed "New York Investment Instrument Acquisition" in the Letter from the Board.

3.3.1 Analysis on the consideration

The table below summarises the basis of arriving at the initial cash consideration for the NY Sale Share and NY Sale Loan after taking into account the total investment principal amount of the NY Investment Instrument for funding the development of the NY Property and the estimated accrued returns as at 30 June 2019:

	USD'million
The total investment principal amount	63.51
Estimated accrued returns	3.56
NY Initial Cash Consideration (as defined below)	67.07

We note that the initial cash consideration for the NY Investment Instrument of USD67.07 million (the "**NY Initial Cash Consideration**") is based on the total investment principal amount of the NY Investment Instrument of USD63.51 million and the estimated accrued returns of approximately USD3.56 million assuming Completion taking place on 30 June 2019. The Management advised that the adjustment on the NY Initial Cash Consideration would have to be made to reflect the latest net asset/liabilities position in the NY Target at Completion, being the NY Completion NAV. The adjustment mechanism is based on the NY Completion NAV and will be increased or decreased on a dollar to dollar basis if the NY Completion NAV is higher or lower than USD67.07 million, respectively, subject to a maximum of USD3.35 million (approximately HK$26.29 million), being 5% of the NY Initial Cash Consideration. We are of the view that the above adjustment mechanism is fair and reasonable to the Company and the Independent Shareholders as (i) the downward adjustment could reduce the NY Initial Cash Consideration as a result of the NY Completion NAV is lower than USD67.07 million; and (ii) the adjusted upward maximum protects the Company from material deviation from the NY Initial Cash Consideration and hence the Company's cashflow requirement under the New York Investment Instrument Acquisition after the adjustment mechanism and the Management does not anticipate the necessary adjustment will be beyond the adjusted upward maximum.

In relation to the reasonableness of fixed return rate of 14.15%, we understand from the Management that there is no objective pre-determined formula for determining or assessing the reasonableness of the fixed return rate of investment instrument, as there are many variables affecting the return rate and it is difficult to set a benchmark for comparable return rates of investment instrument transactions available in the market. Despite the practical limitations as just explained, the Management advised us that the return rate was determined with reference to the principal amounts invested in the investment instrument, the position and priority of the investment instrument in the capital stack of the project, the term of maturity, the loan-to-value ratio, the breakeven selling price per sq. ft. to cover the principal amount of the investment instrument and other related fees (including commitment fees and early termination fees) to be charged, the creditability of the borrower (who is independent of the Company) and the value and quality of the underlying security. We note that the average return rate of the similar investment instrument, in terms of similar leverage level, ranges around 6.75% to 14.75% per annum according to the report dated 2 April 2019 from Cushman & Wakefield (please refer to the following: *http://cushmanwakefield.com/~/media/reports/corporate/Global%20Reports/CW_Capital_Markets_Update.pdf*), the fixed return rate under the NY Investment Instrument of 14.15% falls within the range thereof. Shareholders should note that such range of return rates may not be able to represent a direct comparison to the NY Investment Instrument due to the difference in the principal amounts invested in the investment instrument, the position and priority of the investment instrument in the capital stack of the project, the term of maturity, the loan-to-value ratio, the breakeven analysis and other related fees to be charged, the creditability of the borrower, and the value and quality of the underlying security. We are of the opinion that the aforesaid fixed return rate as stipulated under the New York Investment Instrument Acquisition Agreement is commercially justifiable.

Furthermore, the Company has assessed the recoverability of the NY Investment Instrument, taking into account that (i) the repayment of the NY Investment Instrument is subject and subordinate to senior loan, which is secured by the NY Property; and (ii) the entire interests of the NY Intermediate Companies has been pledged to the then lender of NY Investment Instrument, pursuant to the respective pledge and security agreements in relation to the investment instrument for funding the development of the NY Property. As such, in case of default by the NY Intermediate Companies, subject to completion of the New York Investment Instrument Acquisition, the NY Target shall obtain 49% effective interest of the project company that directly holds the NY Property under the investment instrument and the related security arrangement. The Management also noted that (i) the gross development value of the NY property of approximately USD476.00 million (approximately of HK$3,735.27 million) as at 28 February 2019 will be higher than the total principal amount of senior debt and the investment instrument for funding the development of the NY Property; and (ii) the average sale price of the NY Property of approximately USD2,307 per sq. ft. will be higher than the breakeven selling price per sq. ft. to cover the principal amount of the investment instrument, the Management is of the view and we concur that the recoverability of the NY Investment Instrument Acquisition is justifiable.

Valuation of the NY Property

Pursuant to the Valuation Report issued by the Independent Valuer, the appraised value of the NY Property was USD476.00 million as at 28 February 2019. For our due diligence purpose, we have reviewed and discussed with the Independent Valuer (i) the methodology, and basis and assumptions adopted; (ii) the steps and due diligence measures taken by the Independent Valuer; and (iii) details of the comparable transactions adopted for the valuation of the NY Property as set out in the Valuation Report in Appendix VII to the Circular. We note that the Independent Valuer has adopted the market approach to assess the gross development value of the NY Property, assuming the NY Property has been fully completed as at the valuation date by making reference to comparable sale transactions as available in the relevant market. We understand from the Independent Valuer that the aforesaid comparable sale transactions are primarily related to properties located near the NY Property which were completed within the past three years from the valuation date.

We also understand from the Independent Valuer that (i) the market approach is a commonly adopted approach for valuation of the subject property; and (ii) such approach is commonly used to value assets where reliable comparable transaction of properties of a similar nature is available. The bases and assumptions adopted in arriving at the appraised value using market approach are based on subjective parameters, such as the location and the quality differences of comparable transactions. Therefore, the Independent Valuer is of the view that the market approach is a commonly used approach and is appropriate for assessing the gross development value of the NY Property. In this regard, we have reviewed valuations for similar nature of properties conducted by other listed companies on the Stock Exchange and note that such approach is a commonly adopted valuation methodology in valuing property where reliable comparable property transaction of a similar nature is available. On these grounds, we consider that the bases and assumptions adopted in relation to the appraised value of the NY Property by the Independent Valuer are reasonable and in line with market practice.

We note that the comparable transactions are adjusted where the Independent Valuer considered appropriate based on the differences in several aspects including size, age, location and building quality between the comparable properties and the NY Property. We also note that the selection criteria for the comparable transactions are the nature and location compared with the NY Property. As a result, three comparable transactions were identified, which were transacted in 2016 to 2019. It is noted that the average unit rate of these comparable transactions ranges from USD2,314 to USD2,877 per sq. ft.; while the average sale price of the NY Property is around USD2,307 per sq. ft., which is slightly below the lower range of these comparable transactions, however, it will be higher than the breakeven selling price per sq. ft. to cover the principal amount of the investment instrument. For cross-checking purpose, we have conducted independent desktop search and reviewed the unit rates of these comparable transactions used in the market approach by the Independent Valuer, and note that the unit rates of these comparable transactions are similar to that adopted in the market approach.

Based on the above and our view on the valuation report on the Target Properties under the sub-section headed "3.4 View on the valuation report on the Target Properties" of this letter, we concur with the Independent Valuer's view that (i) the valuation methodologies adopted by the Independent Valuer are common and appropriate for determine the gross development value of the NY Property; and (ii) the bases and assumptions for the valuations of the NY Property are fair and reasonable, therefore, we did not cross-check the valuation of the NY Property using other methodologies. Nevertheless, the Independent Shareholders should note that valuation of properties usually involves certain assumptions and therefore the appraised value of the NY Property of USD476.00 million as at 28 February 2019 may not reflect the actual transaction value sold in the market.

We note that the Board was aware of the NY Initial Cash Consideration is higher than the original acquisition cost of the NY Investment Instrument incurred by VPHK up to 31 December 2018 (in respect of the percentage of interest to be disposed to the Company of USD62.89 million (equivalent to HK$493.51 million) by approximately USD4.18 million. The Board considered (i) the original acquisition cost of the NY Investment Instrument incurred by VPHK was determined with reference to the outstanding principal amount and the estimated accrued returns at the time when the financing arrangement of the original investment instrument was agreed with the NY Intermediate Companies; and (ii) the NY Initial Cash Consideration was negotiated on an arm's length basis with reference to (a) the current outstanding face value of the NY Investment Instrument (which has been increased due to adding the capitalised returns of approximately US$0.62 million since the original face value of the NY Investment Instrument is different to the current face value of the NY Investment Instrument) and the estimated accrued returns of approximately USD3.56 million assuming Completion taking place on 30 June 2019; (b) the net liabilities of the NY Target as at 31 December 2018; and (c) the recoverability of the NY Investment Instrument. Taking account into the above, we are of the view the NY Initial Cash Consideration is fair and reasonable.

3.4 View on the valuation report on the Target Properties

The Company has appointed Knight Frank as the Independent Valuer to assess the market value or gross development value (as the case may be) of the Target Properties as at 28 February 2019. For details of the valuations of the Target Properties, please refer to the Valuation Report as set out in Appendix VII to the Circular.

We have enquired into the Independent Valuer in respect of its qualifications, expertise and independence. Knight Frank confirmed that except for its engagement in respect of the valuations of the Target Properties, it has no current or prior relationships with the Company and the Company's connected persons. We are not aware of any matters that would cause us to question the Independent Valuer's expertise and independence.

We have reviewed the terms of engagement of the Independent Valuer, having particular attention to the appropriateness of the scope of work. Based on our review, we are not aware of any limitations on the scope of work which might adversely impact on the degree of assurance given by the Valuation Report. We understand from the Independent Valuer, that they have relied on certain information made available to them by the Company. We note that such representations made by the Company to the Independent Valuer, are consistent with the information contained in the Circular. We also understand that Knight Frank has physically inspected the Target Properties in December 2018 and March 2019 in the United Kingdom and the United States of America respectively. The Independent Valuer is not aware of any matters that would cause it to question the truthfulness or reasonableness of the information provided by the Company. As set out in the Valuation Report, in arriving at the market value or gross development value (as the case may be) of the Target Properties, the Independent Valuer complied with (a) The Hong Kong Institute of Surveyors (the "**HKIS**") Valuation Standards 2017 published by the HKIS; and (b) Chapter 5 of the Listing Rules in relation to guidelines to valuation of and information on properties.

Based on all of the foregoing, we concur with the Independent Valuer's view that (i) the valuation methodologies adopted by the Independent Valuer are common and appropriate for determining the market value or gross development value (as the case may be) of the Target Properties; and (ii) the bases and assumptions for the valuations of the Target Properties are fair and reasonable.

In summary, having consider that (i) the total cash consideration of the Acquisitions was arrived after arm's length negotiations between the Company's subsidiaries and VPHK and the NY Vendor; (ii) the final consideration of each of the Acquisitions shall be adjusted based on the respective completion net asset value with adjusted upward or downward, which protects the Company from material deviation from the initial cash consideration of the Acquisitions; and (iii) the valuation methodologies adopted by the Independent Valuer are common and appropriate for determining the market value or gross development value (as the case may be) of the Target Properties and the bases and assumptions for the valuations of the Target Properties are fair and reasonable. We concur with the Directors' view that the basis of determining the total cash consideration for the Acquisitions is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

4. Reasons for and benefits of the Acquisitions

According to the Annual Reports, the Group's revenue is mainly derived from the leasing of units and car parking spaces in Regent Centre in Hong Kong. As part of the Group's business policy, the Group will continue to seek opportunities in Hong Kong and overseas property markets for business diversification and expansion. As stated in the Letter from the Board, the Acquisitions will allow the Enlarged Group to expand into the United Kingdom and the United States of America and diversify the risk of solely investing in Hong Kong. As the Target Properties being held by the Sale Companies are located at prime locations or central business district of the Target Cities, the Acquisitions have the potential to enlarge its property portfolio and capture the potential capital appreciation of the Target Properties.

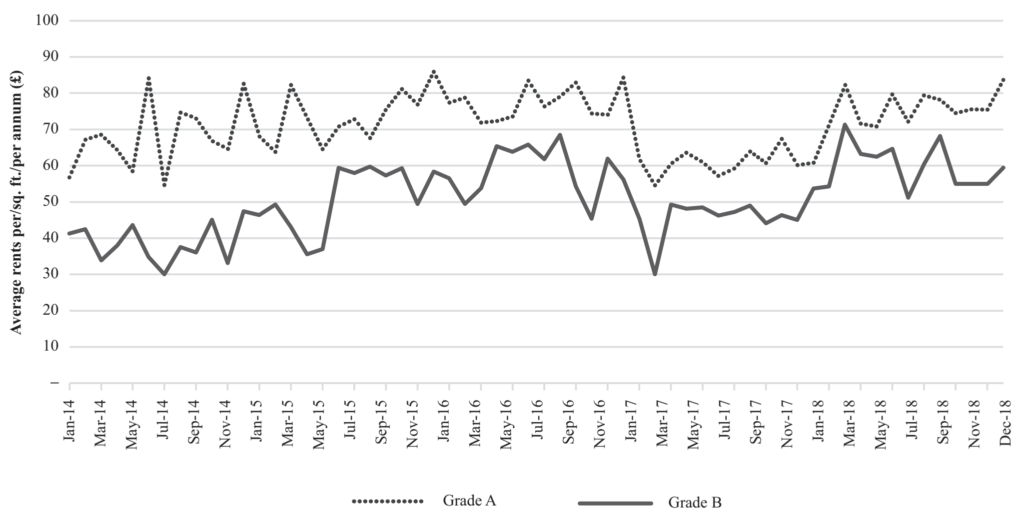
In order to assess the upside of the Acquisitions, we have reviewed the office markets in Central London and San Francisco and residential market in New York, where the Target Properties are located.

Central London's commercial property sector

In lights of the Brexit referendum that took place in 2016, it casts an uncertainty to the outlook of the United Kingdom economy. However, it is noted that a potential softening in market sentiment also presents opportunities for a wide range of investors. According to the report published by Colliers International UK ("**Colliers**"), titled "Brexit Property Impacts" (please refer to the following: *https://www.colliers.com/-/media/files/emea/uk/research/market-overview/colliers_international_brexit_property_impacts_0918.pdf?la=en-gb)*, Colliers expects foreign investors have been encouraged by the 15% to 20% depreciation of GBP that occurred post-referendum which has substantially reflected the risk of Brexit in the currency market. According to the Bank of England, the GBP to HK$ spot rate was HK$10.2950 as at the date of the London Property Acquisition Agreement (i.e. 7 March 2019), which is approximately HK$0.73 or 6.6% lower than the 5-year daily spot rate average of HK$11.0284 during the period from 8 March 2014 to 7 March 2019. As advised by the Management, the Company will monitor the foreign exchange exposure of GBP and take appropriate measures from time to time in order to minimise the Enlarged Group's foreign exchange exposure of GBP at and after Completion. Furthermore, as extracted from a report titled "London Offices Snapshot of Q4 2018" published by Colliers (please refer to the following: *https://www.colliers.com/-/media/files/emea/uk/research/offices/colliers_international_central_london_offices_snapshot_q42018.pdf?la=en-GB)*, the annual investment volumes for 2018 reached a four-year high of £16.5 billion which is 16% above the 10-year annual average, with 76% of investment inflowed from overseas.

The London Property is an office and commercial building located in St James's district of West End London, being one of the prime locations in Central London where St. James's and Mayfair districts achieved at the highest rents among the rest of West End London in the fourth quarter of 2018, according to Colliers Report (please refer to the following: *https://www.colliers.com/-/media/files/emea/uk/research/offices/colliers_international_central_london_offices_snapshot_q42018.pdf?la=en-GB)*. The London Property is classified between Grade A and B offices, considering the age of the building which was built in before 1947 and was substantially redeveloped in 1980s, but was subsequently partially refurbished to Grade A office in 2016. Therefore, we have reviewed the average rents for both Grade A and Grade B offices in West End London from 2014 to 2018 as extracted from Savills Research, as follows:

Average rents for Grade A and Grade B offices in West End London



Sources: *"West End Office Market Watch, Savills" (please refer to the followings:*
https://pdf.euro.savills.co.uk/uk/office-reports/west-end-office-market-watch-jan-2015.pdf;
https://pdf.euro.savills.co.uk/uk/office-reports/west-end-office-market-watch-january-2016.pdf;
https://pdf.euro.savills.co.uk/uk/office-reports/west-end-office-market-watch-january-2017.pdf;
https://pdf.euro.savills.co.uk/uk/office-reports/city-office-market-watch-january-18.pdf;
http://pdf.euro.savills.co.uk/uk/office-reports/west-end-office-market-watch-january-2019.pdf)

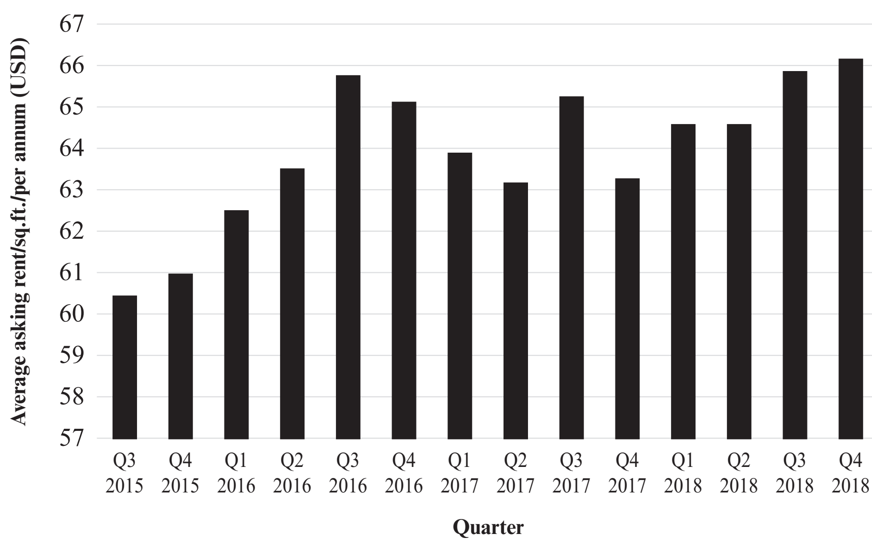
As noted in the diagram above, the average rents for Grade A office in West End London has increased from approximately £57.01 per sq. ft. per annum in January 2014 to approximately £83.75 per sq. ft. per annum in December 2018, representing approximately a compound annual growth rate ("**CAGR**") of approximately 8.0%; while the average rents for Grade B office in West End London has increased from approximately £41.34 per sq. ft. per annum in January

2014 to approximately £59.50 per sq. ft. per annum in December 2018, representing approximately a CAGR of approximately 7.55%. It is noted that the average rents of the London Property of approximately £78.78 per sq. ft. per annum in 2018 was slightly lower than the average rents for Grade A office of approximately £83.75 per sq. ft. per annum and higher than the average rents for Grade B offices of approximately £59.50 per sq. ft. per annum in West End London as of December 2018. Furthermore, according to a series of reports under "London Offices Snapshot" published by Colliers for the period of the fourth quarters from 2015 to 2018 (please refer to the following: *http://www.colliers.com/-/media/files/emea/uk/research/offices/201601-londonofficessnapshot.pdf?la=en-GB; http://www.colliers.com/-/media/files/emea/uk/research/offices/17001-londonofficessnapshot-january2017-v8web.pdf?la=en-gb; https://www.colliers.com/-/media/files/emea/uk/research/offices/colliers_international_london_snapshot_201801.pdf?la=en-GB); https://www.colliers.com/-/media/files/emea/uk/research/offices/colliers_international_central_london_offices_snapshot_q42018.pdf?la=en-GB*), it is noted that the yield of office building located in St James's district increased from approximately 3.25% in the fourth quarter of 2015 to 3.75% in the fourth quarter of 2018, while the yield of the London Property is expected to be around 4.53% for 2018 which was higher than the average yield in St. James's district of 3.75% in the fourth quarter of 2018. Alongside the above, provided that the London Property is situated at the prime location in Central London with an occupancy rate of 100%, the total current rental of approximately £5.9 million per annum and an average unexpired lease tenor of more than eight years as at 31 December 2018, the Management is of the view and we concur that the London Property will provide stable income to the Group.

San Francisco's commercial property sector

The SF Property is an office and commercial building located at the south of market financial area of San Francisco in the United States of America, where offices of multinational technology giants are also located at. We have reviewed the average asking rents for Grade B offices in San Francisco from the third quarter of 2015 to the fourth quarter of 2018 as extracted from the reports from Cushman & Wakefield, as follows:

Average asking rents for Class B offices in San Francisco



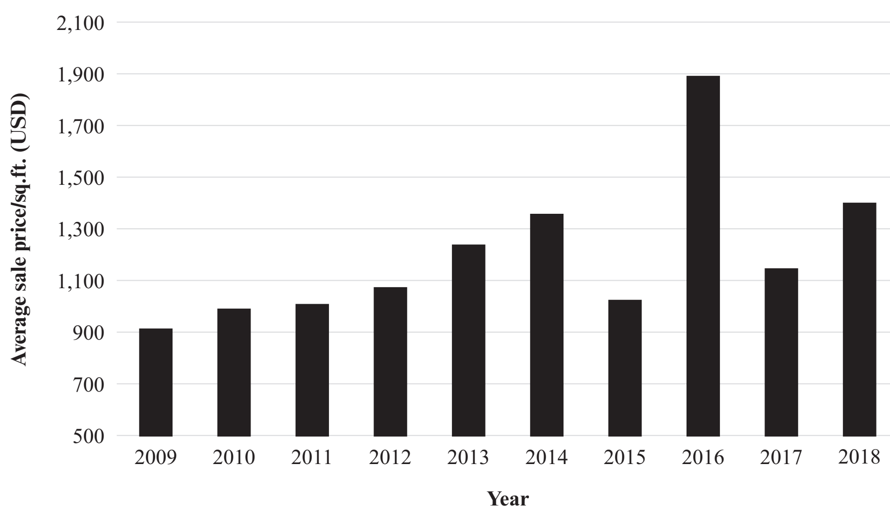
Sources: *"Marketbeat San Francisco Office Q4 2014–2018, Cushman & Wakefield" (please refer to the followings:*
http://cushwakesanfrancisco.com/marketbeat-office-snapshot-q4-2014/;
http://blog.cushwake.com/san-francisco/marketbeat-offapshot-q4-2015.html;
http://blog.cushwake.com/san-francisco/marketbeat-office-statistics-q4-2016.html;
http://www.cushmanwakefield.com/~/media/marketbeat/2018/SanFrancisco_Americas_MarketBeat_Office_Q42017.pdf;
http://www.cushmanwakefield.com/en/research-and-insight/unitedstates/san-francisco-office-snapshot)

As noted in the diagram above, the overall average asking rents of Class B offices in San Francisco increased from USD60.42 per sq. ft. per annum in the third quarter of 2015 to USD66.14 per sq. ft. per annum in the fourth quarter of 2018, representing approximately a CAGR of approximately 2.62%. It is noted that the average asking rents of the SF Property of USD63.68 per sq. ft. per annum in 2020 is slightly lower than the average asking rents for Class B offices in San Francisco in the fourth quarter of 2018. It is considered to be reasonable, provided that (i) the entire office portion of the SF Property is pre-leased to a single tenant for a term of 12.5 years which is a more efficient and save time and cost in leasing management; and (ii) a rental increment of 3% per annum which is higher that the CAGR of the overall average asking rents of Class B offices of approximately 2.6% from the third quarter of 2015 to the fourth quarter of 2018; while the retail portion of the SF Property with a floor area of approximately 5,500 sq. ft. has not been leased as at 31 December 2018, the Management is of the view and we concur that the SF Property will provide stable income to its holding companies, which will be regarded as associates of the SF Target, and the profits of such associates will be shared by the SF Target by equity accounting method.

New York's residential property sector

The NY Property is located in the financial district of Lower Manhattan in New York and a residential building comprising condominiums and retail units, with a site area of approximately 17,801 sq. ft. and a total floor area of approximately 251,563 sq. ft.. We have reviewed the average sale price of condominiums in Lower Manhattan from 2009 to 2018 as extracted from the report of The Elliman Report 2008–2019, as follows:

Average sale price for condominiums in financial district of Lower Manhattan



Source: The Elliman Report 2008–2019: Decade Manhattan Co-op & Condos, Miller Samuel'' (please refer to the following: https://www.millersamuel.com/reports/elliman-report-manhattan-decade-2009-2018/)

As noted in the diagram above, the average sale price for condominiums in Lower Manhattan increased from USD910 per sq. ft. in 2009 to USD1,397 per sq. ft. in 2018, representing a CAGR of approximately 4.38%. It is noted that the expected average sale price of the NY Property of approximately USD2,307 per sq. ft. is higher than the average sale price for condominiums in Lower Manhattan in 2018. As at the Latest Practicable Date, a total saleable area of approximately 4,379 sq. ft. of the residential portion of the NY Property has been pre-sold at a total consideration of approximately USD7.8 million.

As advised by the Management, the NY Investment Instrument will be due on 20 December 2020 (with an option to extend for 12 months, subject to conditions), and hence will be able to generate returns for more than a year. Taking into consideration (i) the fixed return from the NY Investment Instrument is expected to generate a stable return; (ii) the recoverability of the NY Investment Instrument; (iii) the gross development value of the NY property is approximately USD476 million as at 28 February 2019; (iv) in case of default by the NY Intermediate Companies, the NY Target shall obtain 49% effective interest of the project company that directly holds the NY Property under the investment instrument and the related security arrangement; and (v) the expected average sale price of the NY Property of approximately USD2,307 per sq. ft. is higher than the average sale price for condominiums in Lower Manhattan in 2018, the Management is of the view and we concur that the acquisition of 49% effective interest in the NY Investment Instrument is justifiable.

The Board is aware of (i) the uncertainty surrounding the London property market in general due to the Brexit event; and (ii) the trade war between the United States of America and China, and considers that despite the potential fluctuations if there is any negative sentiment due to the abovementioned circumstances, the respective property markets may or may not encounter any major fluctuation in terms of market value or gross development value (as the case may be) or rental yields, because the Target Cities are considered as developed regions with relatively stable economic and social conditions and developed legal systems and their property markets would be less volatile which in turn may generate a more stable return on investments.

The Management believes that the Group can utilise the established business relationship of China Vanke and its appropriate assistance, in particular, the resources of the controlling shareholder of the Company and facilitate the penetration in the property development and/or investment market in the Target Cities, in particular, (i) having a partnership with the controlling shareholder of the Company (i.e. through the acquisition of 45% and 49% effective interest of the SF Property Acquisition and the New York Investment Instrument Acquisition respectively), it will provide assurance to the execution of the SF Property and NY Property and enable the Company to expand its connection in San Francisco and New York or elsewhere in the United States of America in the future to further develop its investment portfolio in property development and/or investment projects in the United States of America, while the London Property is a stabilised asset with income-producing track record; and (ii) it allows the Company to utilise its investment experience from the Overseas Management Team in various property development and/or investment projects comprising residential and commercial properties in the United Kingdom and the United States of America, thus, it is more cost effective and efficient to takeover a developed team than training a new team for the provision of the Overseas Management Services in the Target Cities. The Board considers that it would be in the interest of the Company and its shareholders as a whole for the Company to expand into the Target Cities by way of the Acquisitions.

According to the Letter from the Board, the total cash consideration for the Acquisitions is approximately HK$1,138.34 million, which is intended to be funded by internal resources of the Company. It is noted that the Company may utilise over

80% of the current bank balance and cash to settle the consideration which may have considerable impact on the Company's cash position. However, we consider that the Group should still have sufficient working capital upon Completion, taking into account (i) the Groups' bank balance and cash of approximately HK$1.4 billion as at 31 December 2018; and (ii) the Acquisitions providing the Enlarged Group with additional income stream in terms of rents to be received from leasing of the London Property and the SF Property, and fixed return from the NY Investment Instrument. We are of the view that the Acquisitions are a sensible and efficient use of resources in the long run.

5. Financial effects on the Group

According to the Letter from the Board, upon Completion, the London Target will become an approximately 99.95%-owned indirect subsidiary of the Company and each of the SF Target and the NY Target will become an indirect wholly-owned subsidiary of the Company, and the financial results, assets and liabilities of the London Target Group, the SF Target Group and the NY Target will be consolidated into the consolidated financial statements of the Company.

Net asset value

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix VI to the Circular, assuming the Acquisitions had been completed on 31 December 2018, the unaudited pro forma consolidated total assets and total liabilities of the Enlarged Group would be increased to approximately HK$4,557.8 million and HK$900.5 million, respectively, and the unaudited net asset value of the Enlarged Group would be approximately HK$3,657.3 million.

Gearing

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix VI to the Circular, assuming the Acquisitions had been completed on 31 December 2018, among others, the unaudited pro forma net gearing ratio of the Enlarged Group was approximately 13.6% (calculated based on the total interest-bearing debt net of bank balances and cash divided by total equity). This is primarily attributable to the increase in the Enlarged Group's total liabilities by the amount of the Existing London Loan and finance lease obligation.

Earnings

As the financial results of the Sale Companies will be consolidated with those of the Enlarged Group after Completion, the earnings of the Group will be affected by the performance of the Sale Companies as from Completion. Since the London Target Group and the NY Target have been generating revenues and cash inflow, it is expected that the Acquisitions would broaden the Enlarged Group's earnings base.

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix VI to the Circular, assuming the Acquisitions had been completed on 31 December 2018, the unaudited pro forma profit for the year attributable to owners of the Enlarged Group would be approximately HK$670.0 million for the year ended 31 December 2018.

Cashflow

The total cash consideration equivalent to approximately HK$1,138.3 million is to be satisfied by cash, subject to adjustment. Taking into account, (i) the bank balance and cash of approximately HK$1.4 billion as at 31 December 2018; (ii) the Enlarged Group would receive the rental from leasing of the London Property upon Completion; and (iii) the management fee to be received from the provision of the Overseas Management Services, we concur with the Directors that the Group has sufficient financial resources to satisfy the cash payment and has sufficient working capital to meet its present requirement for the next 12 months from the date of the Circular.

It should be noted that the aforementioned analyses are for illustrative purpose only and do not purport to represent how the financial position of the Enlarged Group will be upon Completion.

B. THE POTENTIAL CONTINUING CONNECTED TRANSACTION

1. Background of the Continuing Connected Transactions

With the Company's intention to branch out to the business of property asset management through tapping into the expertise and experience of the Overseas Management Team, the VPO Parties and the VPHK Parties have entered into the Management Services Framework Agreement, pursuant to which the VPHK Parties will retain the VPO Parties on an exclusive basis for, and the Enlarged Group, through the VPO Parties (who will enter into employment contracts with Overseas Management Team and acquire at nominal consideration the company in charge of the administrative matters and/or the rights and obligations of the administrative contracts, as the case may be, by the time of Completion), will provide, the Overseas Management Services to the VPHK Parties, subject to terms and conditions of the Management Services Framework Agreement. The Management Services Framework Agreement will be effective immediately upon the Completion Date and remain effective until 31 December 2021.

2. Principal terms of the Management Services Framework Agreement

A summary of the principal terms of the Management Services Framework Agreement are set out below:

Date 7 March 2019

Parties
(1) VPO UK;
(2) VPO US;
(3) VPO Management Holding (together with VPO HK and VPO US collectively referred to as the "**VPO Parties**", and each a "**VPO Party**");
(4) VPHK;
(5) NY Vendor; and
(6) Vanke US (together with VPHK and NY Vendor, referred to as the "**VPHK Parties**", and each a "**VPHK Party**").

Term

The term will commence on the Completion Date and will expire on 31 December 2021.

Services

Pursuant to the Management Services Framework Agreement, the VPHK Parties will retain the VPO Parties on an exclusive basis for, and the Enlarged Group, through the VPO Parties, will provide the Overseas Management Services including but not limited to:

(a) Market research and investment sourcing;

(b) Investment management and project management (including construction and sales and marketing management);

(c) Divestment of the relevant investment;

(d) Financing and cash flow management;

(e) Overall financial management;

(f) Legal and compliance management; and

(g) Company secretarial services.

Fees and basis of determination

The fees payable by the payer to the VPO Parties shall comprise of the management fee calculated as 1.25% per annum of the invested capital of the relevant project(s). The invested capital shall include funding, capital or financing provided by the VPHK Parties (but exclude funding, capital or financing provided by third parties to the VPHK Parties, for making the investments).

The figure of 1.25% per annum is determined with reference to the rate of management fees charged by real estate fund managers (who are Independent Third Parties) for providing similar services. The parties agree that the VPO Parties shall provide the Overseas Management Services to the VPHK Parties on normal commercial terms or on terms which are no less favourable to the VPO Parties than VPO Parties may transact with Independent Third Parties from time to time.

The management fees for each transaction under the Management Services Framework Agreement will be paid on a quarterly basis, and shall be free of all taxes, deductions, duties, tariffs and charges.

Annual Caps and basis of determination

The Annual Caps for the transactions under the Management Services Framework Agreement are equivalent to approximately HK$75 million, HK$165 million and HK$185 million for the three years ending 31 December 2019, 2020 and 2021, respectively.

In arriving at the above Annual Caps, the Directors have considered, among others, (i) the historical management cost incurred by VPHK and its subsidiaries for its projects; (ii) the current invested capital made by the VPHK Parties as at 30 April 2019 of about HK$9.9 billion (thus translating into an annual fee of about HK$124 million, assuming no change of increase or decrease of invested capital); (iii) a buffer for additional capital to be invested for acquisition of new projects by VPHK and its subsidiaries of HK$1,500 million in average for each of years 2019 (with only about six months, and hence the annual fee being halved), 2020 and 2021; (iv) the development stage of the projects to be managed under the Management Services Framework Agreement; and (v) the economic conditions and performance of the property market in the Target Cities.

For terms related to the conditions precedent, please refer to the sub-section headed "Conditions precedent" under the section headed "Continuing Connected Transactions" in the Letter from the Board.

To assess the fairness and reasonableness of the terms of the Management Services Framework Agreement, we have considered the following key terms:

Management fee rate analysis

As advised by the Management, the cost structure of the management fee would vary depending on the nature, development stage and location of the property projects and the management fee shall cover employee salary, standard year-end bonus and operating cost of overseas asset management platform. We were provided by the Management the estimated cost for the existing projects to be managed by the Overseas Management Team for the three years ending 31 December 2019, 2020 and 2021 and compared to the historical cost structure of the relevant projects managed by China Vanke for the three years ended 31 December 2016, 2017 and 2018. It is noted that the estimated cost for the existing projects to be managed by the Overseas Management Team apply a similar cost structure as compared to the historical cost, while the estimated management fees is slightly higher than that of the historical cost, which taking into account of the expected inflation rate of salary operation expenses and additional headcount for the Overseas Management Team in determining the estimated cost for the three years ending 31 December 2019, 2020 and 2021.

In accordance to the information provided by the Management, the margin on top of the aforesaid estimated cost is adopted taking into account (i) a reasonable profit to the Enlarged Group on the basis that the fee shall be no less favourable than those provided to independent third parties for similar services; and (ii) the contingency situations where the estimated cost may increase, such as an unexpected increase in the operating cost of the Overseas Management Team outpaces the increase in the invested capital to be incurred in the future.

We were given to understand that when determining the management fee rate, the Management has made reference to the statistic of management fee rates charged by the 160 opportunistic real estate funds globally (the "**Fund Comparables**") surveyed by an independent financial data company with headquarter in the United Kingdom, with the fund size ranges from less than USD50 million to more than USD2,000 million. We note that the management fee rates charged among those Fund Comparables ranges from 0.5% to 2.5% per annum based on invested/ committed capital, which the management fee rate falls within the range thereof. Shareholders should note that such management fee rate charged by the Fund Comparables may not be able to represent a direct comparison to the management fee rate under the Management Services Framework Agreement due to the difference in assets size, scope of services offered, financial performance, investment objectives and portfolio, operation and prospects of the investment companies.

We have also conducted a research on the website of the Stock Exchange on a best effort basis with respect to the continuing connected transaction in relation to the provision of asset/investment management services as announced on the Stock Exchange's website during the period covered, from 8 March 2017 to 7 March 2019 (being 24 months prior to the date of the Management Services Framework Agreement), by other companies which (a) are listed on the Stock Exchange; and (b) are either the asset/investment management services receiver or provider. Based on our best endeavour and as far as we are aware, we have identified an exhaustive and complete list of 16 companies (excluding the Company). Shareholders should note that such companies may not be able to represent a direct comparison to the Company due to the difference in assets size, scope of services offered, financial performance, investment objectives and portfolio, operation and prospects of the investment companies. Out of the abovementioned 16 companies, there are:

(i) four companies that only have a fixed management fee with no performance fee; such companies principally invested mainly in listed and unlisted securities with an objective of achieving earnings in the form of medium to long-term capital appreciation. All investment managers of the above companies tended to agree to charge a fixed management fee without any performance fee in their asset/investment management agreement. We believe that this may be due to the role of the asset/investment manager being limited to identifying, reviewing and evaluating investment and divestment opportunities, providing investment recommendations to the investment committee of the asset/investment company, executing investment and divestment decisions in accordance with the instructions of the investment committee of the asset/investment company;

(ii) one company that only has a management fee charged at a certain percentage of net asset value, with no performance fee;

(iii) six companies that have a management fee charged at a certain percentage of the net asset value and a performance fee, which is subject to high watermark mechanism; and

(iv) five companies that have a management fee charged at a certain percentage of the invested amount and/or commitments and no performance fee.

In view of the above, it appears that there are different kind of structures and criteria taken into account when determining the fee package charged by the asset/investment management services of the abovementioned 16 companies; and each asset/investment company may have its unique structure of remuneration package to serve its own purpose.

Considering the above, we have excluded (a) the four companies described in (i) above which only have fixed management fee arrangement in our analysis; and (b) the seven companies described in (ii) and (iii) above which the management fee and/or incentive fee are/is based on a certain percentage of the net asset value. Hence, we have identified an exhaustive and complete list of five companies as comparable which have a management fee charged at a certain percentage of invested capital with no performance fee, which is similar to that of the Group (the

"**Fee Comparables**"). In this analysis, it is considered that invested capital also refers to investment amount and aggregate commitments. The table below illustrates the details of the Fee Comparables transactions:

Date of announcement	Company (stock code)	Investment target segment	Invested capital (approximately)	Management fee basis
28 April 2017	Luzheng Futures Company Limited (1461)	Futures	RMB200 million to RMB338 million	1% per annum on average of the investment amounts
19 May 2017	Great Wall Pan Asia Holdings Limited (583)	Property	HK$2,000 million	1.5% per annum of the assets payable
20 September 2017	China Oceanwide International Financial Limited (952)	Securities	USD100 million	2% and 1.5% per annum of the aggregate commitments for the first one-year period and thereafter, respectively
30 November 2017	Hong Kong International Construction Investment Management Group Co., Limited (687)	Property	HK$3,821 million	1% per annum of the aggregate capital commitments of each calendar year
4 June 2018	Glorious Sun Enterprises Limited (393)	Securities	HK$1,000 million	1% of the investment amount
			Maximum	2%
			Minimum	1%
			Mean	1.25%

We note that the management fee rate is based on 1.25% of the invested capital of the relevant projects. We have compared the pricing terms of other asset/ investment management services agreements entered by other companies listed on the Stock Exchange. According to table above, we note that the pricing approach of charging a fixed percentage of the invested capital is common terms in asset/ investment management services agreements. Based on the above analysis, we are of the view that it is fair and reasonable to set the management fee structure of the Group with reference to invested capital, in essence, which is being the same basis as that adopted by the Fee Comparables. Based on our review of the Fee

Comparables, we note that the Fee Comparables charge a management fee rate ranging from 1% to 2% per annum based on their respective invested capital, and note that the management fee rate falls within the range and also in line with the mean of 1.25% of those Fee Comparables. In addition, it is noted that two companies out of the five Fee Comparables companies are engaged into provision of asset management services for the property sector (the "**Property Fee Comparables**"). We note that the Property Fee Comparables charge the management fee rate ranging from 1% to 1.5% per annum based on their respective invested capital, and note that the management fee rate falls within the range and also lies on the mean of 1.25% of those Property Fee Comparables.

The parties agree that the VPO Parties shall provide the Overseas Management Services to the VPHK Parties on normal commercial terms or on terms which are no less favourable to the VPO Parties than VPO Parties may transact with Independent Third Parties from time to time. As advised by the Management, the entering into the Management Services Framework Agreement was to ensure fairness and reasonableness of the fee charging of the Overseas Management Services offered to VPHK's subsidiaries, the management fee rate and contractual terms for each individual management services agreement shall, from the Group's perspective, on normal commercial terms or on terms no less favourable than the rates charged and terms for equivalent or similar services provided by the Group to independent third parties in similar services. As advised by the Management, prior to entering into the Management Services Framework Agreement, the Group did not enter into any similar asset management services arrangements with VPHK, nor with any external third parties since 2012. In order to safeguard the interests of the Company and the Shareholders as a whole, the Group has adopted certain measures in monitoring the transactions under the Management Services Framework Agreement, and we have reviewed the Group's relevant measures and note that (i) any individual overseas management services agreement should be reviewed by an executive Director and relevant legal and/or compliance personnel to ensure the terms and the management fee are in accordance with the Management Services Framework Agreement and that the annual caps will not be exceeded; (ii) the Company has designated certain members of the management to closely monitor and will periodically review the subsisting agreements and pricing terms (at least once every quarter) to ensure that the transactions contemplated under the Management Services Framework Agreement will be conducted on normal commercial terms or on terms which are no less favourable to VPO Parties than those that VPO Parties may transact with Independent Third Parties in similar services; (iii) the independent non-executive Directors will conduct annual review and confirm whether the transactions contemplated under the Management Services Framework Agreement are entered into in the ordinary course of business of the Group, on normal commercial terms or better and according to the Management Services Framework Agreement on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole and ensure the Group has complied with the Listing Rules; and (iv) the Company will engage its auditors to report on the Continuing Connected Transactions every year, the details of the internal control measures are set out in the sub-section headed "Internal control measures" in the Letter from the Board. The above-mentioned measures will help the Group to monitor its pricing policy to VPHK's subsidiaries and independent third parties.

In light of the above, and in particular considering (i) the fee arrangements adopted by the Fee Comparables vary with different structures; (ii) the management fee rate under the Management Services Framework Agreement falls within the range of management fees charged by the Fund Comparables and the Fee Comparables; and (iii) the principal terms of the Management Services Framework Agreement shall be no less favourable than the terms offered by the Group to any independent third parties we are of the view that the basis of the management fee rate under the Management Services Framework Agreement is commercially justifiable and the terms of the Management Services Framework Agreement are on normal commercial terms and are fair and reasonable as far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

3. Annual Caps

The Annual Caps for the transactions under the Management Services Framework Agreement are equivalent to approximately HK$75 million, HK$165 million and HK$185 million for the three years ending 31 December 2019, 2020 and 2021, respectively.

We have reviewed the relevant calculations and discussed with the Management that the Annual Caps are based on (i) the historical management cost incurred by VPHK and its subsidiaries for its projects; (ii) the estimated management fee to be managed by the Overseas Management Team, according to (a) the expected committed/invested capital to be incurred by VPHK and its subsidiaries for the three years ending 31 December 2019, 2020 and 2021; and (b) the development stage of the projects to be managed under the Management Services Framework Agreement; and (iii) the economic conditions and performance of the property market in the Target Cities.

In order to assess the fairness and reasonableness of the Annual Caps for the three years ending 31 December 2019, 2020 and 2021, we have taken into account the following factors:

(i) Estimated management fee payable by VPHK and its subsidiaries

In this regard, we have reviewed the list of properties projects to be managed under the Management Services Framework Agreement and note that the total invested capital of the projects in the Target Cities of around HK$9.9 billion as at 30 April 2019. As advised by the Management, the estimated management fee is also based on the expected invested amount to be invested in property projects for the three years ending 31 December 2019, 2020 and 2021. We have reviewed the property projects investment plan in the Target Cities by VPHK for the three years ending 31 December 2019, 2020 and 2021 and note that the expected investment amount will be approximately HK$2,200 million, HK$1,200 million and HK$1,600 million for the three years ending 31 December 2019, 2020 and 2021 respectively, representing around HK$1,500 million per year, on average. Taking into account the historical invested amount in the Target Cities by VPHK for the three years ended 31 December 2018 of approximately HK$2,100 million, on average (the "**Historical Invested Capital Average**"), we note that the expected investment amount for the three years ending 31 December 2019, 2020 and 2021 is similar to the level of the Historical Invested Capital Average. Based on our discussion with the Management, we were given to understand that the expected property projects investment plan in the Target Cities by VPHK for the three years ending 31 December 2019, 2020 and 2021 is determined with consideration of, (i) the development status and progress of the existing projects in hand, which are expected to be completed in the three years ending 31 December 2019, 2020 and 2021; and (ii) the VPHK's current strategy in the Target Cities. Based on the above, we consider the estimated management fee based on existing projects and the estimated invested amounts under the property projects investment plan of VPHK for the three years ending 31 December 2019, 2020 and 2021 applied to the Annual Caps calculations to be reasonable.

(ii) Estimated buffer

As advised by the Management, they have included a buffer of less than 5% on top of the aforementioned total estimated management fee per year for the three years ending 31 December 2019, 2020 and 2021. It is noted that the buffer allows for contingency situations where the management fee may increase, such as (a) change in economic conditions and performance of the property market in the Target Cities; and (b) change in investment strategy of VPHK. We were advised that the Group and VPHK have to keep adjustments to their business strategy in a timely manner in order to cope with the possible unanticipated property investment opportunities which may require substantial increase in the provision of the asset management services. For this reason, we consider that it is acceptable for the Group to maintain a buffer at a reasonable level in the Annual Caps for the three years ending 31 December 2019, 2020 and 2021 based on the capacity of provision of the Overseas Management Services and the possible unanticipated increase in the investment amounts of the property investment projects in the Target Cities. We consider the buffer to be reasonable and commercially justifiable.

Having studied (i) the detailed breakdown of the calculations for the management fee in respect of the Overseas Management Services provided by the Group, illustrating the estimated management fee; and (ii) the basis of determination of the Annual Caps for the fees payable by VPHK to the Group, we consider that the Annual Caps in respect of the provision of the Overseas Management Services to be provided by the Group are fair and reasonable so far as the Independent Shareholders are concerned.

Notwithstanding the above, it should be noted that the Annual Caps do not represent the amounts that will actually be paid to the Company. The actual management fee payable to the Company for the three years ending 31 December 2019, 2020 and 2021 shall be determined based on the terms of the Management Services Framework Agreement. Accordingly, the management fee payable for the three years ending 31 December 2019, 2020 and 2021 may not correspond to the Annual Caps. Further, in the event that fees payable to the Company during the three years ending 31 December 2019, 2020 and 2021, calculated pursuant to the terms of the Management Services Framework Agreement, exceed the Annual Caps, the Group will have to comply with the relevant provisions under Chapter 14A of the Listing Rules, including without limitation making further announcement and obtaining further approval from the Independent Shareholders at that point in time before making the payments.

4. Reasons for and benefits of the Continuing Connected Transactions

As set out in the Letter from the Board, upon completion of the Acquisitions, the VPHK's subsidiaries will engage the Enlarged Group to provide the Overseas Management Services on an exclusive basis. As advised by the Management, the Group will benefit from entering into the Management Services Framework Agreement as follows:

— as the Overseas Management Services in the Target Cities will form part of the principal businesses of the Enlarged Group, the Management Services Framework Agreement could provide an effective framework to regulate the provision and receipt of service between the Company's Management Subsidiaries and the respective VPHK's subsidiaries and ensure a fair and reasonable basis for the parties to determine the management fee without lengthy negotiations and incurring substantial time and costs for different projects in the future;

— it is advantageous to leverage on the Overseas Management Team's experience in developing and managing the existing property projects portfolio of VPHK Parties in the United States of America and the United Kingdom and to ensure a smooth transition for the operation of the Sale Companies. For biographies of the key members of the Overseas Management Team, please refer to the sub-section headed "Reasons for and benefits of the Continuing Connected Transactions" in the Letter from the Board. The Overseas Management Team will help strengthen the capabilities of the Enlarged Group in its property development, investment and management business in the Target Cities which in turn is expected to improve management efficiency and attract new projects so as to facilitate future expansion of the Enlarged Group to provide assets management services to third parties;

— by maintaining the established business relationship of China Vanke, the Enlarged Group could maintain a good foundation for future growth of the brand name and further its development into a global asset management services provider. The Group will achieve growth of brand awareness and ultimately financial benefits; and

— entering into the Management Services Framework Agreement can minimise and diversify the risk of the Company in focusing its business in Hong Kong, and also is a less risky option for the Enlarged Group to take part in property development and/or investment projects in the United States of America and the United Kingdom. While China Vanke being owner of the property projects, the Group would act as merely an asset management services provider on those projects, which incurs a relatively lesser amount of project risks than the Group being owner of the same project.

Taking into account the above factors, we concur with the Directors that the terms of the Management Services Framework Agreement are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are Concerned.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the Acquisitions, the Continuing Connected Transactions and the Annual Caps are in the ordinary and usual course of business of the Company; and (ii) the terms of the Acquisition Agreements, the Management Services Framework Agreement and the Annual Caps are on normal commercial terms, and are fair and reasonable so far as the Independent Shareholders are concerned, and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the Acquisition Agreements and the transactions contemplated thereunder, and the Management Services Framework Agreement and the transaction contemplated thereunder and the Annual Caps at the EGM.

Yours faithfully,
For and on behalf of
SUCCESS NEW SPRING CAPITAL LIMITED

Paul Lui	**Kelly Hui**
Managing Director	*Director*

Note: Mr. Paul Lui is licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance industry.

Ms. Kelly Hui is licensed person registered with the SFC to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and has over 10 years of experience in corporate finance industry.

I. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three financial years ended 31 December 2016, 2017 and 2018 were set out in the relevant annual reports of the Company posted on the Stock Exchange's website (http://www.hkexnews.hk) and the Company's website (http://www.vankeoverseas.com.). Please also see below quick links to the relevant annual reports:

The consolidated financial statements of the Group for the year ended 31 December 2016 (pages 43–83)
(http://www3.hkexnews.hk/listedco/listconews/SEHK/2017/0331/LTN20170331681.pdf)

The consolidated financial statements of the Group for the year ended 31 December 2017 (pages 43–83)
(http://www3.hkexnews.hk/listedco/listconews/SEHK/2018/0413/LTN20180413395.pdf)

The consolidated financial statements of the Group for the year ended 31 December 2018 (pages 44–88)
(http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0426/LTN201904262487.pdf)

Each of the said consolidated financial statements of the Group is incorporated by reference to this circular and forms part of this circular.

Set out below is a discussion and analysis of the performance of the Group for each of the three financial years of the Company immediately preceding the issue of this circular.

Year ended 31 December 2016

The Group's revenue is derived from the leasing of units and car parking spaces in Regent Centre. Revenue for the year was HK$91.24 million (2015: HK$89.07 million), representing an increase of 2%. The increase was mainly due to an increase in passing rent for the units in Regent Centre during the year.

The Group's investment in Regent Centre was fair valued at HK$1,700.81 million as at 31 December 2016 (31 December 2015: HK$1,619.90 million), representing an increase of 5%. There has been no change in the valuation methodology of the Group's investment properties, including the capitalisation rate. The higher valuation resulted in a fair value gain of HK$80.91 million for the year (2015: HK$125.69 million).

Excluding the change in fair value of Regent Centre, the Group's underlying profit for the year was HK$50.41 million (2015: HK$36.02 million), representing an increase of 40%. The increase was mainly due to savings in finance costs and an increase in compensation received from tenants for early lease termination.

Year ended 31 December 2017

The Group's revenue is derived from the leasing of units and car parking spaces in Regent Centre. Revenue for the year was approximately HK$96.46 million (2016: HK$91.24 million), representing an increase of approximately 6%. The increase was mainly due to improved occupancy for the units in Regent Centre and an increase in income from leasing of car parking spaces during the year.

The Group's investment in Regent Centre was fair valued at approximately HK$1,830.00 million as at 31 December 2017 (31 December 2016: HK$1,700.81 million), representing an increase of approximately 8%. There has been no change in the valuation methodology of the Group's investment properties. After netting off the additions to investment properties of approximately HK$28.22 million, the fair value gain amounted to approximately HK$100.97 million for the year (2016: HK$80.91 million).

Excluding the change in fair value of Regent Centre, the Group's underlying profit for the year was approximately HK$54.18 million (2016: HK$50.41 million), representing an increase of approximately 8%. The increase was mainly due to increase in revenue and finance income.

Year ended 31 December 2018

The Group's revenue is derived from the leasing of units and car parking spaces in Regent Centre. Revenue for the year was approximately HK$101.78 million (2017: HK$96.46 million), representing an increase of approximately 5%. The increase was mainly due to the improved occupancy and the increase in passing rent for the units in Regent Centre during the year.

The Group's investment in Regent Centre was at a fair value at approximately HK$1,968.00 million as at 31 December 2018 (31 December 2017: HK$1,830.00 million), representing an increase of approximately 8%. There has been no change in the valuation methodology of the Group's investment properties. After netting off the additions to investment properties of approximately HK$2.00 million, the fair value gain amounted to approximately HK$136.01 million for the year (2017: HK$100.97 million).

Excluding the change in fair value of Regent Centre, the Group's underlying profit for the year was approximately HK$540.84 million (2017: HK$54.18 million), representing an increase of approximately 898%. The increase was mainly due to an increase in revenue from the Group's rental and property management business, interest income and share of profits of associates.

II. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2019, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Enlarged Group had outstanding indebtedness of approximately HK$825.29 million, consisting of (i) secured bank loan of approximately HK$772.38 million; and (ii) finance lease obligation of approximately HK$52.91 million.

The secured bank loan was secured by all assets including but not limited to the London Property, the rental income accounts as well as investments, intellectual property, plant and machinery, receivables and contract of insurances held by Lithium Real Estate (Jersey) Limited, an indirect subsidiary of the London Target Company. The bank loan is matured in January 2022 and is dominated in GBP. It bears interest at London Interbank Offered Rate (LIBOR) plus an interest margin per annum. and no repayment guarantee is provided for the bank loan.

Save as disclosed above and apart from intra-group liabilities and normal trade payables, the Enlarged Group did not have, as at 31 March 2019, any mortgages, charges, debt securities issued and outstanding, and authorised or otherwise created but unissued, outstanding borrowings or indebtedness in the nature of borrowings including term loans, bank overdrafts, liabilities under acceptances, acceptance credits, hire purchase commitments or other similar indebtedness, or any guarantees or other material contingent liabilities.

III. WORKING CAPITAL

The Directors, after due and careful enquiry, are of the opinion that, after taking into consideration the financial resources available to the Enlarged Group including internally generated funds, the Enlarged Group will have sufficient working capital for its requirements for at least 12 months from the date of publication of this circular.

IV. FINANCIAL AND TRADING PROSPECTS

The Group's revenue is mainly derived from the leasing of units and car parking spaces in Regent Centre which is located at 63 Wo Yi Hop Road and 70 Ta Chuen Ping Street, Kwai Chung, New Territories, Hong Kong. As mentioned in the section headed "Reasons for and benefits of the Acquisitions" in the letter from the Board contained in this circular, it is the Group's business policy to seek opportunities in both Hong Kong and overseas property markets for business diversification and expansion. The Acquisitions and the entering of the Management Services Framework Agreement represent a good opportunity for the Group to expand its property investment portfolio and existing businesses in the overseas market, minimise the risk of solely investing in Hong Kong and generate and enhance stable income sources from the leasing of the Target Properties and from the investment returns from the investment instruments in respect of the NY Property which are invaluable benefits to support the development and expansion of the Group in the long run.

Following the Completion, it was expected that the Enlarged Group will have new income sources comprising (i) rental income from the London Property, which was fully leased to various tenants as office and commercial uses, and from the office portion of the SF Property, the lease term of which will commence in October 2019; and (ii) investment return from the investment instruments in respect of the NY Property. While the retail portion of SF Property was vacant and the NY Property was under development as at the Latest Practicable Date, the Enlarged Group will regularly monitor the development progress, determine the expected rental and review the rental portfolio according to the property market and economic conditions to ensure the Enlarged Group can maximise the potential returns from the Target Properties and the investment instruments. It is intended that following the Completion, in conjunction with the joining of the Overseas Management Team who possess the relevant expertise and experience in property markets in the United Kingdom and the United States of America as intellectual capital, the Enlarged Group will be expanding its businesses of property investment, property development and financing, property leasing and asset management business in the United Kingdom and the United States of America.

While it is expected that the Hong Kong and global economy will be full of uncertainties in 2019, as a result of the trade war between the US and China and the uncertainty as to how and whether it will be resolved, the slowing growth of mainland China economy, Brexit event and the trend of interest rate hike, the Directors believe that the Acquisitions will lay a solid foundation in terms of financial and intellectual capital for the Enlarged Group; combined with the steady income stream held in Hong Kong, the Enlarged Group is well positioned against uncertainties in the economy. Going forward, the Enlarged Group will closely monitor its business of property investment, property development and financing, property leasing and asset management business and at the same time continue to seek for other property investment opportunities in Hong Kong and the overseas property markets with an aim to adhering to the abovementioned strategy and maximising the returns to the Shareholders.

The following is the text of a report received from the Company's reporting accountant, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VANKE PROPERTY (OVERSEAS) LIMITED

Introduction

We report on the historical financial information of Lithium TopCo Limited (the "**London Target**") and its subsidiaries (together, the "**London Target Group**") set out on pages II-3 to II-35, which comprises the consolidated statements of financial position as at 31 December 2016, 2017 and 2018 and the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements, for the period from 12 August 2016 (date of incorporation) to 31 December 2016, and each of the years ended 31 December 2017 and 2018 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-3 to II-35 forms an integral part of this report, which has been prepared for inclusion in the circular of Vanke Property (Overseas) Limited (the "**Company**") dated 21 May 2019 (the "**Circular**") in connection with the proposed acquisition of the London Target by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of London Target Group as defined on page II-3, on which the Historical Financial Information is based, were prepared by the directors of the London Target. The directors of the London Target are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the directors of the London Target determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the London Target Group's financial position as at 31 December 2016, 2017 and 2018 and of its financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-3 have been made.

KPMG
Certified Public Accountants

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

21 May 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the London Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	Note	**For the period from 12 August 2016 (date of incorporation) to 31 December 2016**	**For the year ended 31 December 2017**	**2018**
		$'000	*$'000*	*$'000*
Revenue	*4*	8,457	51,269	52,680
Other income	*5*	53	2	—
Administrative, leasing and marketing expenses		(3,159)	(4,598)	(4,314)
(Decrease)/increase in fair value of investment property	*10(a)*	(65,166)	43,657	(13,023)
Operating (loss)/profit		(59,815)	90,330	35,343
Finance costs	*6(a)*	(535)	(19,161)	(24,591)
(Loss)/profit before taxation	*6*	(60,350)	71,169	10,752
Taxation charge	*7(a)*	—	(2,359)	(2,217)
(Loss)/profit for the period/ year		(60,350)	68,810	8,535
Other comprehensive income	*7(c)*			
Exchange differences on translation of financial statements to presentation currency		(68,481)	83,220	(24,159)
Total comprehensive income for the period/year		(128,831)	152,030	(15,624)

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

		At 31 December		
		2016	**2017**	**2018**
	Note	*$'000*	*$'000*	*$'000*
Non-current asset				
Investment property	*10*	1,064,829	1,222,619	1,141,754
Current assets				
Trade and other receivables	*12*	20,640	43,028	65,969
Bank balances and cash		9,746	5,691	10,347
		30,386	48,719	76,316
Current liabilities				
Other payables and accruals	*13*	(16,084)	(4,931)	(9,959)
Amount due to a shareholder	*14*	—	(3)	(12)
Amount due to the immediate holding company	*14*	(9,134)	(3,398)	(2,466)
Amount due to a fellow subsidiary	*14*	(964)	(785)	(727)
Tax payable		—	(2,475)	(4,200)
		(26,182)	(11,592)	(17,364)
Net current assets		4,204	37,127	58,952
Total assets less current liabilities		1,069,033	1,259,746	1,200,706
Non-current liabilities				
Bank loan	*15*	—	(741,494)	(742,419)
Finance lease obligation	*11*	(49,028)	(54,086)	(51,178)
		(49,028)	(795,580)	(793,597)
NET ASSETS		1,020,005	464,166	407,109
CAPITAL AND RESERVES	*17*			
Share capital		1,158,491	469,086	445,177
Reserves		(138,486)	(4,920)	(38,068)
TOTAL EQUITY		1,020,005	464,166	407,109

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Ordinary shares (note 17(c)(i)) $'000	Preference shares (note 17(c)(ii)) $'000	Exchange reserve (note 17(d)) $'000	Accumulated losses $'000	Total equity $'000
At 12 August 2016 (date of incorporation)	—	—	—	—	—
Changes in equity for 2016:					
Loss for the period	—	—	—	(60,350)	(60,350)
Other comprehensive income for the period	—	—	(68,481)	—	(68,481)
Total comprehensive income	—	—	(68,481)	(60,350)	(128,831)
Issuance of ordinary shares	—*	—	—	—	—*
Issuance of preference shares	—	1,158,491	—	—	1,158,491
Preference share dividends *(note 17(b))*	—	—	—	(9,655)	(9,655)
At 31 December 2016 and 1 January 2017	—*	1,158,491	(68,481)	(70,005)	1,020,005
Changes in equity for 2017:					
Profit for the year	—	—	—	68,810	68,810
Other comprehensive income for the year	—	—	83,220	—	83,220
Total comprehensive income	—	—	83,220	68,810	152,030
Issuance of ordinary shares	10	—	—	—	10
Redemption of preference shares	—	(689,415)	—	—	(689,415)
Preference share dividends *(note 17(b))*	—	—	—	(18,464)	(18,464)
At 31 December 2017	10	469,076	14,739	(19,659)	464,166

* *Represent amount of less than $1,000*

	Ordinary shares *(note 17(c)(i))* *$'000*	Preference shares *(note 17(c)(ii))* *$'000*	Exchange reserve *(note 17(d))* *$'000*	Accumulated losses *$'000*	Total equity *$'000*
At 1 January 2018	10	469,076	14,739	(19,659)	464,166
Changes in equity for 2018:					
Profit for the year	—	—	—	8,535	8,535
Other comprehensive income for the year	—	—	(24,159)	—	(24,159)
Total comprehensive income	—	—	(24,159)	8,535	(15,624)
Redemption of preference shares	—	(23,909)	—	—	(23,909)
Preference share dividends *(note 17(b))*	—	—	—	(17,524)	(17,524)
At 31 December 2018	10	445,167	(9,420)	(28,648)	407,109

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED CASH FLOW STATEMENTS

(Expressed in Hong Kong dollars)

	Note	For the period from 12 August 2016 (date of incorporation) to 31 December 2016	For the year ended 31 December 2017	For the year ended 31 December 2018
		$'000	*$'000*	*$'000*
(Loss)/profit before taxation		(60,350)	71,169	10,752
Adjustments for:				
Interest income	*5*	(53)	(2)	—
Finance costs	*6(a)*	535	19,161	24,591
Decrease/(increase) in fair value of investment property	*10(a)*	65,166	(43,657)	13,023
Operating profit before working capital changes		5,298	46,671	48,366
Increase in trade and other receivables		(18,705)	(23,775)	(23,216)
Increase/(decrease) in other payables and accruals		16,669	(12,214)	4,686
Decrease in amount due to the immediate holding company		(188)	(17,590)	(17,018)
Increase/(decrease) in amount due to a fellow subsidiary		1,000	(266)	(17)
Cash generated from/(used in) operations		4,074	(7,174)	12,801
Tax paid		—	—	(306)
Net cash generated from/(used in) operating activities		4,074	(7,174)	12,495
Investing activities				
Payment for additions to investment property	*10(a)*	(1,149,401)	—	—
Interest received		53	2	—
Net cash (used in)/generated from investing activities		(1,149,348)	2	—

	Note	For the period from 12 August 2016 (date of incorporation) to 31 December 2016 $'000	For the year ended 31 December 2017 $'000	2018 $'000
Financing activities				
Issuance of ordinary shares	*17(c)(i)*	—*	10	—
Issuance of preference shares	*17(c)(ii)*	1,158,491	—	—
Redemption of preference shares	*17(c)(ii)*	—	(680,640)	(24,101)
Preference share dividends paid	*17(b)*	—	(7,238)	(1,268)
Capital element of finance lease rentals paid	*16*	(2)	(8)	(9)
Interest element of finance lease rentals paid	*16*	(535)	(2,507)	(2,559)
Proceeds from bank borrowing	*16*	—	696,502	20,544
Other borrowing costs paid	*16*	(2,578)	(3,772)	—
Net cash generated from/(used in) financing activities		1,155,376	2,347	(7,393)
Net increase/(decrease) in cash and cash equivalents		10,102	(4,825)	5,102
Cash and cash equivalents at the beginning of the period/year		—	9,746	5,691
Effect of foreign exchange rate changes		(356)	770	(446)
Cash and cash equivalents at the end of the period/year		9,746	5,691	10,347
Analysis of balance of cash and cash equivalents at 31 December				
Bank balances and cash		9,746	5,691	10,347

* *Represent amount of less than $1,000*

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The London Target was incorporated in the British Virgin Islands ("**BVI**") with limited liability by shares on 12 August 2016 under the BVI Business Companies Act 2004. The registered office of the London Target is at Nemours Chambers, Road Town, Tortola, British Virgin Islands. The London Target is an investment holding company and the London Target Group is engaged in property investment in the United Kingdom ("**UK**").

The Historical Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted by the London Target Group are set out in note 2.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the London Target Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on or after 1 January 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on or after 1 January 2018 are set out in note 21.

The London Target Group has adopted HKFRS 9, *Financial instruments* and HKFRS 15, *Revenue from contracts with customers*, which are effective for the accounting period beginning 1 January 2018, consistently throughout the Relevant Periods.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the London Target, as it is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation. The financial statements of the subsidiaries of the London Target Group for which there are statutory requirements were prepared in accordance with the relevant accounting rules and regulations applicable to entities in the countries in which they were incorporated.

All companies comprising the London Target Group have adopted 31 December as their financial year end date.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis except that the investment property is stated at its fair value as explained in note 2(d).

(b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Historical Financial Information and major sources of estimation uncertainty are discussed in note 3.

(c) Subsidiaries

Subsidiaries are entities controlled by the London Target Group. The London Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the London Target Group has the power, only substantive rights (held by the London Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the London Target's statements of financial position, an investment in a subsidiary is stated at cost less any impairment losses (see note 2(f)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(d) Investment property

Investment property is land and/or buildings which is owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment property is stated at fair value, unless it is still in the course of construction or development at the end of reporting period and its fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from an investment property is accounted for as described in note 2(m)(i).

When the London Target Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 2(e)), and the same accounting policies are applied to that interest as are applied to other investment property leased under finance leases. Lease payments are accounted for as described in note 2(e).

(e) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the London Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the London Target Group

Assets that are held by the London Target Group under leases which transfer to the London Target Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the London Target Group are classified as operating leases.

(ii) Assets acquired under finance leases

Assets held under finance leases are recognised as part of the investment property balance at the lower of the fair value of the leased asset and the present value of the minimum lease payments in the consolidated statement of financial position. A corresponding liability is recognised as a finance lease obligation in the consolidated statement of financial position, which is amortised using the effective rate method. Lease payments are apportioned between the reduction of the lease liability and finance charges to the profit or loss so as to achieve a constant rate of interest on the remaining balance of the liability.

Assets held under finance leases are recognised as part of the investment property.

(iii) Assets held for use in operating leases

When the London Target Group leases out assets under operating leases, the assets are included in the consolidated statement of financial position according to their nature. Revenue arising from operating leases is recognised in accordance with the London Target Group's revenue recognition policies as set out in note 2(m)(i).

(f) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The London Target Group recognises a loss allowance for expected credit losses ("**ECLs**") on the following items:

— financial assets measured at amortised cost (including bank balances and cash, and trade and other receivables).

Financial assets measured at fair value are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the London Target Group in accordance with the contract and the cash flows that the London Target Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

— fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and

— variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the London Target Group is exposed to credit risk.

In measuring ECLs, the London Target Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

— 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

— lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the London Target Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the London Target Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the London Target Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the London Target Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the London Target Group in full, without recourse by the London Target Group to actions such as realising security (if any is held); or (ii) the financial asset is two months past due. The London Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

— failure to make payments of principal or interest on their contractually due dates ;

— an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

— an actual or expected significant deterioration in the operating results of the debtor; and

— existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the London Target Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The London Target Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the London Target Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

— interests in subsidiaries in the London Target's statement of financial position

If any such indication exists, the asset's recoverable amount is estimated.

— Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

— Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

— Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(g) Trade and other receivables

A receivable is recognised when the London Target Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the London Target Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method, less allowance for credit losses (see note 2(f)(i)).

(h) Other payables

Other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(i) Preference share

Preference share is classified as equity as it is not redeemable at the option of the preference share's holder, and any dividends are discretionary. Dividends on preference share are recognised as distributions within equity.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the London Target Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(f)(i).

(k) Borrowings

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. Any difference between the amount initially recognised and the redemption value is amortised to profit or loss, together with any interest and fees payable, using the effective interest method.

(l) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to interests in subsidiaries to the extent that, in the case of taxable differences, the London Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment property is carried at its fair value in accordance with the accounting policy set out in note 2(d), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the London Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

— in the case of current tax assets and liabilities, the London Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(m) Revenue and other income

Income is classified by the London Target Group as revenue when it arises from the provision of services or the use by others of the London Target Group's assets under leases in the ordinary course of the London Target Group's business.

Revenue is recognised when control over service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the London Target Group is expected to be entitled, excluding those amounts collected on behalf of third parties.

Further details of the London Target Group's revenue and other income recognition policies are as follows:

(i) Rental receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) Interest income is recognised as it accrues using the effective interest method.

(n) Translation of foreign currencies

Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Translation from the functional currency to the presentation currency

The functional currency of each entity comprising the London Target Group is Great British Pound, while the presentation currency of the London Target Group is Hong Kong Dollars.

The results of the London Target Group's operations are translated into Hong Kong Dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong Dollars at the closing foreign exchange rates at the end of the reporting period.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(o) Provisions and contingent liabilities

Provisions are recognised when the London Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(p) Related parties

(i) A person, or a close member of that person's family, is related to the London Target Group if that person:

(1) has control or joint control over the London Target Group;

(2) has significant influence over the London Target Group; or

(3) is a member of the key management personnel of the London Target Group or the London Target Group's parent.

(ii) An entity is related to the London Target Group if any of the following conditions applies:

(1) The entity and the London Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the London Target Group or an entity related to the London Target Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the London Target Group or to the London Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(q) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the London Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the London Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 KEY SOURCES OF ESTIMATION UNCERTAINTY

Note 10(b) contains information about the assumptions and the key factors relating to valuation of investment property.

4 REVENUE AND SEGMENT INFORMATION

(a) Revenue recognised during the Relevant Periods is as follows:

	For the period from 12 August 2016 (date of incorporation) 31 December 2016	For the year ended 31 December 2017	2018
	$'000	*$'000*	*$'000*
Revenue within the scope of HKAS 17			
Rental income from investment property	8,457	51,269	52,680

Total future minimum lease payments under non-cancellable operating leases will be recognised as revenue and receivable by the London Target Group in future periods as follows:

	2016	2017	2018
	$'000	*$'000*	*$'000*
Within 1 year	16,270	26,246	57,023
After 1 year but within 5 years	191,956	248,196	237,161
More than 5 years	301,941	270,497	196,708
	510,167	544,939	490,892

(b) Segment reporting

Management of the London Target Group assesses the performance and allocates the resources of the London Target Group as a whole. The London Target Group's principal activity is property investment in UK. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the Relevant Periods.

The London Target Group's customer base includes the following customers with revenue exceeded 10% of the London Target Group's revenues for the Relevant Periods:

	2016	2017	2018
	$'000	*$'000*	*$'000*
Customer A	8,286	41,010	42,181
Customer B	N/A*	6,486	6,638

* Revenue from Customer B in 2016 did not exceed 10% of the London Target Group's revenues for the period from 12 August 2016 (date of incorporation) to 31 December 2016.

5 OTHER INCOME

	For the period from 12 August 2016 (date of incorporation) 31 December 2016	For the year ended 31 December 2017	2018
	$'000	*$'000*	*$'000*
Interest income	53	2	—

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

	For the period from 12 August 2016 (date of incorporation) 31 December 2016	For the year ended 31 December 2017	2018
	$'000	*$'000*	*$'000*
(a) Finance costs			
Interest on bank loan *(note 16)*	—	15,418	19,968
Other borrowing costs *(note 16)*	—	1,236	1,273
Finance charges on obligation under finance lease *(note 16)*	535	2,507	3,350
	535	19,161	24,591
(b) Other items			
Auditors' remuneration	8	385	580
Investment and asset management fee charged by a fellow subsidiary *(note)*	2,783	2,840	2,956
Rental income from investment property	(8,457)	(51,269)	(52,680)
Direct outgoings	3,056	3,400	3,493
	(5,401)	(47,869)	(49,187)

Note: The London Target Group does not have any staff during the Relevant Periods, and its operations are managed by a fellow subsidiary.

7 TAXATION CHARGE

(a) Taxation charge represents:

	For the period from 12 August 2016 (date of incorporation) 31 December	For the year ended 31 December	
	2016	2017	2018
	$'000	*$'000*	*$'000*
Current tax — UK			
Provision for the year	—	2,359	2,217

Pursuant to the rules and regulations of the BVI, the London Target Group is not subject to any income tax in the BVI.

No provision has been made for Hong Kong Profits Tax as the London Target Group has no assessable profits arising in or derived from Hong Kong for the Relevant Periods.

The provision for UK income tax is charged at 20% on the estimated assessable profits for the Relevant Periods.

(b) Reconciliation between tax expense and (loss)/profit before taxation at an applicable tax rate:

	For the period from 12 August 2016 (date of incorporation) 31 December	For the year ended 31 December	
	2016	2017	2018
	$'000	*$'000*	*$'000*
(Loss)/profit before taxation	(60,350)	71,169	10,752
Notional tax on (loss)/profit before taxation calculated at 20%	(12,070)	14,234	2,150
Tax effect of non-deductible/(non-taxable) changes in fair value of investment property	13,033	(8,731)	2,605
Tax effect of non-taxable revenue	(1,099)	(2,461)	(2,385)
Others	136	(683)	(153)
Tax expense	—	2,359	2,217

(c) There is no tax effect relating to the components of the comprehensive income for the Relevant Periods.

8 DIRECTORS' EMOLUMENTS

During the Relevant Periods, no fees, salaries, allowances and other benefits, performance related bonuses, and provident fund contributions were paid/payable to the directors of the London Target.

9 INVESTMENTS IN SUBSIDIARIES

As at 31 December 2016, 2017 and 2018, particulars of the subsidiaries are as follows:

Name of subsidiaries	Place and date of incorporation	Particulars of issued capital	Proportion of ownership interest			Principal activities	Name of statutory auditor
			Effective interest	Held by the London Target	Held by the subsidiary		
Lithium Concept Limited	BVI 12 August 2016	Ordinary shares: 2016: £1; 2017: £1; 2018: £1,000 Preference shares: 2016: £113,679,999; 2017: £45,973,360; 2018: £43,686,685	100%	100%	—	Investment holding	KPMG LLP
Lithium Real Estate (Jersey) Limited	UK 8 August 2016	£27,420,000	100%	—	100%	Property Investment	KPMG LLP

10 INVESTMENT PROPERTY

(a) Valuation

	Property *$'000*	Finance lease asset *$'000*	Total *$'000*
At 12 August 2016 (date of incorporation)	—	—	—
Additions	1,149,401	50,816	1,200,217
Fair value loss	(65,164)	(2)	(65,166)
Exchange adjustment	(68,436)	(1,786)	(70,222)
At 31 December 2016 and 1 January 2017	1,015,801	49,028	1,064,829
Fair value gain/(loss)	43,665	(8)	43,657
Exchange adjustment	109,067	5,066	114,133
At 31 December 2017 and 1 January 2018	1,168,533	54,086	1,222,619
Fair value loss	(13,014)	(9)	(13,023)
Exchange adjustment	(64,943)	(2,899)	(67,842)
At 31 December 2018	1,090,576	51,178	1,141,754

Asset held under finance lease is recognised as part of the London Target Group's investment property at the lower of the fair value of the leased asset and the present value of the minimum lease payments in the consolidated statement of financial position. A corresponding liability is recognised as a finance lease obligation (see note 11).

(b) Fair value measurement of investment property

(i) Fair value hierarchy

The following table presents the fair value of the investment property measured at the end of reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 December 2016	Fair value measurements at 31 December 2016 categorised into		
		Level 1	Level 2	Level 3
	$'000	*$'000*	*$'000*	*$'000*
Recurring fair value measurement				
Investment property:				
— Office and Commercial — UK	1,015,801	—	—	1,015,801

	Fair value at 31 December 2017	Fair value measurements at 31 December 2017 categorised into		
		Level 1	Level 2	Level 3
	$'000	*$'000*	*$'000*	*$'000*
Recurring fair value measurement				
Investment property:				
— Office and Commercial — UK	1,168,533	—	—	1,168,533

	Fair value at 31 December 2018	Fair value measurements at 31 December 2018 categorised into		
		Level 1	Level 2	Level 3
	$'000	*$'000*	*$'000*	*$'000*
Recurring fair value measurement				
Investment property:				
— Office and Commercial — UK	1,090,576	—	—	1,090,576

During the Relevant Periods, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The London Target Group's policy is to recognise transfers between levels of fair value hierarchy at the end of reporting period in which they occur.

The London Target Group's investment property was revalued at 31 December 2016, 2017 and 2018. The valuations were carried out by an independent firm of valuers, Knight Frank LLP, which has among its staff with relevant professional qualifications and have recent experience in the location and category of property being valued. Management of London Target Group has discussion with the valuers on the valuation assumptions and valuation results when the valuation is performed at each annual reporting date.

(ii) Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable input	
Investment property	Income capitalisation approach	Net initial yield	2016: 4.35% 2017: 4.27% 2018: 4.31%
		Market rent per annum	2016: $57,817,000 2017: $58,685,000 2018: $59,918,000

The valuers have valued the investment property based on net initial yield. The market value of the property was primarily derived using comparable recent market transactions on an arm's length basis with the gross value based on net initial yield and market rent per annum. Stamp duty, agent fees and legal fees as well as rent free deductions have been taken into consideration. The fair value measurement is positively correlated to the market rent per annum, and negatively correlated to the net initial yield.

The movements during the Relevant Periods in the balance of these Level 3 fair value measurements are set out in note 10(a) to the Historical Financial Information.

Fair value adjustment of investment property is recognised in the line item "(Decrease)/increase in fair value of investment property" on the face of the consolidated statements of comprehensive income.

All the gains/losses recognised in profit or loss for the Relevant Periods arise from the investment property held at the end of the reporting period.

(c) The investment property is situated in UK and held under long term lease.

(d) The London Target Group leases out the investment property under operating leases. The leases run for a period of nine to twenty-one years. None of the leases includes contingent rentals.

(e) The gross carrying amount of the investment property held for use in operating leases at 31 December 2016, 2017 and 2018 are $1,064,829,000, $1,222,619,000 and $1,141,754,000, respectively.

11 FINANCE LEASE OBLIGATION

The land on which the investment property is situated has been leased to the London Target Group for a period of 125 years from 28 September 2016. The head lease has been treated as a finance lease. Future minimum finance lease payments represent the minimum amount of ground rent payable by the London Target Group, at £250,000 per annum. The ground rent payable is charged at the higher of £250,000 per annum or 10% of rental income of the London Target Group. During the Relevant Periods, the contingent rents included in profit or loss amounted to nil, nil and $769,000, respectively.

The London Target Group's finance lease obligation are payable as follows:

	2016		2017		2018	
	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments	Present value of the minimum lease payments	Total minimum lease payments
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
Within 1 year	8	2,392	9	2,639	9	2,497
After 1 year but within 2 years	8	2,392	9	2,639	3	2,497
After 2 years but within 5 years	21	7,174	24	7,916	30	7,492
After 5 years	48,991	286,382	54,044	313,340	51,136	294,048
	49,028	298,340	54,086	326,534	51,178	306,534
Less: future finance charges		(249,312)		(272,448)		(255,356)
Present value of lease obligation		49,028		54,086		51,178

12 TRADE AND OTHER RECEIVABLES

	2016	2017	2018
	$'000	*$'000*	*$'000*
Trade receivables	5,471	—	2,845
Other receivables	15,169	43,028	63,124
	20,640	43,028	65,969

Ageing analysis

As at 31 December 2016, 2017 and 2018, the ageing analysis of trade receivables based on the date of revenue recognition, is as follows:

	2016	2017	2018
	$'000	*$'000*	*$'000*
0 to 30 days	5,471	—	2,845

Trade receivables are due within 25 days from the date of billing. Further details on the London Target Group's credit policy and credit risk arising from trade receivables are set out in note 18(a).

13 OTHER PAYABLES AND ACCRUALS

	2016	2017	2018
	$'000	*$'000*	*$'000*
Accruals	162	270	1,039
Other payables	15,922	4,661	8,920
	16,084	4,931	9,959

All of other payables and accruals are expected to be settled within one year or are repayable on demand.

14 AMOUNTS DUE TO A SHAREHOLDER, THE IMMEDIATE HOLDING COMPANY AND A FELLOW SUBSIDIARY

Amounts due to a shareholder, the immediate holding company and a fellow subsidiary are unsecured, interest-free and repayable on demand.

15 BANK LOANS

	2016	2017	2018
	$'000	*$'000*	*$'000*
Bank loan — secured	—	746,817	746,186
Other borrowing costs capitalised	—	(5,323)	(3,767)
Total bank loan	—	741,494	742,419
Representing secured bank loan			
Due after one year (between two to five years)	—	741,494	742,419

The London Target Group's banking facility at 31 December 2017 and 2018 of £75,000,000 (equivalent to $791,595,000) and £75,000,000 (equivalent to $749,168,000) was secured by all assets held by Lithium Real Estate (Jersey) Limited ("**London Subsidiary**", a subsidiary of the London Target Group). These included the London Target Group's investment property of $1,222,619,000 and $1,141,754,000 at 31 December 2017 and 2018 respectively.

Among the total banking facility, the balance of $730,642,000 and $711,459,000 were utilised as at 31 December 2017 and 2018, respectively. The bank loan is interest bearing at the London Inter-bank Offered Rate plus 1.95% per annum and will be matured on 16 January 2022. Pursuant to the banking facility agreement, no interest is required to be paid until 16 January 2019 and all accrued interests up to 15 January 2019 are capitalised as the loan balance.

The London Target Group's banking facility is subject to the fulfilment of covenants relating to certain of London Subsidiary's statement of financial position ratios and an obligation on Lithium Concept Limited (the immediate holding company of London Subsidiary and the wholly-owned subsidiary of the London Target) to maintain its beneficial interest in the issued share capital of London Subsidiary.

At 31 December 2017 and 2018, none of the covenants relating to drawn down facilities had been breached. If the London Target Group were to breach the covenants, the drawn down facilities would become payable on demand. The London Target Group regularly monitors its compliance with these covenants. Further details of the London Target Group's management of liquidity risk are set out in note 18(b).

16 BANK BALANCES AND CASH

Reconciliation of liabilities arising from financing activities:

The table below details changes in the London Target Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the consolidated cash flow statements as cash flows from financing activities.

	Bank loan *(note 15)* *$'000*	**Finance lease obligation** *(note 11)* *$'000*	**Total** *$'000*
At 12 August 2016 (date of incorporation)	—	—	—
Changes from financing cash flows:			
Capital element of finance lease rentals paid	—	(2)	(2)
Interest element of finance lease rentals paid	—	(535)	(535)
Other borrowing costs paid	(2,578)	—	(2,578)
Total changes from financing cash flows	(2,578)	(537)	(3,115)
Exchange adjustments	—	(1,782)	(1,782)
Other changes:			
Increase in trade and other receivables	2,578	—	2,578
New finance lease	—	50,812	50,812
Finance charges on obligation under finance lease *(note 6(a))*	—	535	535
At 31 December 2016 and 1 January 2017	—	49,028	49,028
Changes from financing cash flows:			
Capital element of finance lease rentals paid	—	(8)	(8)
Interest element of finance lease rentals paid	—	(2,507)	(2,507)
Proceeds from bank borrowing	696,502	—	696,502
Other borrowing costs paid	(3,772)	—	(3,772)
Total changes from financing cash flows	692,730	(2,515)	690,215

	Bank loan (*note 15*) *$'000*	Finance lease obligation (*note 11*) *$'000*	Total *$'000*
Exchange adjustments	34,688	5,066	39,754
Other change:			
Finance charges on obligation under finance lease (*note 6(a)*)	—	2,507	2,507
Interest on bank loan (*note 6(a)*)	15,418	—	15,418
Other borrowing costs (*note 6(a)*)	1,236	—	1,236
Decrease in trade and other receivables	(2,578)	—	(2,578)
At 31 December 2017 and 1 January 2018	741,494	54,086	795,580
Changes from financing cash flows:			
Capital element of finance lease rentals paid	—	(9)	(9)
Interest element of finance lease rentals paid	—	(2,559)	(2,559)
Proceeds from bank borrowing	20,544	—	20,544
Total changes from financing cash flows	20,544	(2,568)	17,976
Exchange adjustments	(40,860)	(2,921)	(43,781)
Other change:			
Increase in other payables and accruals	—	(769)	(769)
Finance charges on obligation under finance lease (*note 6(a)*)	—	3,350	3,350
Interest on bank loan (*note 6(a)*)	19,968	—	19,968
Other borrowing costs (*note 6(a)*)	1,273	—	1,273
At 31 December 2018	742,419	51,178	793,597

17 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the London Target Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the London Target's individual components of equity between the beginning and the end of the period/year are set out below:

	Ordinary shares *(note 17(c)(i))* *$'000*	**Preference shares** *(note 17(c)(ii))* *$'000*	**Exchange reserve** *(note 17(d))* *$'000*	**Accumulated losses** *$'000*	**Total equity** *$'000*
At 12 August 2016 (date of incorporation)	—	—	—	—	—
Profit and total comprehensive income for the period	—	—	(4)	9,596	9,592
Issuance of ordinary shares	—*	—	—	—	—*
Issuance of preference shares	—	1,158,491	—	—	1,158,491
Preference share dividends *(note 17(b))*	—	—	—	(9,655)	(9,655)
At 31 December 2016 and 1 January 2017	—*	1,158,491	(4)	(59)	1,158,428
Profit and total comprehensive income for the year	—	—	11	18,280	18,291
Issuance of ordinary shares	10	—	—	—	10
Redemption of preference shares	—	(689,415)	—	—	(689,415)
Preference share dividends *(note 17(b))*	—	—	—	(18,464)	(18,464)
At 31 December 2017 and 1 January 2018	10	469,076	7	(243)	468,850
Profit and total comprehensive income for the year	—	—	(15)	17,325	17,310
Redemption of preference shares	—	(23,909)	—	—	(23,909)
Preference share dividends *(note 17(b))*	—	—	—	(17,524)	(17,524)
At 31 December 2018	10	445,167	(8)	(442)	444,727

* *Represent amount of less than $1,000*

(b) Preference share dividends

	2016	2017	2018
	$'000	*$'000*	*$'000*
Balance as at 12 August 2016 (date of incorporation), 1 January 2017 and 1 January 2018	—	9,655	20,881
Preference share dividends accrued during the period/year	9,655	18,464	17,524
Preference share dividends paid upon the redemption of preference shares during the year	—	(7,238)	(1,268)
Balance as at 31 December 2016, 2017 and 2018	9,655	20,881	37,137

The holders of preference shares are entitled to receive a cumulative, preferential dividend at the rate of 3.75% per annum of the subscription price ("**Preference Dividend**"). The Preference Dividend is accrued on a daily basis and compound annually from the date of issue of such preference share whether or not earned or declared and whether or not there are sufficient assets available to permit payment. The accrued dividend shall be paid on redemption of the preference shares.

(c) Share capital

The London Target is authorised to issue a maximum of 5,000,000* shares of £0.001 par value, comprising two classes of shares, ordinary shares and preference shares.

* *Pursuant to the resolution passed by the London Target on 25 July 2017, the authorised share capital with 500,000 shares of £0.01 par value have been sub-divided into 5,000,000 shares of £0.001 par value.*

(i) Ordinary shares

	No. of shares	Amount	Amount
		£	*$'000*
Issued and fully paid:			
At 12 August 2016 (date of incorporation)	—	—	—
Shares issued during the period	100	1	—#
At 31 December 2016 and 1 January 2017	100	1	—#
Sub-divided during the year*	900	—	—
Shares issued during the year	999,000	999	10
At 31 December 2017, 1 January 2018 and 31 December 2018	1,000,000	1,000	10

* *Pursuant to the resolution passed by the London Target on 25 July 2017, the existing shares in issue have been sub-divided into 1,000 shares of £0.001 par value.*

\# *Represent amount of less than $1,000*

Each ordinary share confers upon the holder of ordinary share (1) the right to one vote at a meeting of the members of the London Target or on any resolution of members; (2) subject to the preferential rights attaching to the preference shares, the right to an equal share in any dividend paid by the London Target; and (3) subject to the preferential rights attaching to the preference shares, the right to a distribution of the surplus of the London Target on its liquidation.

(ii) Preference shares

	No. of shares	Amount	Amount
		£	*$'000*
Issued and fully paid:			
At 12 August 2016 (date of incorporation)	—	—	—
Share issued during the period	44,900	113,688,999	1,158,491
At 31 December 2016 and 1 January 2017	44,900	113,688,999	1,158,491
Redemption during the year	(26,893)	(67,656,074)	(689,415)
Sub-divided during the year*	163,791	—	—
At 31 December 2017 and 1 January 2018	181,798	46,032,925	469,076
Redemption during the year	(9,266)	(2,346,239)	(23,909)
At 31 December 2018	172,532	43,686,686	445,167

* *Pursuant to the resolution passed by the London Target on 25 July 2017, the existing shares in issue have been sub-divided into 181,990 shares of £0.001 par value.*

Each preference share confers upon the holder of preference share (1) no right to vote at a meeting of the members of the London Target or on any resolution of members; (2) the right to receive Preference Dividend; (3) the right to receive a preferential distribution of the surplus assets of the London Target; and (4) the right to be redeemed in certain conditions as set out in the Articles of Association of the London Target. The holders of preference share are same as the holders of ordinary share. As at 31 December 2018, Vanke Property (Hong Kong) Limited and certain employees of China Vanke Co., Ltd. hold 172,437 preference shares and 95 preference shares respectively.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the London Target Group. The reserves are dealt with in accordance with the accounting policy set out in note 2(n).

(e) Capital management

The London Target's primary objectives when managing capital are to safeguard the London Target's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. As the London Target is part of a larger group, the London Target's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The London Target defines "capital" as including all components of equity. Trading balances that arise as a result of trading transactions with other group companies are not regarded by the London Target as capital.

The London Target's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the London Target belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the London Target or the London Target Group, to the extent that these do not conflict with the directors' fiduciary duties towards the London Target. The results of the directors' review of the London Target's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared. The London Target's overall strategy remains unchanged throughout the Relevant Periods.

The London Target was not subject to externally imposed capital requirements during the Relevant Periods.

18 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The London Target Group is exposed to credit, liquidity, interest rate and currency risks which arise in the normal course of the London Target Group's business as set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the London Target Group.

(a) Credit risk

The credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the London Target Group. The London Target Group's credit risk is primarily attributable to trade and other receivables. The London Target Group's exposure to credit risk arising from bank balances and cash is limited because the counterparties are banks and financial institutions with sound credit ratings, for which the London Target Group considers to have low credit risk.

The London Target Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the London Target Group has significant exposure to individual customers. At 31 December 2016 and 31 December 2018, 100% of the total trade receivables were due from the London Target Group's largest customer.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 25 days from the date of billing. Normally, the London Target Group does not obtain collateral from customers.

The London Target Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. Given the London Target Group has not experienced any significant credit losses in the past, the allowance for expected credit losses is insignificant.

(b) Liquidity risk

The London Target Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed funding lines from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables detail the remaining contractual maturities at the end of the reporting period of the London Target Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the London Target Group can be required to pay:

	Contractual undiscounted cash outflow					
	Within 1 year or on demand	After 1 year but within 2 years	After 2 years but within 5 years	Over 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 31 December 2016						
Other payables and accruals	16,084	—	—	—	16,084	16,084
Amount due to a fellow subsidiary	964	—	—	—	964	964
Amount due to the immediate holding company	9,134	—	—	—	9,134	9,134
Finance lease obligation	2,392	2,392	7,174	286,382	298,340	49,028
	28,574	2,392	7,174	286,382	324,522	75,210

	Contractual undiscounted cash outflow					
	Within 1 year or on demand	After 1 year but within 2 years	After 2 years but within 5 years	Over 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 31 December 2017						
Other payables and accruals	4,931	—	—	—	4,931	4,931
Amount due to a fellow subsidiary	785	—	—	—	785	785
Amount due to the immediate holding company	3,398	—	—	—	3,398	3,398
Amount due to a shareholder	3	—	—	—	3	3
Bank loan	—	17,572	799,193	—	816,765	741,494
Finance lease obligation	2,639	2,639	7,916	313,340	326,534	54,086
	11,756	20,211	807,109	313,340	1,152,416	804,697

	Contractual undiscounted cash outflow					
	Within 1 year or on demand	After 1 year but within 2 years	After 2 years but within 5 years	Over 5 years	Total	Carrying amount
	$'000	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 31 December 2018						
Other payables and accruals	9,959	—	—	—	9,959	9,959
Amount due to a fellow subsidiary	727	—	—	—	727	727
Amount due to the immediate holding company	2,466	—	—	—	2,466	2,466
Amount due to a shareholder	12	—	—	—	12	12
Bank loan	20,147	29,878	756,690	—	806,715	742,419
Finance lease obligation	2,497	2,497	7,492	294,048	306,534	51,178
	35,808	32,375	764,182	294,048	1,126,413	806,761

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The London Target Group's interest rate risk arises primarily from bank loan. Borrowings issued at variable rates expose the London Target Group to cash flow interest rate risk.

(i) Interest rate profile

The following table details the interest rate profile of the London Target Group's borrowings at 31 December 2016, 2017 and 2018:

	2016		**2017**		**2018**	
	Effective interest rate		**Effective interest rate**		**Effective interest rate**	
	%	*$'000*	*%*	*$'000*	*%*	*$'000*
Variable rate borrowings:						
Bank loan		—	2.3	746,817	2.7	746,186

(ii) Sensitivity analysis

At 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the London Target Group's profit after tax and increased/decreased accumulated losses by approximately $5,975,000.

At 31 December 2018, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the London Target Group's profit after tax and increased/decreased accumulated losses by approximately $5,969,000.

The sensitivity analysis above indicates the annualised impact on the London Target Group's interest expense that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments which expose the London Target Group to cash flow interest rate risk at that date. The analysis is performed on the same basis during the Relevant Periods.

(d) Currency risk

The London Target Group owns assets and conducts its business mainly in the UK. The London Target Group's primary foreign currency exposures arise from its direct property investment in the UK. The London Target Group is mainly exposed to the effects of fluctuation in Great British Pound. Where appropriate and cost efficient, the London Target Group seeks to finance these investments by Great British Pound borrowings and as future returns from these investments are denominated in Great British Pound, exposure to Great British Pound currency risk is minimised.

Management of the London Target Group considers this risk is insignificant to the London Target Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

(e) Fair value of financial assets and liabilities

The carrying amounts of the London Target Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values at 31 December 2016, 2017 and 2018.

19 MATERIAL RELATED PARTY TRANSACTIONS

Apart from the transactions and balances disclosed and elsewhere in the Historical Financial Information, the London Target Group has no other material related party transactions during the Relevant Periods.

20 COMPANY-LEVEL STATEMENTS OF FINANCIAL POSITION

	Note	**2016**	**2017**	**2018**
		$'000	*$'000*	*$'000*
Non-current assets				
Investments in subsidiaries	*9*	1,158,399	468,469	444,527
Current assets				
Other receivable and prepayments		—	—	22
Amount due from a subsidiary		9,220	3,391	2,464
Bank balances and cash		—	407	208
		9,220	3,798	2,694
Current liabilities				
Other payables and accruals		(57)	(21)	(16)
Amount due to a shareholder		—	(3)	(12)
Amount due to the immediate holding company		(9,134)	(3,393)	(2,466)
		(9,191)	(3,417)	(2,494)
Net current assets		29	381	200
NET ASSETS		1,158,428	468,850	444,727
CAPITAL AND RESERVES	*17*			
Share capital		1,158,491	469,086	445,177
Reserves		(63)	(236)	(450)
TOTAL EQUITY		1,158,428	468,850	444,727

21 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
Amendments to HKFRS 9, *Prepayment features with negative compensation*	1 January 2019
Amendments to HKAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
HKFRS 17, *Insurance contracts*	1 January 2019
Amendments to HKFRS 10, *Consolidated financial statements* and HKAS 28, *Investments in associates and joint ventures*	To be determined

The London Target Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has assessed that the adoption of them is unlikely to have a significant impact on the London Target Group's results of operations and financial position.

22 NON-ADJUSTMENT EVENTS AFTER THE REPORTING PERIOD

There are no significant subsequent events which have occurred to any business or the London Target or its subsidiaries subsequent to 31 December 2018.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the London Target Group or any of its subsidiaries in respect of any period subsequent to 31 December 2018.

The following is the text of a report received from the Company's reporting accountant, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VANKE PROPERTY (OVERSEAS) LIMITED

Introduction

We report on the historical financial information of 657–667 Mission Limited (the "**SF Target**") and its subsidiary (together, the "**SF Target Group**") set out on pages III-3 to III-16, which comprises the consolidated statements of financial position as at 31 December 2017 and 2018 and the consolidated statements of comprehensive income and the consolidated statements of changes in equity, for the period from 29 September 2017 (date of incorporation) to 31 December 2017 and the year ended 31 December 2018 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages III-3 to III-16 forms an integral part of this report, which has been prepared for inclusion in the circular of Vanke Property (Overseas) Limited (the "**Company**") dated 21 May 2019 (the "**Circular**") in connection with the proposed acquisition of the SF Target by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of SF Target Group as defined on page III-3, on which the Historical Financial Information is based, were prepared by the directors of the SF Target. The directors of the SF Target are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the directors of the SF Target determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the SF Target Group's financial position as at 31 December 2017 and 2018 and of its financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page III-3 have been made.

KPMG
Certified Public Accountants

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

21 May 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The consolidated financial statements of the SF Target Group for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Expressed in Hong Kong dollars)

	Note	For the period from 29 September 2017 (date of incorporation) to 31 December 2017	Year ended 31 December 2018
		\$'000	*\$'000*
Administrative expenses		(30)	(2)
Share of results of associates		14,044	(5,642)
Profit/(loss) before taxation		14,014	(5,644)
Taxation charge	*4(a)*	—	—
Profit/(loss) for the period/year		14,014	(5,644)
Other comprehensive income	*4(c)*		
Exchange differences on translation of financial statements to presentation currency		154	235
Total comprehensive income for the period/ year		14,168	(5,409)

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Hong Kong dollars)

		At 31 December	
		2017	**2018**
	Note	*$'000*	*$'000*
Non-current assets			
Interests in associates	*8*	102,412	116,671
Current liabilities			
Amount due to the immediate holding company	*6*	(30)	(30)
Amount due to a fellow subsidiary	*6*	—	(2)
		(30)	(32)
NET ASSETS		102,382	116,639
CAPITAL AND RESERVES	*9*		
Share capital		—	—
Reserves		102,382	116,639
TOTAL EQUITY		102,382	116,639

The accompanying notes form part of the Historical Financial Information.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Share capital *(note 9(b))* *$'000*	Share premium *(note 9(c))* *$'000*	Exchange reserve *(note 9(d))* *$'000*	Retained profits *$'000*	Total equity *$'000*
At 29 September 2017 (date of incorporation)	—	—	—	—	—
Changes in equity for 2017:					
Profit for the period	—	—	—	14,014	14,014
Other comprehensive income for the period	—	—	154	—	154
Total comprehensive income	—	—	154	14,014	14,168
Issuance of share	—*	88,214	—	—	88,214
At 31 December 2017 and 1 January 2018	—*	88,214	154	14,014	102,382
Changes in equity for 2018:					
Loss for the year	—	—	—	(5,644)	(5,644)
Other comprehensive income for the year	—	—	235	—	235
Total comprehensive income	—	—	235	(5,644)	(5,409)
Capital injection *(note 9(c))*	—	19,666	—	—	19,666
At 31 December 2018	—*	107,880	389	8,370	116,639

* *Represent amount of less than $1,000*

The accompanying notes form part of the Historical Financial Information.

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The SF Target is a limited liability company incorporated under the laws of the Cayman Islands. The registered office of the SF Target is at PO Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands. The SF Target is an investment holding company and the SF Target Group is engaged in property investment in the United States of the America ("**USA**") through its associates.

The Historical Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted by the SF Target Group are set out below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the SF Target Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on or after 1 January 2019. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on or after 1 January 2019 are set out in note 13.

The SF Target Group has adopted HKFRS 9, *Financial instruments* and HKFRS 15, *Revenue from contracts with customers*, which are effective for the accounting period beginning 1 January 2018, consistently throughout the Relevant Periods.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for the SF Target and its subsidiary, as they are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

All companies comprising the SF Target Group have adopted 31 December as their financial year end date.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Cash flow statement

A cash flow statement has not been prepared because the SF Target Group did not have any cash flows during the Relevant Periods nor did it have any cash or cash equivalents during the Relevant Periods and at the end of each reporting period.

The cash flows which have resulted from the operations of the SF Target Group were all received and paid by group companies, and the amounts involved have all been accounted for as intercompany receivables and payables.

(d) Subsidiaries

Subsidiaries are entities controlled by the SF Target Group. The SF Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the SF Target Group has the power, only substantive rights (held by the SF Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Historical Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Historical Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

In the SF Target's statements of financial position, an investment in a subsidiary is stated at cost less any impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Associates

An associate is an entity in which the SF Target Group or the SF Target has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the Historical Financial Information under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the SF Target Group's share of the acquisition-date fair values of the associate's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the SF Target Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the SF Target Group's share of the associate's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the SF Target Group's share of the post-acquisition, post-tax results of the associates and any impairment losses for the year are recognised in profit or loss, whereas the SF Target Group's share of the post-acquisition post-tax items of the associates' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the SF Target Group's share of losses exceeds its interest in the associate, the SF Target Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the SF Target Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the SF Target Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the SF Target Group's net investment in the associate.

(f) Payables

Payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(g) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(h) Translation of foreign currencies

Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

Translation from the functional currency to the presentation currency

The functional currency of each entity comprising the SF Target Group is United States Dollars, while the presentation currency of the SF Target Group is Hong Kong Dollars.

The results of the SF Target Group's operations are translated into Hong Kong Dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong Dollars at the closing foreign exchange rates at the end of the reporting period.

The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(i) Provisions and contingent liabilities

Provisions are recognised when the SF Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(j) Related parties

(i) A person, or a close member of that person's family, is related to the SF Target Group if that person:

(1) has control or joint control over the SF Target Group;

(2) has significant influence over the SF Target Group; or

(3) is a member of the key management personnel of the SF Target Group or the SF Target Group's parent.

(ii) An entity is related to the SF Target Group if any of the following conditions applies:

(1) The entity and the SF Target Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the SF Target Group or an entity related to the SF Target Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the SF Target Group or to the SF Target Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(k) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the SF Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the SF Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 REVENUE AND SEGMENT INFORMATION

Management of the SF Target Group assesses the performance and allocates the resources of the SF Target Group as a whole. The SF Target Group's principal activity is property investment in the USA through its associates. Therefore, management considers there to be only one operating segment under the requirements of HKFRS 8, *Operating Segments*. In this regard, no segment information is presented for the Relevant Periods.

4 TAXATION CHARGE

(a) Pursuant to the rules and regulations of the Cayman Islands, the SF Target Group is not subject to any income tax in the Cayman Islands.

No provision has been made for Hong Kong Profits Tax and US income tax as the SF Target Group has no assessable profits arising in or derived from Hong Kong and the USA for the Relevant Periods.

Share of an associate's taxation charge of $Nil and $Nil are included in the share of results of associates for the Relevant Periods respectively.

(b) Reconciliation between tax expense and profit/(loss) before taxation at an applicable tax rate:

	Period from 29 September 2017 (date of incorporation) to 31 December 2017 *$'000*	**Year ended 31 December 2018** *$'000*
Profit/(loss) before taxation	14,014	(5,644)
Notional tax on profit/(loss) before taxation at applicable tax rate (2017: 35%; 2018: 21%)	4,905	(1,185)
Tax effect of non-deductible expense	10	1,185
Tax effect of non-taxable income	(4,915)	—
Tax expense	—	—

(c) There is no tax effect relating to the components of the comprehensive income for the Relevant Periods.

5 DIRECTORS' EMOLUMENTS

During the Relevant Periods, no fees, salaries, allowances and other benefits, performance related bonuses, and provident fund contributions were paid/payable to the directors of the SF Target.

6 AMOUNTS DUE TO THE IMMEDIATE HOLDING COMPANY AND A FELLOW SUBSIDIARY

Amounts due to the immediate holding company and a fellow subsidiary were unsecured, interest-free and repayable on demand.

7 INVESTMENT IN A SUBSIDIARY

As at 31 December 2017 and 2018, particulars of the subsidiary are as follows:

Name of subsidiary	Place and date of incorporation	Particulars of issued capital	Proportion of ownership interest			Principal activities
			Effective interest	Held by the SF Target	Held by the subsidiary	
657–667 Mission Vanke B Offshore LLC	USA 26 September 2017	USD1	100%	100%	—	Investment holding

8 INTERESTS IN ASSOCIATES

The following list contains the particulars of the associates, which are unlisted corporate entity whose quoted market price is not available:

Name of associate	Place of incorporation and business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			SF Target Group's effective interest	Held by the SF Target	Held by a subsidiary	
657–667 Mission Street Venture LLC	USA	2017: USD25,302,993; 2018: USD30,704,653	45%	—	45%	Investment holding
657–667 Mission Holdings LLC	USA	2017: USD25,302,993; 2018: USD30,704,653	45%	—	45%	Investment holding
657–667 Mission Mezz LLC	USA	2017: USD25,302,993; 2018: USD30,704,653	45%	—	45%	Financing
657–667 Mission Property Owner LLC	USA	2017: USD25,302,993; 2018: USD30,704,653	45%	—	45%	Property investment

657–667 Mission Street Venture LLC was incorporated in US on 24 January 2017. 657–667 Mission Street Venture LLC and its subsidiaries (together, the "**Mission Venture Group**") are engaged in property investment in the USA. The principal assets held by the Mission Venture Group are properties located at 657–667 Mission Street, San Francisco, California, the USA.

On 27 October 2017, 657–667 Mission Vanke B Offshore LLC, the wholly-owned subsidiary of the SF Target, completed the acquisition of 45% of the interest in 657–667 Mission Street Venture LLC from a fellow subsidiary, 657–667 Mission Vanke B, LLC. Upon completion, the Mission Venture Group became the associates of the SF Target Group.

The Mission Venture Group is accounted for using the equity method in the Historical Financial Information.

Summarised financial information of Mission Venture Group (from the date of acquisition by the SF Target Group), reconciled to the carrying amount in the Historical Financial Information, are disclosed below.

	2017	**2018**
	$'000	*$'000*
Gross amounts of Mission Venture Group		
Non-current assets	579,058	683,389
Current assets	6,740	10,907
Current liabilities	(7,807)	(28,914)
Non-current liabilities	(344,190)	(406,113)
Net assets	233,801	259,269

	Period from 27 October 2017 to 31 December 2017	**Year ended 31 December 2018**
	$'000	*$'000*
Gross amounts of Mission Venture Group		
Revenue	4,483	2,776
Profit/(loss) for the period/year	42,222	(17,417)
Other comprehensive income	493	543
Total comprehensive income	42,715	(16,874)

	2017	**2018**
	$'000	*$'000*
Reconciled to the Group's interests in associates		
Gross amounts of net assets	233,801	259,269
Group's effective interest	45%	45%
Group's share of net assets of the associates	105,211	116,671
Effect on profit sharing differential (note)	(2,799)	—
Carrying amount in the Historical Financial Information	102,412	116,671

Note: Pursuant to the limited liability company agreement of 657–667 Mission Street Venture LLC, the profit sharing by each shareholder of 657–667 Mission Street Venture LLC is calculated based on the internal rate of return of 657–667 Mission Street Venture LLC. Accordingly, the profit sharing by each shareholder is different from their equity interests during the Relevant Periods.

9 CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the SF Target Group's consolidated equity is set out in the consolidated statements of changes in equity. Details of the changes in the SF Target's individual components of equity between the beginning and the end of the period/year are set out below:

	Share capital *(note 9(b))* *$'000*	Share premium *(note 9(c))* *$'000*	Accumulated losses *$'000*	Total equity *$'000*
At 29 September 2017 (date of incorporation)	—	—	—	—
Loss and total comprehensive income for the period	—	—	(30)	(30)
Issuance of share	—	88,214	—	88,214
At 31 December 2017 and 1 January 2018	—	88,214	(30)	88,184
Profit and total comprehensive income for the period	—	—	—	—
Capital injection *(note 9(c))*	—	19,666	—	19,666
At 31 December 2018	—	107,880	(30)	107,850

(b) Share capital

Ordinary shares

	No. of share	Amount *USD*	Amount *$000*
Authorised:			
At 29 September 2017 (date of incorporation)	—	—	—
Authorised during the period	50,000	50,000	390
At 31 December 2017, 1 January 2018 and 31 December 2018	50,000	50,000	390

	No. of share	Amount *USD*	Amount *$000*
Issued and fully paid:			
At 29 September 2017 (date of incorporation)	—	—	—
Share issued during the period	1	1	—*
At 31 December 2017, 1 January 2018 and 31 December 2018	1	1	—*

* *Represent amount of less than $1,000*

(c) Share premium

On 29 September 2017, the SF Target issued 1 share to its shareholder at USD11,308,000 (equivalent to $88,214,000. The difference between the capital received from the shareholder and the par value of the share issued of USD11,308,000 (equivalent to $88,214,000) was credited to the share premium account.

During the year ended 31 December 2018, the shareholder further injected the capital of USD2,509,000 (equivalent to $19,666,000) to the SF Target and such amount was also credited to the share premium account.

The share premium account is governed by the Cayman Companies Law and may be applied by the SF Target subject to the provisions, if any, of its memorandum and articles of association in such manner as the SF Target may, from time to time, determine.

No distribution or dividend may be paid to the equity shareholders out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the SF Target will be able to pay its debts as they fall due in the ordinary course of business.

(d) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of the SF Target Group. The reserves are dealt with in accordance with the accounting policy set out in note 2(h).

(e) Capital management

The SF Target's primary objectives when managing capital are to safeguard the SF Target's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. As the SF Target is part of a larger group, the SF Target's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The SF Target defines "capital" as including all components of equity. Trading balances that arise as a result of trading transactions with other group companies are not regarded by the SF Target as capital.

The SF Target's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the SF Target belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the SF Target or the SF Target Group, to the extent that these do not conflict with the directors' fiduciary duties towards the SF Target. The results of the directors' review of the SF Target's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared. The SF Target's overall strategy remains unchanged throughout the Relevant Periods.

The SF Target was not subject to externally imposed capital requirements during the Relevant Periods.

10 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The SF Target Group is exposed to credit, liquidity and currency risks which arise in the normal course of the SF Target Group's business as set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the SF Target Group.

(a) Credit risk

The SF Target Group does not expose to any significant credit risk during the Relevant Periods.

(b) Liquidity risk

The SF Target Group's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed funding lines from its group companies to meet its liquidity requirements in the short and longer term.

(c) Currency risk

The SF Target Group owns assets and conducts its business mainly in the USA. The SF Target Group's primary foreign currency exposures arise from its direct property investment in the USA. The SF Target Group is mainly exposed to the effects of fluctuation in USD. Where appropriate and cost efficient, the SF Target Group seeks to finance these investments by USD borrowings and as future returns from these investments are denominated in USD, exposure to USD currency risk is minimised.

Management considers this risk is insignificant to the SF Target Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

(d) Fair value of financial assets and liabilities

The carrying amounts of the SF Target Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values at the end of each reporting period.

11 MATERIAL RELATED PARTY TRANSACTIONS

Apart from the transactions and balances disclosed elsewhere in the Historical Financial Information, the SF Target Group does not entered into any other material related party transactions during the Relevant Periods.

12 COMPANY-LEVEL STATEMENTS OF FINANCIAL POSITION

	Note	**At 31 December 2017** *$'000*	**At 31 December 2018** *$'000*
Non-current asset			
Investment in a subsidiary	*7*	88,214	107,880
Current liability			
Amount due to the immediate holding company		(30)	(30)
NET ASSETS		88,184	107,850
CAPITAL AND RESERVES	*9*		
Share capital		—	—
Reserves		88,184	107,850
TOTAL EQUITY		88,184	107,850

13 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
Amendments to HKFRS 9, *Prepayment features with negative compensation*	1 January 2019
Amendments to HKAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
HKFRS 17, *Insurance contracts*	1 January 2019
Amendments to HKFRS 10, *Consolidated financial statements* and HKAS 28, *Investments in associates and joint ventures*	To be determined

The SF Target Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has assessed that the adoption of them is unlikely to have a significant impact on the SF Target Group's results of operations and financial position.

14 NON-ADJUSTMENT EVENTS AFTER THE REPORTING PERIOD

There are no significant subsequent events which have occurred to any business or the SF Target or its subsidiary subsequent to 31 December 2018.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the SF Target or its subsidiary in respect of any period subsequent to 31 December 2018.

The following is the text of a report received from the Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this circular.

KPMG

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF VANKE PROPERTY (OVERSEAS) LIMITED

Introduction

We report on the historical financial information of Supreme J Limited (the "**NY Target**", formerly known as "**Brannan One Limited**") set out on pages IV-3 to IV-12, which comprises the statement of financial position as at 31 December 2018 and the statement of comprehensive income and the statement of changes in equity, for the period from 14 December 2018 (date of incorporation) to 31 December 2018 (the "**Relevant Periods**"), and a summary of significant accounting policies and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages IV-3 to IV-12 forms an integral part of this report, which has been prepared for inclusion in the circular of Vanke Property (Overseas) Limited (the "**Company**") dated 21 May 2019 (the "**Circular**") in connection with the proposed acquisition of the NY Target by the Company.

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

The Underlying Financial Statements of NY Target as defined on page IV-3, on which the Historical Financial Information is based, were prepared by the directors of the NY Target. The directors of the NY Target are responsible for the preparation of the Underlying Financial Statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"), and for such internal control as the directors of the NY Target determine is necessary to enable the preparation of the Underlying Financial Statements that are free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the HKICPA. This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Historical Financial Information gives, for the purpose of the accountants' report, a true and fair view of the NY Target's financial position as at 31 December 2018 and of its financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page IV-3 have been made.

KPMG
Certified Public Accountants

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

21 May 2019

HISTORICAL FINANCIAL INFORMATION

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The financial statements of the NY Target for the Relevant Periods, on which the Historical Financial Information is based, were audited by KPMG under separate terms of engagement with the Company in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("**Underlying Financial Statements**").

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 14 DECEMBER 2018 (DATE OF INCORPORATION) TO 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	*$'000*
Administrative expenses		(52)
Loss before taxation		(52)
Taxation charge	*4(a)*	—
Loss and total comprehensive income for the period		(52)

STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2018

(Expressed in Hong Kong dollars)

	Note	*$'000*
Current asset		
Amount due from the immediate holding company	6	—*
Current liability		
Other payable		(52)
NET LIABILITIES		(52)
CAPITAL AND RESERVE	7	
Share capital		—*
Accumulated loss		(52)
TOTAL DEFICIT		(52)

* *Represent amount of less than $1,000*

STATEMENT OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

	Share capital *(note 7(a))* *$'000*	Accumulated loss *$'000*	Total *$'000*
At 14 December 2018 (date of incorporation)	—	—	—
Changes in equity for 2018:			
Loss and total comprehensive income for the period	—	(52)	(52)
Issuance of share	—*	—	—*
At 31 December 2018	—*	(52)	(52)

* *Represent amount of less than $1,000*

NOTES TO THE HISTORICAL FINANCIAL INFORMATION

(EXPRESSED IN HONG KONG DOLLARS)

1 BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL INFORMATION

The NY Target is a limited liability company incorporated under the laws of the Cayman Islands. The registered office of the NY Target is at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands. The NY Target is inactive during the Relevant Periods.

The Historical Financial Information set out in this report has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("**HKFRSs**"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the HKICPA. Further details of the significant accounting policies adopted by the NY Target are set out below.

The HKICPA has issued a number of new and revised HKFRSs. For the purpose of preparing this Historical Financial Information, the NY Target has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new standards or interpretations that are not yet effective for the accounting period beginning on or after 1 January 2018. The revised and new accounting standards and interpretations issued but not yet effective for the accounting year beginning on or after 1 January 2018 are set out in note 10.

The Historical Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies set out below have been applied consistently to all periods presented in the Historical Financial Information.

As at the date of this report, no audited financial statements have been prepared for NY Target, as it is not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation.

The NY Target have adopted 31 December as its financial year end date.

The Historical Financial Information has been prepared on a going concern basis notwithstanding the deficiency in shareholder's funds, as the immediate holding company has confirmed that it will continue to provide such financial support as is necessary to maintain the NY Target as going concern.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of measurement

The measurement basis used in the preparation of the Historical Financial Information is the historical cost basis.

(b) Use of estimates and judgements

The preparation of Historical Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Cash flow statement

A cash flow statement has not been prepared because the NY Target did not have any cash flows during the Relevant Periods nor did it have any cash or cash equivalents during the Relevant Periods and at the end of each reporting period.

The cash flows which have resulted from the operations of the NY Target were all received and paid by group companies, and the amounts involved have all been accounted for as intercompany receivables and payables.

(d) Payables

Payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(e) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(f) Provisions and contingent liabilities

Provisions are recognised when the NY Target has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(g) Related parties

(i) A person, or a close member of that person's family, is related to the NY Target if that person:

(1) has control or joint control over the NY Target;

(2) has significant influence over the NY Target; or

(3) is a member of the key management personnel of the NY Target or the NY Target's parent.

(ii) An entity is related to the NY Target if any of the following conditions applies:

(1) The entity and the NY Target are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the NY Target or an entity related to the NY Target.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(8) The entity, or any member of a group of which it is a part, provides key management personnel services to the NY Target or to the NY Target's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(h) Segment reporting

Operating segments, and the amounts of each segment item reported in the Historical Financial Information, are identified from the financial information provided regularly to the NY Target's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the NY Target's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 REVENUE AND SEGMENT INFORMATION

The NY Target is inactive during the Relevant Periods and therefore no segment information is presented.

4 TAXATION CHARGE

(a) Pursuant to the rules and regulations of the Cayman Islands, the NY Target is not subject to any income tax in the Cayman Islands.

No provision has been made for Hong Kong Profits Tax as the NY Target has no assessable profits arising in or derived from Hong Kong for the Relevant Periods.

(b) Reconciliation between tax expense and loss before taxation at an applicable tax rate:

	Period from 14 December 2018 (date of incorporation) to 31 December 2018 *$'000*
Loss before taxation	(52)
Notional tax on loss before taxation at 16.5%	(9)
Tax effect of non-deductible expense	9
Tax expense	—

5 DIRECTORS' EMOLUMENTS

During the Relevant Periods, no fees, salaries, allowances and other benefits, performance related bonuses, and provident fund contributions were paid/payable to the directors of the NY Target.

6 AMOUNT DUE FROM THE IMMEDIATE HOLDING COMPANY

Amount due from the immediate holding company is unsecured, interest-free and repayable on demand.

7 CAPITAL AND RESERVE

(a) Share capital

Ordinary shares

	No. of share	**Amount** *USD*	**Amount** *$000*
Authorised:			
At 14 December 2018 (date of incorporation)	—	—	—
Authorised during the period	50,000	50,000	390
At 31 December 2018	50,000	50,000	390

	No. of share	Amount USD	Amount $000
Issued and fully paid:			
At 14 December 2018 (date of incorporation)	—	—	—
Share issued during the period	1	1	—*
At 31 December 2018	1	1	—*

* *Represent amount of less than $1,000*

(b) Capital management

The NY Target's primary objectives when managing capital are to safeguard the NY Target's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost. As the NY Target is part of a larger group, the NY Target's sources of additional capital and policies for distribution of excess capital may also be affected by the group's capital management objectives.

The NY Target defines "capital" as including all components of equity. Trading balances that arise as a result of trading transactions with other group companies are not regarded by the NY Target as capital.

The NY Target's capital structure is regularly reviewed and managed with due regard to the capital management practices of the group to which the NY Target belongs. Adjustments are made to the capital structure in light of changes in economic conditions affecting the NY Target or the NY Target Group, to the extent that these do not conflict with the directors' fiduciary duties towards the NY Target. The results of the directors' review of the NY Target's capital structure are used as a basis for the determination of the level of dividends, if any, that are declared. The NY Target's overall strategy remains unchanged throughout the Relevant Periods.

The NY Target was not subject to externally imposed capital requirements during the Relevant Periods.

8 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The NY Target is exposed to credit and liquidity risks which arise in the normal course of the NY Target's business as set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the NY Target.

(a) Credit risk

The NY Target's credit risk is primarily attributable to amount due from the immediate holding company. Management manages this risk as follows:

Amount due from the immediate holding company is reviewed and settled regularly unless the amount is specifically intended to be long-term in nature.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any loss allowance.

(b) Liquidity risk

The NY Target's policy is to regularly monitor current and expected liquidity requirements, to ensure that it maintains sufficient reserves of cash and adequate committed funding lines from its group companies to meet its liquidity requirements in the short and longer term.

The earliest settlement dates of the company's financial liabilities at the end of reporting period are all within one year or on demand and the contractual amounts of the financial liabilities are all equal to their carrying amounts.

(c) Fair value of financial assets and liabilities

The carrying amounts of the NY Target's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values at the end of each reporting period.

9 MATERIAL RELATED PARTY TRANSACTIONS

Apart from the transactions and balances disclosed elsewhere in the Historical Financial Information, the NY Target does not entered into any other material related party transactions during the Relevant Periods.

10 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE RELEVANT PERIODS

Up to the date of issue of this Historical Financial Information, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the Relevant Periods and which have not been adopted in the Historical Financial Information.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
Amendments to HKFRS 9, *Prepayment features with negative compensation*	1 January 2019
Amendments to HKAS 19, *Plan amendment, curtailment or settlement*	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
HKFRS 17, *Insurance contracts*	1 January 2019
Amendments to HKFRS 10, *Consolidated financial statements* and HKAS 28, *Investments in associates and joint ventures*	To be determined

The NY Target is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far it has assessed that the adoption of them is unlikely to have a significant impact on the NY Target's results of operations and financial position.

11 NON-ADJUSTMENT EVENTS AFTER THE REPORTING PERIOD

On 7 March 2019, the NY Target entered into an agreement with its fellow subsidiaries to acquired 49% of the investment instrument from those fellow subsidiaries at a consideration of USD64.1 million.

Apart from the above, there are no other significant subsequent events which have occurred to any business or the NY Target subsequent to 31 December 2018.

SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the NY Target in respect of any period subsequent to 31 December 2018.

Set out below is the management discussion and analysis of the Sale Companies.

I. THE LONDON TARGET GROUP

Business Review

The London Target is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. The London Target Group consists of the London Target and certain intermediate investment holding companies. The London Target indirectly owns and operates the London Property.

Financial Review

The financial information of the London Target Group as extracted from its Accountants' Report in Appendix II to this circular is set out below:

Segmental information

The London Target Group operates in one single segment which is property investment in the United Kingdom. In this regard, no segmental information is presented.

Revenue

The London Target Group's revenue represented rental income from the London Property. The consolidated revenue of the London Target Group from 12 August 2016 (being the incorporation date of the London Target) to 31 December 2016 (the "**London FY2016**") and for each of the financial years ended 31 December 2017 and 2018 (collectively with the London FY2016, the "**London Relevant Periods**") was approximately HK$8.46 million, HK$51.27 million and HK$52.68 million, respectively. The increase of the revenue of the London Target Group mainly resulted from the increase in the areas and/or units leased out following the completion of the refurbishment of the London Property in 2016 and the full year effect for 2017 and 2018.

Profit (loss) for the period/year

The London Target Group recorded operating loss in London FY2016 of approximately HK$59.82 million and operating profit of approximately HK$90.33 million and HK$35.34 million for the financial years ended 31 December 2017 and 2018 respectively. The change from operating loss in London FY2016 to operating profit in the financial year ended 31 December 2017 was due to the significant increase in both the revenue and the fair value of the London Property. Fair value of the London Property increased substantially for the financial year ended 31 December 2017 partly due to the refurbishment work of the London Property being completed in 2016 and partly due to the improving property market in London. Operating profit of the London Target Group decreased for the financial year ended 31 December 2018 mainly as a result of the decrease in the fair value of the London Property due to a general decline in the property market condition in London.

Liquidity, financial resources and capital structure

Total assets of the London Target Group were approximately HK$1,095.22 million, HK$1,271.34 million and HK$1,218.07 million as at 31 December 2016, 2017 and 2018 respectively, comprising mainly of the fair value of the London Property.

As at 31 December 2016, 2017 and 2018, bank balances and cash of the London Target Group were approximately HK$9.75 million, HK$5.69 million and HK$10.35 million respectively.

As at 31 December 2016, 2017 and 2018, the London Target Group had total liabilities of approximately HK$75.21 million, HK$807.17 million and HK$810.96 million, respectively, which mainly comprised of (i) bank loan of approximately nil, HK$741.49 million and HK$742.42 million as at 31 December of each of 2016, 2017 and 2018 respectively; (ii) finance lease obligation of approximately HK$49.03 million, HK$54.09 million and HK$51.18 million as at 31 December 2016, 2017 and 2018 respectively; and (iii) other payables and accruals mainly comprising rental receipt in advance of approximately HK$16.08 million, HK$4.93 million and HK$9.96 million as at 31 December 2016, 2017 and 2018 respectively. The bank loan is interest bearing at the London Inter-bank Offered Rate plus 1.95% per annum, secured by the assets held by a subsidiary of the London Target Group including the London Property and will mature in 2022. The finance lease obligation represented head lease in relation to the land on which the London Property is situated. The London Target Group's gearing ratio, being the net debt divided by its total equity, was approximately 3.85%, 170.17% and 192.39% as at 31 December 2016, 2017 and 2018 respectively.

As at 31 December 2016, 2017 and 2018, the London Target Group's consolidated net assets amounted to approximately HK$1,020.01 million, HK$464.17 million and HK$407.11 million, respectively.

The London Target had in issue a total of 172,514 redeemable preference shares as at the Latest Practicable Date. Holders of the redeemable preference shares are entitled to receive a cumulative, preferential dividend at the rate of 3.75% per annum of the subscription price and such dividend accrues on a daily basis and compound annually from the date of issue. All accrued dividend is to be paid on redemption of the preference shares. Dividends have been accrued on the preference shares and partly paid during each of the years ended 31 December 2017 and 31 December 2018 respectively. Accrued and unpaid dividend on such preference shares as at 31 December 2018 amounted to approximately HK$37.14 million.

The London Target's capital structure is regularly reviewed and managed with due regard to the capital management practices of the VPHK Group during the London Relevant Periods. Adjustments are made to the capital structure in light of changes in economic conditions affecting the London Target or the VPHK Group, to the extent that these do not conflict with the fiduciary duties of the directors of the London Target towards the London Target. The results of the review of the London Target's capital structure by the directors of the London Target are used as a basis for the determination of the level of dividends, if any, that are declared. The London Target's overall strategy remains unchanged throughout the London Relevant Periods.

Foreign exchange exposure

The London Target owns assets and conducts its business mainly in the United Kingdom. The London Target Group's primary foreign currency exposures arise from its direct property investment in the United Kingdom and is mainly exposed to the effect of fluctuation in GBP. During the London Relevant Periods, the London Target Group financed its investment in the London Property by GBP borrowings and as future returns from its investments in the London Property are expected to be denominated in GBP, the London Target Group had no material foreign exchange exposure.

Charge on assets

As at 31 December 2017 and 2018, the London Target Group's bank loan is secured by all the assets held by a subsidiary of the London Target Group including but not limited to the London Property, the rental income accounts as well as investment, intellectual property, plant and machinery, receivables and contract of insurances of the borrower as collaterals for its borrowings.

Significant investments, material acquisitions and disposals

The London Target Group did not have any significant investments, material acquisitions or disposals during the London Relevant Periods.

Future plan for material investments or capital assets

The London Target Group has no future plan for material investments or capital assets in the remainder of 2019.

Employees and remuneration policy

The London Target Group has no employees during the London Relevant Periods.

Contingent liabilities

As at 31 December 2016, 2017 and 2018, the London Target Group did not have any significant contingent liabilities.

II. THE SF TARGET GROUP

Business Review

The SF Target is a company incorporated in the Cayman Islands with limited liability. It is an investment holding company and engaged in property investment in the United States of America through its associated company. The SF Target Group consists of the SF Target and its wholly-owned subsidiary. The SF Target indirectly (through certain intermediate investment holding companies which are associated companies of the SF Target whose results are equity-accounted for in the financial statements of the SF Target) owns 45% effective interest in the SF Property.

Financial Review

The financial information of the SF Target Group as extracted from its Accountants' Report in Appendix III to this circular is set out below:

Segmental information

The SF Target Group operates in one single segment which is property investment in the United States of America. In this regard, no segmental information is presented.

Revenue

The SF Target Group did not have revenue for the period from its incorporation date on 29 September 2017 to 31 December 2017 ("**SF FY2017**") and the financial year ended 31 December 2018 (collectively with the SF FY2017, the "**SF Relevant Periods**"). It recorded both profit before taxation and after taxation of approximately HK$14.01 million in SF FY2017 primarily from the share of results of 657–667 Mission Street Venture LLC ("**Mission Venture LLC**"), a 45% interested associated company of the SF Target Group which engaged in the principal business of investment holding and is indirectly interested in the SF Property, and its subsidiaries (together with Mission Venture LLC, the "**Mission Venture Group**"), accounted for using equity method. It recorded net loss before taxation and after taxation of approximately HK$5.64 million respectively for the year ended 31 December 2018 as it shared the losses of Mission Venture Group. Mission Venture Group recorded net losses in 2018 as (i) the SF Property was under renovation from the first quarter of 2018 and did not generate revenue during the renovation period; and (ii) it incurred operating costs including one-off termination fees for the relevant tenancies of approximately HK$3.07 million (the SF Target Group's shared portion) and finance costs of HK$13.33 million (the SF Target Group's shared portion).

Liquidity, financial resources and capital structure

As the SF Target Group was set up for purpose of investment holding, it had no current assets. Its non-current asset comprised of its interest in the Mission Venture Group with carrying amount of approximately HK$102.41 million and HK$116.67 million as at 31 December 2017 and 2018 respectively.

As at 31 December 2017 and 2018, the SF Target Group mainly had current liabilities of approximately HK$30,000 and HK$32,000, respectively, which primarily comprised of amount due to the immediate holding company which was unsecured, interest-free and repayable on demand.

As at 31 December 2017 and 2018, the SF Target Group's consolidated net assets amounted to approximately HK$102.38 million and HK$116.64 million respectively primarily due to the corresponding increase of the carrying amount of its interest in the Mission Venture Group as a result of the increase of the net assets of the Mission Venture Group. The SF Target Group's gearing ratio, being the current liability divided by its total equity, was approximately 0.03% and 0.03% as at 31 December 2017 and 2018 respectively.

The SF Target's capital structure is regularly reviewed and managed with due regard to the capital management practices of the VPHK Group during the SF Relevant Periods. Adjustments are made to the capital structure in light of changes in economic conditions affecting the SF Target or the VPHK Group, to the extent that these do not conflict with the fiduciary duties of the directors of the SF Target towards the SF Target. The results of the review of the SF Target's capital structure by the directors of the SF Target are used as a basis for the determination of the level of dividends, if any, that are declared. No dividend has been declared or paid during the SF Relevant Periods. The SF Target's overall strategy remains unchanged throughout the SF Relevant Periods.

The SF Target was not subject to externally imposed capital requirements during the SF Relevant Periods.

Foreign exchange exposure

The SF Target Group owns assets and conducts its business mainly in the United States of America. The SF Target Group's primary foreign currency exposures arise from its property investment in the United States of America and is mainly exposed to the effects of fluctuation in USD. During the SF Relevant Periods, the SF Target Group had no material foreign exchange exposure.

Charge on assets

As at 31 December 2017 and 2018, there was no charge on assets by the SF Target Group.

Significant investments, material acquisitions and disposals

The SF Target Group did not have any significant investments, material acquisitions or disposals during the SF Relevant Periods.

Future plan for material investments or capital assets

The SF Target Group has no future plan for material investments or capital assets in the remainder of 2019.

Employees and remuneration policy

The SF Target Group has no employees during the SF Relevant Periods.

Contingent liabilities

As at 31 December 2017 and 2018, the SF Target Group did not have any significant contingent liabilities.

III. THE NY TARGET

Business Review

The NY Target is a company incorporated in the Cayman Islands with limited liability and is principally engaged in investment holding. The NY Target participates in 49% of the investment instrument (with a total outstanding investment amount of approximately USD63.51 million (approximately HK$498.35 million) as at the date of the New York Investment Instrument Acquisition Agreement) made in each of the NY Intermediate Companies which, collectively, indirectly hold the entire interest in the NY Property.

The NY Target was inactive during the period from 14 December 2018 (the date of its incorporation) to 31 December 2018 (the "**NY Relevant Period**") and it participated in the relevant investment instruments relating to the NY Property after 31 December 2018 and therefore the accrued investment returns from the instruments are not reflected in the financial statement for the NY Relevant Period.

Financial Review

The financial information of the NY Target as extracted from its Accountants' Report in Appendix IV to this circular is set out below:

Segmental information and Revenue

As the NY Target was inactive during the NY Relevant Period, no revenue was recorded during the NY Relevant Period and no segmental information is presented.

The NY Target recorded loss before taxation of approximately HK$52,000 as a result of the relevant administrative expenses representing primarily incorporation expenses incurred during the NY Relevant Period.

Liquidity, financial resources and capital structure

As the NY Target was set up for the purpose of investment holding, it had no current assets during the NY Relevant Period. It recorded total deficit representing the net liabilities of approximately HK$52,000 as a result of the administrative expenses incurred for the NY Relevant Periods.

The NY Target was not subject to externally imposed capital requirements during the NY Relevant Period.

Foreign exchange exposure

The NY Target had no foreign exchange exposure as it was inactive during the NY Relevant Period.

Charge on assets

As at 31 December 2018, there was no charge on assets by the NY Target.

Significant investments, material acquisitions and disposals

The NY Target did not have any significant investments, material acquisitions or disposals during the NY Relevant Period.

Future plan for material investments or capital assets

The NY Target has no future plan for material investments or capital assets in the remainder of 2019.

Employees and remuneration policy

The NY Target has no employees during the NY Relevant Period.

Contingent liabilities

As at 31 December 2018, the NY Target did not have any significant contingent liabilities.

The information set forth in this appendix does not form part of the Accountants' Reports received from KPMG, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, as set forth in Appendices II, III and IV to this Circular, and is included herein for illustrative purposes only.

The Unaudited Pro Forma Financial Information should be read in conjunction with the financial information of the Group set forth in Appendix I and the Accountants' Reports set forth in Appendices II, III and IV to this Circular.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

(1) Introduction

The following unaudited pro forma financial information of the Enlarged Group (''**Unaudited Pro Forma Financial Information**'') has been prepared by the Directors in accordance with Paragraphs 4.29 of the Listing Rules for the purpose of illustrating the effect of the proposed acquisitions on the Group's financial position as at 31 December 2018, and the Group's financial performance and cash flows for the year ended 31 December 2018, as if the proposed acquisitions of (i) approximately 99.95% of the entire issued share capital of Lithium TopCo Limited (the ''**London Target**''); (ii) the entire issued share capital of 657–667 Mission Limited (the ''**SF Target**''); and (iii) the entire issued share capital of Supreme J Limited (the ''**NY Target**'') by the Group (collectively referred to the ''**Acquisitions**'') had been completed on 31 December 2018 and 1 January 2018 respectively.

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate (i) the consolidated statement of financial position of the Enlarged Group as at 31 December 2018 as if the Acquisitions had been completed on 31 December 2018; and (ii) the consolidated statement of comprehensive income and the consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2018 as if the Acquisitions had been completed on 1 January 2018.

The Unaudited Pro Forma Financial Information is prepared based on a number of assumptions, estimations and uncertainties. Because of its hypothetical nature, it may not give a true picture of the results, cash flows or financial position of the Enlarged Group had the Acquisitions been completed as of 1 January 2018, 31 December 2018 or at any future dates.

The unaudited pro forma consolidated statement of financial position of the Enlarged Group as of 31 December 2018 is prepared based on (i) the consolidated statement of financial position of the Group as of 31 December 2018 extracted from the published annual report of the Company for the year ended 31 December 2018; (ii) the consolidated statements of financial position of the London Target and its subsidiaries (collectively referred to the ''London Target Group'') and the SF Target and its subsidiary (collectively referred to the ''SF Target Group'') as of 31 December 2018 extracted from the Accountants' Reports of the London Target and the SF Target set out in Appendices II and III to this Circular; and (iii) the statement of financial position of the NY Target as of 31 December 2018 extracted from the Accountants' Report of the NY Target set out in Appendix IV to this Circular, after making other pro forma adjustments to the Acquisitions, as if the Acquisitions had completed on 31 December 2018.

The unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated cash flow statement of the Enlarged Group for the year ended 31 December 2018 are prepared based on (i) the consolidated statement of comprehensive income and the consolidated cash flow statement of the Group for the year ended 31 December 2018 extracted from the published annual report of the Group for the year ended 31 December 2018; (ii) the consolidated statements of comprehensive income and consolidated cash flow statements of the London Target Group and the SF Target Group for the year ended 31 December 2018 extracted from the Accountants' Reports of the London Target and the SF Target set out in Appendices II and III to this Circular; and (iii) the statement of comprehensive income and cash flow statement of the NY Target for the year ended 31 December 2018 extracted from the Accountants' Report of the NY Target set out in Appendix IV to this Circular, after making other pro forma adjustments to the Acquisitions, as if the Acquisitions had completed on 1 January 2018.

The Unaudited Pro Forma Financial Information should be read in conjunction with the historical financial information of the Group set out in the published annual report of the Group for the year ended 31 December 2018, the Accountants' Reports of the London Target, the SF Target and the NY Target as set out in Appendices II, III and IV to this Circular, respectively, and other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	The Group as at 31 December 2018	The London Target Group as at 31 December 2018	The SF Target Group as at 31 December 2018	The NY Target as at 31 December 2018	Other pro forma adjustments				The Enlarged Group as at 31 December 2018
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets									
Plant and equipment	137	—	—	—	—	—	—	—	137
Investment properties	1,968,000	1,141,754	—	—	30,795	—	—	—	3,140,549
Interests in associates	338,435	—	116,671	—	—	57,701	—	—	512,807
Investment instrument	—	—	—	—	—	—	526,352	—	526,352
	2,306,572	1,141,754	116,671	—	30,795	57,701	526,352	—	4,179,845
Current assets									
Trade and other receivables	5,074	65,969	—	—	—	—	—	—	71,043
Amounts due from associates	7,973	—	—	—	—	—	—	—	7,973
Tax recoverable	1,827	—	—	—	—	—	—	—	1,827
Bank balances and cash	1,425,085	10,347	—	—	(437,700)	(174,340)	(526,300)	—	297,092
	1,439,959	76,316	—	—	(437,700)	(174,340)	(526,300)	—	377,935
Current liabilities									
Other payables and accruals	(31,919)	(9,959)	—	(52)	—	—	—	(9,700)	(51,630)
Amount due to an intermediate holding company	(1,322)	(2,466)	(30)	—	—	—	—	—	(3,818)
Amounts due to fellow subsidiaries	—	(727)	(2)	—	—	—	—	—	(729)
Amount due to a non-controlling shareholder	—	(12)	—	—	—	—	—	—	(12)
Tax payable	(5,557)	(4,200)	—	—	—	—	—	—	(9,757)
	(38,798)	(17,364)	(32)	(52)	—	—	—	(9,700)	(65,946)
Net current assets/(liabilities)	1,401,161	58,952	(32)	(52)	(437,700)	(174,340)	(526,300)	(9,700)	311,989
Total assets less current liabilities	3,707,733	1,200,706	116,639	(52)	(406,905)	(116,639)	52	(9,700)	4,491,834

	The Group as at 31 December 2018	The London Target Group as at 31 December 2018	The SF Target Group as at 31 December 2018	The NY Target as at 31 December 2018	Other pro forma adjustments				The Enlarged Group as at 31 December 2018
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liabilities									
Bank loan	—	(742,419)	—	—	—	—	—	—	(742,419)
Finance lease obligation	—	(51,178)	—	—	—	—	—	—	(51,178)
Deferred tax liabilities	(40,966)	—	—	—	—	—	—	—	(40,966)
	(40,966)	(793,597)	—	—	—	—	—	—	(834,563)
NET ASSETS/(LIABILITIES)	3,666,767	407,109	116,639	(52)	(406,905)	(116,639)	52	(9,700)	3,657,271
Capital and reserves									
Share capital	3,895	445,177	—	—	(445,177)	—	—	—	3,895
Reserves	3,662,872	(38,068)	116,639	(52)	38,068	(116,639)	52	(9,700)	3,653,172
Total equity attributable to equity shareholders of the Company	3,666,767	407,109	116,639	(52)	(407,109)	(116,639)	52	(9,700)	3,657,067
Non-controlling interests	—	—	—	—	204	—	—	—	204
TOTAL EQUITY/(DEFICIT)	3,666,767	407,109	116,639	(52)	(406,905)	(116,639)	52	(9,700)	3,657,271

C. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	The Group for the year ended 31 December 2018	The London Target Group for the year ended 31 December 2018	The SF Target Group for the year ended 31 December 2018	The NY Target for the year ended 31 December 2018	Other pro forma adjustments		The Enlarged Group for the year ended 31 December 2018
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	101,780	52,680	—	—	—	—	154,460
Cost of services	(22,804)	—	—	—	—	—	(22,804)
Gross profit	78,976	52,680	—	—	—	—	131,656
Other income	440	—	—	—	—	—	440
Administrative, leasing and marketing expenses	(12,092)	(4,314)	(2)	(52)	—	(9,700)	(26,160)
Increase/(decrease) in fair value of investment properties	136,005	(13,023)	—	—	—	—	122,982
Operating profit/(loss)	203,329	35,343	(2)	(52)	—	(9,700)	228,918
Finance income/(costs)	20,779	(24,591)	—	—	—	—	(3,812)
Share of results of associates	465,682	—	(5,642)	—	—	—	460,040
Profit/(loss) before taxation	689,790	10,752	(5,644)	(52)	—	(9,700)	685,146
Income tax	(12,947)	(2,217)	—	—	—	—	(15,164)
Profit/(loss) for the year	676,843	8,535	(5,644)	(52)	—	(9,700)	669,982
Other comprehensive income							
Item that may be classified subsequently to profit or loss:							
Exchange differences on translation of the financial statements to presentation currency	—	(24,159)	235	—	—	—	(23,924)
Total comprehensive income for the year	676,843	(15,624)	(5,409)	(52)	—	(9,700)	646,058

	The Group for the year ended 31 December 2018	The London Target Group for the year ended 31 December 2018	The SF Target Group for the year ended 31 December 2018	The NY Target for the year ended 31 December 2018	Other pro forma adjustments		The Enlarged Group for the year ended 31 December 2018
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Profit/(loss) for the year attributable to:							
Equity shareholders of the Company	676,843	8,535	(5,644)	(52)	(4)	(9,700)	669,978
Non-controlling interests	—	—	—	—	4	—	4
	676,843	8,535	(5,644)	(52)	—	(9,700)	669,982
Total comprehensive income for the year attributable to:							
Equity shareholders of the Company	676,843	(15,624)	(5,409)	(52)	8	(9,700)	646,066
Non-controlling interests	—	—	—	—	(8)	—	(8)
	676,843	(15,624)	(5,409)	(52)	—	(9,700)	646,058

D. UNAUDITED PRO FORMA CONSOLIDATED CASH FLOW STATEMENT

	The Group for the year ended 31 December 2018	The London Target Group for the year ended 31 December 2018	The SF Target Group for the year ended 31 December 2018	The NY Target for the year ended 31 December 2018	Other pro forma adjustments				The Enlarged Group for the year ended 31 December 2018
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Operating activities									
Profit before taxation	689,790	10,752	—	—	—	—	—	(9,700)	690,842
Adjustments for:									
Share of results of associates	(465,682)	—	—	—	—	—	—	—	(465,682)
Finance (income)/costs	(20,779)	24,591	—	—	—	—	—	—	3,812
Depreciation of plant and equipment	98	—	—	—	—	—	—	—	98
(Increase)/decrease in fair value of investment properties	(136,005)	13,023	—	—	—	—	—	—	(122,982)
Operating profit/(loss) before changes in working capital	67,422	48,366	—	—	—	—	—	(9,700)	106,088
Decrease/(increase) in trade and other receivables	1,228	(23,216)	—	—	—	—	—	—	(21,988)
Increase in other payables and accruals	3,337	4,686	—	—	—	—	—	9,700	17,723
Decrease in amount due to a fellow subsidiary	—	(17)	—	—	—	—	—	—	(17)
Decrease in amount due to an intermediate holding company	(955)	(17,018)	—	—	—	—	—	—	(17,973)
Cash generated from operations	71,032	12,801	—	—	—	—	—	—	83,833
Tax paid	(4,583)	(306)	—	—	—	—	—	—	(4,889)
Tax refunded	249	—	—	—	—	—	—	—	249
Net cash generated from operating activities	66,698	12,495	—	—	—	—	—	—	79,193

	The Group for the year ended 31 December 2018	The London Target Group for the year ended 31 December 2018	The SF Target Group for the year ended 31 December 2018	The NY Target for the year ended 31 December 2018	Other pro forma adjustments				The Enlarged Group for the year ended 31 December 2018
	Note 1	*Note 2*	*Note 2*	*Note 2*	*Note 3*	*Note 4*	*Note 5*	*Note 6*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Investing activities									
Payments for acquisitions of subsidiaries, net of cash of the subsidiaries acquired	—	—	—	—	(432,009)	(174,340)	(526,300)	—	(1,132,649)
Payments for additions to investment properties	(8,080)	—	—	—	—	—	—	—	(8,080)
Payment for additions of plant and equipment	(19)	—	—	—	—	—	—	—	(19)
Bank interest received	13,016	—	—	—	—	—	—	—	13,016
Interest received from associates	71,637	—	—	—	—	—	—	—	71,637
Dividend received from an associate	325,000	—	—	—	—	—	—	—	325,000
Repayments from associates	163,516	—	—	—	—	—	—	—	163,516
Advances to associates	(60,902)	—	—	—	—	—	—	—	(60,902)
Net cash generated from/(used in) investing activities	504,168	—	—	—	(432,009)	(174,340)	(526,300)	—	(628,481)
Financing activities									
Redemption of preference shares	—	(24,101)	—	—	—	—	—	—	(24,101)
Capital element of finance lease rentals paid	—	(9)	—	—	—	—	—	—	(9)
Interest element of finance lease rentals paid	—	(2,559)	—	—	—	—	—	—	(2,559)
Proceeds from bank borrowing	—	20,544	—	—	—	—	—	—	20,544
Dividend paid	(11,686)	(1,268)	—	—	—	—	—	—	(12,954)
Net cash used in financing activities	(11,686)	(7,393)	—	—	—	—	—	—	(19,079)
Net increase/(decrease) in cash and cash equivalents	559,180	5,102	—	—	(432,009)	(174,340)	(526,300)	—	(568,367)
Cash and cash equivalents at 1 January 2018	865,905	5,691	—	—	(5,691)	—	—	—	865,905
Effect of foreign exchange rate changes	—	(446)	—	—	—	—	—	—	(446)
Cash and cash equivalents at 31 December 2018	1,425,085	10,347	—	—	(437,700)	(174,340)	(526,300)	—	297,092

E. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

1. The amounts are extracted from the audited consolidated financial statements of the Group as set out in the published annual report of the Group for the year ended 31 December 2018.

2. The amounts are extracted from the Accountants' Reports on the London Target, the SF Target and the NY Target as set out in Appendices II, III and IV to this Circular, respectively.

3. Pursuant to the sale and purchase agreement dated 7 March 2019, the Group has conditionally agreed to acquire approximately 99.95% of the entire issued share capital of the London Target from VPHK for a consideration of approximately £42.38 million (approximately HK$437.70 million). The completion of the acquisition is dependent on the fulfilment of a number of conditions, among others, the approval from the independent shareholders of the Company. Pursuant to the sale and purchase agreement, the Group has paid approximately £2.12 million (approximately HK$21.89 million) as a deposit as at 14 March 2019.

   90% of consideration of approximately £38.14 million (approximately HK$393.92 million) will be settled at completion of the acquisition and the remaining consideration of approximately £2.12 million (approximately HK$21.89 million) will be settled within 5 business days after the date of determination of the consolidated net asset value of the London Target as at the Completion Date.

   Upon the completion of the acquisition, the London Target will become an approximately 99.95%-owned subsidiary of the Group.

   Pro forma adjustments made represent:

   (i) The consolidation entries to eliminate the share capital of the London Target and pre-acquisition reserves on consolidation;

   (ii) The consolidation entries to recognise the profit and total comprehensive income attributable to the non-controlling interests of the London Target; and

   (iii) The calculation of pro forma adjustment to the fair value of investment property is as follows:

	HK$'000
Consideration for the acquisition of the London Target	437,700
Carrying amount of identifiable net assets of the London Target Group acquired	(407,109)
Non-controlling interests of the London Target	204
Pro forma adjustment to the fair value of investment property of the London Target Group	30,795

4. Pursuant to the sale and purchase agreement dated 7 March 2019, the Group has conditionally agreed to acquire entire equity interest in the SF Target from VPHK and entire of the loans, interest (if any), and other sums and indebtedness due by the SF Target to VPHK for a consideration of USD22.22 million (approximately HK$174.34 million). The completion of the acquisition is dependent on the fulfilment of a number of conditions, among others, the approval from the independent shareholders of the Company. Pursuant to the sale and purchase agreement, the Group has paid approximately USD1.11 million (approximately HK$8.72 million) as a deposit as at 14 March 2019.

   90% of consideration of approximately USD20.00 million (approximately HK$156.90 million) will be settled at completion of the acquisition and the remaining consideration of approximately USD1.11 million (approximately HK$8.72 million) will be settled within 5 business days after the date of determination of the consolidated net asset value of the SF Target as at the Completion Date.

Upon the completion of the acquisition, the SF Target will become a wholly-owned subsidiary of the Group.

Pro forma adjustments made represent:

(i) The consolidation entries to eliminate the share capital of the SF Target and pre-acquisition reserves on consolidation; and

(ii) The calculation of pro forma adjustment to the interests in associates is as follows:

	HK$'000
Consideration for the acquisition of the SF Target	174,340
Carrying amount of identifiable net assets of the SF Target Group acquired	(116,639)
Pro forma adjustment to the interests in associates of the SF Target Group	57,701

5. On 7 March 2019, the NY Target entered into the participation agreements with its fellow subsidiaries for participating in 49% of the investment instrument with a total consideration of USD64.08 million (approximately HK$502.85 million). The consideration was settled through the current accounts with those fellow subsidiaries, and thus no impact on the NY Target's net asset position.

Pursuant to the sale and purchase agreement dated 7 March 2019, the Group has conditionally agreed to acquire entire equity interest in the NY Target from the NY Vendor and entire of the loans, interest (if any), and other sums and indebtedness due by the NY Target to the NY Vendor for a consideration of approximately USD67.07 million (approximately HK$526.30 million). The completion of the acquisition is dependent on the fulfilment of a number of conditions, among others, the approval from the independent shareholders of the Company. Pursuant to the sale and purchase agreement, the Group has paid USD3.35 million (approximately HK$26.29 million) as a deposit as at 14 March 2019.

90% of consideration of approximately USD60.37 million (approximately HK$473.72 million) will be settled at completion of the acquisition and the remaining consideration of approximately USD3.35 million (approximately HK$26.29 million) will be settled within 5 business days after the date of determination of the consolidated net asset value of the NY Target as at the Completion Date.

Upon the completion of the acquisition, the NY Target will become a wholly-owned subsidiary of the Group.

Pro forma adjustments made represent:

(i) The consolidation entries to eliminate the share capital of the NY Target and pre-acquisition reserves on consolidation;

(ii) The calculation of pro forma adjustment to the investment instrument is as follows:

	HK$'000
Consideration for the acquisition of the NY Target	526,300
Carrying amount of identifiable net liabilities of the NY Target acquired	52
Pro forma adjustment to the investment instrument acquired	526,352

6. This adjustment includes the estimated transaction cost of approximately HK$9.7 million payable by the Enlarged Group in connection with the Acquisitions. The estimated transaction costs are recognised in the consolidated statement of comprehensive income and the consolidated cash flow statement of the Enlarged Group. This adjustment is not expected to have continuing effect on the Enlarged Group's consolidated statement of comprehensive income and consolidated cash flow statement.

7. Apart from the transaction in note 5 above, no other adjustments have been made to the Unaudited Pro Forma Financial Information to reflect any trading results or other transactions entered into by the Enlarged Group subsequent to 31 December 2018.

The following is the text of a report received from the reporting accountants, KPMG, Certified Public Accountants, Hong Kong, in respect of the Group's pro forma financial information for the purpose in this circular.

KPMG

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

TO THE DIRECTORS OF VANKE PROPERTY (OVERSEAS) LIMITED

We have completed our assurance engagement to report on the compilation of pro forma financial information of Vanke Property (Overseas) Limited (the "**Company**") and its subsidiaries (collectively the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2018 and the unaudited pro forma consolidated statement of comprehensive income and unaudited pro forma consolidated cash flow statement for the year ended 31 December 2018 and related notes as set out in Parts A to E of Appendix VI to the circular dated 21 May 2019 (the "**Circular**") issued by the Company. The applicable criteria on the basis of which the Directors have compiled the pro forma financial information are described in Parts A to E of Appendix VI to the Circular.

The pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed acquisitions of the London Target, the SF Target and the NY Target (the "**Proposed Acquisitions**") on the Group's financial position as at 31 December 2018 and the Group's financial performance and cash flows for the year ended 31 December 2018 as if the Proposed Acquisitions had taken place at 31 December 2018 and 1 January 2018 respectively. As part of this process, information about the Group's financial position as at 31 December 2018 has been extracted by the Directors from the consolidated financial statements of the Company for the year then ended, on which an audit report has been published. Information about the Group's financial performance and cash flows for the year ended 31 December 2018 has been extracted by the Directors from the annual report of the Group for the year ended 31 December 2018, on which an audit report has been published.

Directors' Responsibilities for the Pro Forma Financial Information

The Directors are responsible for compiling the pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements ("**HKSAE**") 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the pro forma financial information in accordance with paragraph 4.29 of the Listing Rules, and with reference to AG 7 issued by the HKICPA.

For purpose of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the pro forma financial information.

The purpose of pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions at 31 December 2018 or 1 January 2018 would have been as presented.

A reasonable assurance engagement to report on whether the pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group, and

(c) the adjustments are appropriate for the purposes of the pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

KPMG
Certified Public Accountants
Hong Kong
21 May 2019

The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Knight Frank, an independent valuer, in connection with the valuation of the Target Properties as at 28 February 2019.

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The Directors
Vanke Property (Overseas) Limited
55/F, Bank of China Tower
1 Garden Road, Central
Hong Kong

21 May 2019

Dear Sirs

VALUATION OF THREE PROPERTIES LOCATED IN LONDON, THE UNITED KINGDOM; NEW YORK AND SAN FRANCISCO, THE UNITED STATES OF AMERICA

In accordance with the instructions from Vanke Property (Overseas) Limited (the ''**Company**'') for us to value the captioned properties in the United Kingdom and the United States of America, we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of property nos. 1 and 2 in their existing states and our opinion of the gross development value of property no. 3 as at 28 February 2019. Gross development value is defined as the aggregate market value of all saleable units of a property assuming that the property has been fully completed as at the date of valuation without taking into account any outstanding construction costs nor development costs.

BASIS OF VALUATION

Our valuation is our opinion of the market values of properties which we would define as intended to mean ''the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.''

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

Market value is also the best price reasonably obtainable by the seller and the most advantageous price reasonably obtainable by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of value available only to a specific owner or purchaser.

In preparing our valuation report, we have complied with the requirements contained within relevant provisions of Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and "The HKIS Valuation Standards 2017" published by the Hong Kong Institute of Surveyors.

VALUATION METHODOLOGY

As property nos. 1 and 2 which are to be held for investment by the Company are income-producing, we considered it is most appropriate to value them by using "Income Approach — term and reversion method" compared with other valuation methodologies. In the course of our valuation, we have valued the properties by taking into account the rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalized to determine the market value at an appropriate capitalization rate. We have also made reference to sales evidence as available in the market.

As property no. 3 which is to be held for sale, we considered it is most appropriate to value them by using Market Approach compared with other valuation methodologies. In the course of our valuation, we have valued the property whenever market comparable transactions are available and assumed sale of property interests with the benefit of vacant possession.

TITLE DOCUMENTS AND ENCUMBRANCES

We have not caused land search for the properties valued and have been provided by the Company and its legal adviser with extracts of title documents relating to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us by the Company. In the course of our valuation, we have relied on the information given by the Company and its legal adviser regarding the title and other legal matters relating to the properties.

No allowance has been made in our report for any charges, mortgages or amounts owing on any property nor for any expenses or taxation which may be incurred in affecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Company. We have no reason to doubt the truth and the accuracy of the information provided by the Company which is material to the valuation. We have accepted advice given by the Company on such matters as planning approvals or statutory notices, easements, tenure, completion date of the buildings, particulars of occupancy and site and floor areas. Dimension, measurements and areas included in the attached valuation report are based on the information provided to us and are therefore only approximations. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct. We were also advised by the Company that no material facts have been omitted from the information provided.

INSPECTION AND STRUCTURAL CONDITION

We have inspected the exteriors and, where possible, the interiors of the properties and the inspection was carried out by Clement Leung, MFin MCIREA MHKIS MRICS RPS (GP), in March 2019 and Victoria Davey, MRICS, in December 2018. However, we have not carried out site investigations to determine the suitability of ground conditions and services, etc. Our valuation is prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the services.

IDENTITY OF PROPERTY TO BE VALUED

We exercised reasonable care and skill (but will not have an absolute obligation to the Group) to ensure that the properties, identified by the property addresses in the instructions, is the properties inspected by us and contained within our valuation report.

ENVIRONMENTAL ISSUES

We are not environmental specialists and therefore we have not carried out any scientific investigations of sites or buildings to establish the existence or otherwise of any environmental contamination, nor have we undertaken searches of public archives to seek evidence of past activities that might identify potential for contamination. In the absence of appropriate investigations and where there is no apparent reason to suspect potential for contamination, our valuation is prepared on the assumption that the properties are unaffected. Where contamination is suspected or confirmed, but adequate investigation has not been carried out and made available to us, then the valuation will be qualified.

COMPLIANCE WITH RELEVANT RULES AND REGULATIONS

We have assumed that the properties have been constructed, occupied and used in full compliance with, and without contravention of any rules and regulations, statutory requirement and notices except only where otherwise stated. We have further assumed that, for any use of the properties upon which this report is based, any and all required licences, permits, certificates, consents, approvals and authorisation have been obtained, except only where otherwise stated.

REMARKS

In our valuation, Knight Frank has prepared the valuation based on information and data available to us as at the valuation date. It must be recognised that the real estate market is subject to market fluctuations, while changes in policy direction and social environment could be immediate and have sweeping impact on the real estate market. It should therefore be noted that any market violation, policy and social changes or other unexpected incidents after the valuation date may affect the values of the properties.

Our valuation is with regard to the valuation works performed by our overseas companies or alliances.

CURRENCY

Unless otherwise stated, all sums stated in property no. 1 are in Pound Sterling (£) and all sums stated in property nos. 2 and 3 are in United States Dollar (USD).

Our valuation report is attached.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited
Clement W M Leung
MFin MCIREA MHKIS MRICS RPS (GP)
Executive Director
Head of China Valuation & Advisory

Remarks: Clement W M Leung, is a qualified valuer and has more than 25 years' experience in valuation of properties in Hong Kong, Macau, the People's Republic of China and the Asia Pacific Region.

VALUATION REPORT

Property interests to be held for investment by the Company

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 28 February 2019
1.	Ryder Court, 12–14 Ryder Street, St James's, London, SW1, the United Kingdom	The property comprises the whole of Ryder Court which is a 5-storey office building plus a basement level erected upon a slightly sloping site with a site area of approximately 23,088 sq.ft.. It was developed in the 1980's and has been partially refurbished in 2010 and 2016. The property is located at the junction of Bury Street and Ryder Street. The property is approximately 5 minutes' walking distance away from Green Park underground station. The property has a total floor area of approximately 75,813 sq.ft. and the area breakdown is listed as below:	The property is currently fully leased to various tenants as office and commercial uses. The total current rental of the property is approximately £5,935,627 per annum with the last tenancy expiring in May 2035.	£115,450,000 (ONE HUNDRED FIFTEEN MILLION FOUR HUNDRED AND FIFTY THOUSAND POUNDS)

Use	Floor	Approximate Floor Area (sq.ft.)
Office	G/F–5/F	66,451
Storage & Others	G/F	459
Restaurant	G/F	1,048
Restaurant	LG/F	7,855
Total:		**75,813**

The land use rights of the property have been granted for a term of 125 years from 28 September 2016.

Notes:

1. The property is currently owned by Lithium Real Estate (Jersey) Limited.

2. The property is subject to a facility agreement in favour of China Construction Bank Corporation London Branch.

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 28 February 2019
2.	657 and 663–667 Mission Street, San Francisco, CA 94105, the United States of America	The property comprises the whole of 657 and 663–667 Mission Street which is two adjoining office towers, erected upon a rectangular-shaped site with a total site area of 25,160 sq.ft.. 657 Mission Street consists of a 6-storey building plus a basement level and 663–667 Mission Street consists of a 4-storey building plus a basement level located at the South of Market Financial Area of San Francisco along Mission Street. The property was completed in 1907 and 1916 and is currently renovated and reconfigured as creative office space. Portion of the ground floor of the property will also be renovated as retail space. The renovation is expected to be completed in October 2019. The area breakdown (including roof area) of the property is listed as follows:	The entire office portion of the property with a floor area of approximately 149,391 sq.ft., is leased to a single tenant at an annual base rent of approximately USD9,512,782.5 for the first year with a rental increment of three percent per annum. The lease term is 12.5 years commencing from October 2019 to April 2031. The retail portion of the property is currently vacant.	USD167,000,000 US DOLLARS ONE HUNDRED AND SIXTY SEVEN MILLION ONLY) *(please see note 3)*

Use	Floor	Approximate Floor Area *(sq.ft.)*
Office	1/F–6/F	149,391
Retail	1/F	
		5,500
Total:		154,891

The land portion of the property is held in a freehold estate.

Notes:

1. The property is currently owned by 657–667 Mission Property Owner, LLC.

2. The property is subject to two loan agreements both in favour of SM Finance Warehouse III LLC.

3. As advised by the Company, the outstanding renovation cost of the property as at the valuation date was approximately USD65,000,000. As instructed by the Company, we have not deducted the outstanding renovation cost during the course of our valuation and assumed which had been fully settled. As advised by the Company, the outstanding renovation cost has been factored into the consideration in acquiring the property and consequently, we considered that the aforesaid assumption is fair and reasonable for the purpose of this valuation.

Property interest to be held for sale

	Property	Description and tenure	Particulars of occupancy	Gross Development Value as at 28 February 2019
3.	25 Park Row, New York, NY 10038, the United States of America	The property comprises the whole of 25 Park Row which will be developed into a 46-storey building plus a basement level, erected upon a parcel of land with a site area of approximately 17,801 sq. ft. The property is located on the southeast side of Park Row, between Ann Street and Beekman Street, in the Manhattan's Financial District. Upon completion, the property will provide condominiums and ancillary with retail and office units with a total floor area of approximately 241,563 sq.ft. and the area breakdown is listed as below:	The property is currently under development and is expected be completed in the fourth quarter of 2019.	USD476,000,000 (US DOLLAR FOUR HUNDRED AND SEVENTY SIX MILLION ONLY) *(please see notes 2 and 3)*

Use	Floor	Approximate Floor Area *(sq.ft.)*
Condominium	5/F–46/F	185,721
Office	3/F	16,585
Retail	Basement–2/F	37,878
Storage		1,379
Total:		241,563

In addition, the property will also comprise 22 basement car parking spaces.

The land portion of the property is held in a freehold estate.

Notes:

1. The property is currently owned by Park Row 23 Owners LLC. As advised by the Company, the Company is holding 49% interest in the investment instrument for the development of the NY Property only, but not holding any equity interest in the NY Property.

2. As advised by the Company, residential portion of the property with a total floor area of approximately 4,379 sq.ft. have been pre-sold at a total consideration of approximately USD7,830,000. According to your instruction, the pre-sold units are included in this valuation. We have also taken into consideration in the course of our valuation.

3. According to your instruction, we have valued the property on completion basis and assumed that the property has been completed as at the date of valuation in accordance with the development schemes provided to us without taking into any outstanding construction cost.

4. The property is subject to a loan in favour of Bank of the Ozarks.

I. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

II. DISCLOSURE OF INTERESTS

(a) Interests and/or short positions of the Directors

As at the Latest Practicable Date, the Directors of the Company had the following interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such Director of the Company was taken or deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Interests in an associated corporation, China Vanke

		Number of ordinary shares held						
Name of Director	Type of shares	Interest held as beneficial owner	Interest held by spouse	Interest held by controlled corporations	Other interests	Number of underlying shares held under equity derivatives	Total interests	Percentage of issued share capital *(Note)*
Zhang Xu	A shares	904,039	—	—	—	—	904,039	0.009%
Que Dongwu	A shares	150,700	—	—	—	—	150,700	0.002%
Chan Chi Yu	H shares	—	—	500,203	—	—	500,203	0.032%

Note: The total number of ordinary A shares of China Vanke in issue as at Latest Practicable Date was 9,724,196,533 and the total number of ordinary H shares of China Vanke in issue as at Latest Practicable Date was 1,577,946,468. The percentage of issued share capital shown above is calculated based on the number of issued shares in the relevant class alone, without taking into account the issued share capital of the other classes.

All the interests in the shares disclosed under this section represent long position in the shares of the Company or its associated corporations. Save as disclosed herein, as at the Latest Practicable Date, none of the Directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be recorded in the register kept by the Company under section 352 of the SFO or which was required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

(b) Interests and/or short positions of substantial shareholders

As at the Latest Practicable Date, so far as is known to any of the Directors, the following person (other than a person who is a Director of the Company) had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group, or which was recorded in the register required to be kept by the Company (the "**Register**") under section 336 of the SFO:

Name of substantial Shareholder	Long position/ short position	Capacity of interest	Total number of shares in which the shareholder is interested	Percentage of shareholding
China Vanke *(Note 1)*	Long position	Held by controlled corporations	292,145,949	75.0%
CITIC Securities Company Limited *(Note 2)*	Long position	Held by controlled corporations	30,080,000	7.72%

Notes:

1. As recorded in the Register, the 292,145,949 Shares are held by China Vanke through Wkland Investments. Wkland Investments is a direct wholly-owned subsidiary of Wkland Limited. Wkland Limited is a direct wholly-owned subsidiary of VPHK. VPHK is a direct wholly-owned subsidiary of Shanghai Vanke Real Estate Company Limited. Shanghai Vanke Real Estate Company Limited is a direct wholly-owned subsidiary of Shanghai Vanke Investment and Management Company Limited. Shanghai Vanke Investment and Management Company Limited is a direct wholly-owned subsidiary of China Vanke.

2. As recorded in the Register, the 30,080,000 Shares are held by CSI Capital Management Limited, which is a direct wholly-owned subsidiary of CITIC Securities International Company Limited, which in turn is a wholly-owned subsidiary of CITIC Securities Company Limited.

As at the Latest Practicable Date, so far as is known to any of the Directors, the Company had not been notified of any other person (other than the Directors of the Company) who had an interest or a short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group, or which was recorded in the Register pursuant to section 336 of the SFO.

III. COMPETING INTEREST

The following Directors are also directors and/or officers of China Vanke and/or its subsidiaries and affiliates as set out in the table below.

Name of Director	Position held in China Vanke and/or its subsidiaries and affiliates
Mr. Zhang Xu	Executive Director, Executive Vice President and Chief Operating Officer
Ms. Que Dongwu	Vice President and General Manager of Overseas Business Department
Mr. Chan Chi Yu	Director of certain subsidiaries and affiliates of China Vanke
Mr. Lee Kai-Yan	Director of certain subsidiaries of China Vanke
Ms. Lin Lily	Director of certain subsidiaries of China Vanke

The Company and its subsidiaries are principally engaged in property development and financing, and property rental and management activities in Hong Kong. As at the Latest Practicable Date, the Group owns an investment property in Hong Kong and a 20% interest in a property under development in Hong Kong. VPHK and its subsidiaries (excluding the Group) are also involved in property development and property investment business in Hong Kong. Further, after completion of the Acquisitions, both the Enlarged Group and VPHK Group (excluding the Enlarged Group) will have property development and investment business in the United Kingdom and the United States of America. As a result, this may constitute competing business between the two groups.

VPHK is an indirect wholly-owned subsidiary of China Vanke. Mr. Zhang Xu and Ms. Que Dongwu, both being executives of China Vanke, are common directors of the Company and VPHK. Mr. Chan Chi Yu is a director of certain subsidiaries and affiliates of China Vanke, and each of Mr. Lee Kai-Yan and Ms. Lin Lily is connected to China Vanke by virtue of his/her current position as director of certain subsidiaries of China Vanke. Mr. Zhang Xu, Ms. Que Dongwu and Mr. Chan Chi Yu have beneficial interests in the issued shares of China Vanke.

Mr. Lee Kai-Yan and Ms. Lin Lily, the non-executive Directors, and Mr. Chan Wai Hei, William, Ms. Law Chi Yin, Cynthia and Mr. Zhang Anzhi, the independent non-executive Directors, do not participate in the routine business of VPHK. The independent non-executive Directors, with the assistance of the financial controller and other senior executive of the Company, exercise due care and skills in ensuring that the Group is capable of carrying on its business at arm's length and independently from VPHK.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not (i) aware of any other business of China Vanke which competes or is likely to compete, either directly or indirectly, with the Group's businesses; or (ii) aware that any of them had interests in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group which would fall to be disclosable under the Listing Rules.

IV. INTERESTS IN CONTRACT OR ARRANGEMENT AND ASSETS

On 31 December 2018, the Group renewed the agreement relating to the sharing of administrative services with VPHK on a cost basis for a period of three years commencing from 1 January 2019, which is terminable by either party on giving no less than one month's notice.

The Company is an indirect 75%-owned subsidiary of VPHK, which in turn is an indirect wholly-owned subsidiary of China Vanke. Mr. Zhang Xu and Ms. Que Dongwu are directors of VPHK and each of them is an executive of China Vanke and beneficially interested in the issued shares of China Vanke. Each of Mr. Lee Kai-Yan and Ms. Lin Lily commonly serves as a director of certain subsidiaries of China Vanke. Mr. Chan Chi Yu is a director of certain subsidiaries and affiliates of China Vanke and is beneficially interested in the issued shares of China Vanke.

The followings are the interests of the Directors in the Sale Companies and/or the VPO Parties as part of the co-investment arrangement:

(a) approximately 0.05% of the effective interest in the London Target is indirectly owned by certain employees of China Vanke including Ms. Lin Lily;

(b) approximately 0.295% of the effective interest in the SF Property is indirectly owned by certain employees of China Vanke including Mr. Lee Kai-Yan;

(c) approximately 0.83% of the effective interest in the investment instrument made to each of the NY Intermediate Companies is indirectly owned by certain employees of China Vanke including Ms. Que Dongwu and Mr. Lee Kai-Yan, respectively;

(d) approximately 20% of the effective interest in each of the VPO US and VPO UK is indirectly owned by key members of the Overseas Management Team including Mr. Lee Kai-Yan and Ms. Lin Lily.

Save as disclosed above and except for the Acquisition Agreements and the Management Services Framework Agreement, none of the Directors was materially interested in any contracts or arrangement entered into by any member of the Enlarged Group which is subsisting as at the Latest Practicable Date which is significant in relation to the business of the Group.

Save as disclosed above and except for the Acquisition Agreements, none of the Directors has any direct or indirect interest in any assets which have been, since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by, or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by, or leased to any member of the Enlarged Group.

V. LITIGATION

As at the Latest Practicable Date, no litigation or claim which may be of material importance is known to the Directors to be pending or threatened against any member of the Enlarged Group.

VI. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

VII. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered, or is proposing to enter, into any service contract with the Enlarged Group which is not expiring or may not be terminated by the Company within a year without payment of any compensation (other than statutory compensation).

VIII. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are, or may be, material:

(a) the London Property Acquisition Agreement;

(b) the San Francisco Property Acquisition Agreement;

(c) the New York Investment Instrument Acquisition Agreement; and

(d) Management Services Framework Agreement.

IX. EXPERTS AND CONSENTS

The names and qualifications of the professional advisers who have been named in this circular or given its opinion or advice which are contained in this circular are set forth below:

Name	Qualification
Success New Spring Capital Limited	A licensed corporation to carry out Type 6 (advising on corporate finance) regulated activity under the SFO
KMPG	Certified public accountants
Knight Frank Petty Limited	Valuer

Each of the above experts has given and has not withdrawn its respective written consent to the issue of this circular with the inclusion of their letter and/or reference to their respective names or opinions in the form and context in which they appear.

As at the Latest Practicable Date:

(a) the experts above did not have any direct or indirect interests in any assets which have been, since 31 December 2018 (being the date to which the latest published audited financial statements of the Group were made up), acquired, disposed of or leased to, or which are proposed to be acquired, disposed of by or leased to, any member of the Enlarged Group; and

(b) the experts did not have any shareholding in any member of the Enlarged Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Enlarged Group.

X. GENERAL

(a) The company secretary of the Company is Ms. Ivy Lai, who holds a Bachelor Degree in Laws from the University of Hong Kong and is qualified to practice as a solicitor in Hong Kong and England and Wales.

(b) The registered office of the Company is situated at P.O. Box 309, Ugland House, Grand Cayman, KY1-1104, Cayman Islands.

(c) The principal place of business of the Company is situated at 55th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

(d) The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.

(e) The English texts of this circular shall prevail over the Chinese texts in case of inconsistency.

XI. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours of the Company at the place of business of the Company at 55/F, Bank of China Tower, 1 Garden Road, Central, Hong Kong for a period of 14 days from the date of this circular:

(a) the memorandum and articles of association of the Company;

(b) the London Property Acquisition Agreement;

(c) the San Francisco Property Acquisition Agreement;

(d) the New York Investment Instrument Acquisition Agreement;

(e) the Management Services Framework Agreement;

(f) the letter from the Independent Board Committee dated 21 May 2019, the text of which is set out in the section headed "Letter from the Independent Board Committee" of this circular;

(g) the letter from Success New Spring Capital dated 21 May 2019, the text of which is set out in the section headed "Letter from the Independent Financial Adviser" of this circular;

(h) the annual reports of the Company for the two financial years ended 31 December 2017 and 2018;

(i) the accountants' report of each of the London Target Group, the SF Target Group and the NY Target from the reporting accountants, KMPG, the text of which are set out in Appendices II to IV to this circular respectively;

(j) the report on the unaudited pro forma financial information of the Enlarged Group illustrating the effect of the Acquisitions from the reporting accountants, KPMG, the text of which is set out in Appendix VI to this circular;

(k) the valuation report from Knight Frank on each of the London Property, the SF Property and the NY Property, the text of which is set out on Appendix VII to this circular;

(l) the written consent of each of the experts referred to in the paragraph headed "Experts and Consents" in this Appendix; and

(m) this circular.

萬科置業(海外)有限公司

VANKE PROPERTY (OVERSEAS) LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 01036)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the "**EGM**") of the shareholders of Vanke Property (Overseas) Limited (the "**Company**") will be held at 1804A, 18/F., Tower 1, Admiralty Centre, 18 Harcourt Road, Admiralty, Hong Kong on Thursday, 6 June 2019 at 11:00 a.m. (or immediately after the conclusion of the annual general meeting of the Company) for the purposes of considering and, if thought fit, approving the matters set out below.

ORDINARY RESOLUTIONS

1. "**THAT** the sale and purchase agreement (the "**London Property Acquisition Agreement**") dated 7 March 2019 entered into between Vanke UK Investment Company Limited and Vanke Property (Hong Kong) Company Limited ("**VPHK**"), a copy of which is marked "A" and initialled by the chairman of the meeting for the purpose of identification, and the terms and transactions contemplated thereunder be and are hereby approved and confirmed."

2. "**THAT** the sale and purchase agreement (the "**San Francisco Property Acquisition Agreement**") dated 7 March 2019 entered into between Vanke US Investment Company Limited ("**Vanke US Investment**") and VPHK, a copy of which is marked "B" and initialled by the chairman of the meeting for the purpose of identification, and the terms and transactions contemplated thereunder be and are hereby approved and confirmed."

3. "**THAT** the sale and purchase agreement (the "**New York Investment Instrument Acquisition Agreement**") dated 7 March 2019 entered into between Vanke US Investment and Chogori Investment (Hong Kong) Limited ("**NY Vendor**"), a copy of which is marked "C" and initialled by the chairman of the meeting for the purpose of identification, and the terms and transactions contemplated thereunder be and are hereby approved and confirmed."

4. "**THAT** the agreement (the "**Management Services Framework Agreement**") dated 7 March 2019 entered into among (i) Vanke Overseas UK Management Limited; (ii) Vanke US Management LLC; (iii) Vanke Overseas Management Holding Company Limited; (iv) VPHK; (v) NY Vendor; and (vi) Vanke Holdings USA LLC, a copy of which is marked "D" and initialled by the chairman of the

meeting for the purpose of identification, and the transactions contemplated thereunder and the proposed annual caps for the three years ending 31 December 2019, 2020 and 2021 be and are hereby confirmed and approved.''

5. ''**THAT** each and every executive director of the Company (the ''**Executive Director**'') (either alone or jointly with another Executive Director) be and is hereby authorised to sign and execute such other documents and supplemental agreements and deeds (including the affixation of the common seal of the Company where execution under seal is required) for and on behalf of the Company and to do all such things and take all such actions as he/she may consider necessary, desirable or expedient for the purpose of carrying out or giving effect to or otherwise in connection with the London Property Acquisition Agreement, the San Francisco Property Acquisition Agreement, the New York Investment Instrument Acquisition Agreement and the Management Services Framework Agreement and/or the transactions contemplated thereunder.''

By order of the board of
Vanke Property (Overseas) Limited
Que Dongwu
Executive Director and
Chief Executive Officer

Hong Kong, 21 May 2019

Notes:

(i) A member of the Company entitled to attend and vote at the above meeting is entitled to appoint one or more proxies (who must be an individual or individuals) to attend and vote instead of him. A proxy does not need to be a member of the Company.

(ii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney of authority, must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not less than 48 hours before the time appointed for holding the meeting and any adjourned meeting.

(iii) Reference is made to the notice of annual general meeting of the Company dated 6 May 2019 (the ''**AGM Notice**'') and the announcement of the Company dated 17 May 2019 (the ''**Book Closure Announcement**''). As stated in the AGM Notice and the Book Closure Announcement, in order to determine the entitlement to attend and vote at the annual general meeting to be held on Thursday, 6 June 2019, the register of members of the Company will be closed from Monday, 3 June 2019 to Thursday, 6 June 2019, both days inclusive (the ''**AGM Book Closure Period**''), during which period no transfer of shares of the Company will be registered. For the purpose of the EGM, the record date for determining the entitlement of the shareholders of the Company to attend and vote at the EGM will be Wednesday, 5 June 2019. In light of the AGM Book Closure Period, in order to be eligible to attend and vote at the EGM, unregistered holders of shares of the Company should ensure that all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Friday, 31 May 2019.

(iv) All votes at the meeting are to be taken by poll.

As at the date of this announcement, the directors of the Company are:

Executive Directors:
Mr. Zhang Xu (Chairman), Ms. Que Dongwu (Chief Executive Officer)

Non-Executive Directors (in alphabetical order):
Mr. Chan Chi Yu, Mr. Lee Kai-Yan, Ms. Lin Lily

Independent Non-Executive Directors (in alphabetical order):
Mr. Chan Wai Hei, William, Ms. Law Chi Yin, Cynthia, Mr. Zhang Anzhi