LANYON
ASSET MANAGEMENT

Level 7, 66 Hunter Street
Sydney NSW 2000

Level 1, 16 Vardon Avenue
Adelaide SA 5000

T +61 2 8203 3800

www.lanyonam.com

Dr. J Yeung
The Cross-Harbour (Holdings) Limited
25th Floor, China Resources Building
26 Harbour Road
Wanchai
Hong Kong

13 August, 2019

Private & Confidential

Dear Dr. Yeung
cc. The Cross-Harbour (Holdings) Ltd Board of Directors

Strategy to restore value for The Cross-Harbour (Holdings) Ltd.

As you are aware, funds managed by Lanyon Asset Management Pty Limited ("Lanyon") currently own 5,238,000 shares in The Cross-Harbour (Holdings) Ltd ("CHH"), representing 1.41% of the total shares on issue. These shares are held for us by Standard Chartered Bank (Hong Kong) Limited as the sub custodian of our nominated global custodian, RBC Investor & Treasury Services.

We understand that we may be the company's second largest shareholder, behind the Chairman, Mr. Cheung Chung Kiu, who maintains a stake of 6.52%. We note that Mr. Cheung Chung Kiu has recently been purchasing shares on market.

We previously wrote to the CHH Board of directors on 5 June 2019 with an offer to purchase the company's stake in the *Western Harbour Tunnel Company Limited* ("WHTCL"). We firmly believed that this was the optimal way to restore value for all CHH shareholders – in particular, it offered CHH the opportunity to monetise their investment in WHTCL at a very attractive price and at a substantial premium to carrying value.

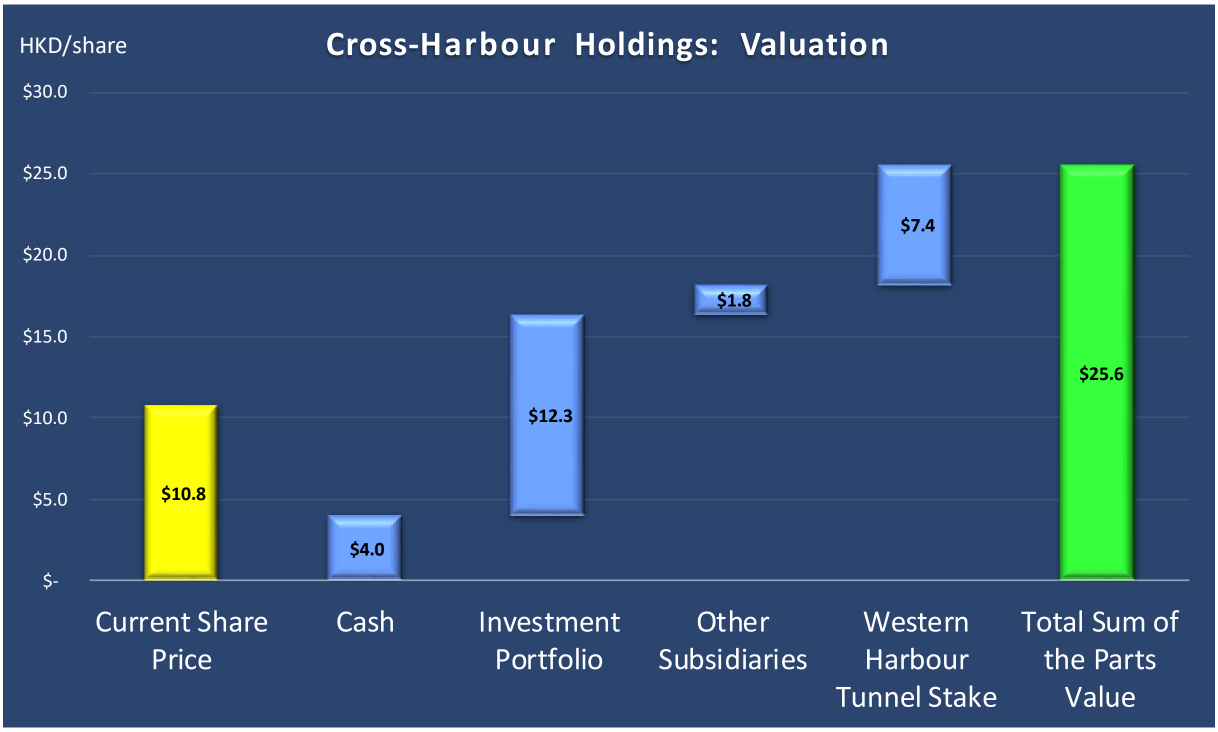
We note, other than your brief email on 21 June 2019 advising that "the matter as closed", we have not received a formal response.

Over the last 12 months, CHH shareholders have seen the value of their investment decline markedly, with the share price falling 20% from $13.50 to $10.80 per share.

CHH shares are materially undervalued

Lanyon believes that CHH shares are materially undervalued.

We estimate the intrinsic value of CHH to be in excess of $25.50 per share as indicated below.



Unfortunately, the company has traded at a significant discount to the underlying value of the assets for many years. Extraordinarily, CHH is now trading at approximately 40% of our conservative estimate of asset value. The company trades at an enormous discount to its peer group of global listed investment companies and is, as far as we can identify, most likely, the cheapest investment company listed on any stock exchange globally.

We do not believe that this is any badge of honour, but it merely highlights the flawed investment strategy and abysmal investment performance achieved by the company.

We believe the discount highlights some material flaws in strategy coupled with ineffective shareholder communication. Shareholders are unlikely to see fair value for their investment under the current company direction. Should we continue as is, we see limited prospect for the shares to reflect intrinsic value and now wish to provide the following recommendation for an urgent path forward to restore value.

In short, we seek the immediate payment of a special dividend to all shareholders. We highlight the special dividend paid at Y.T. Realty (0075.HK) in March 2016 as a highly relevant case study. The dividend paid, which was over 220% of the company's share price at the time, resulted in net gains to shareholders of over 400%.

1. Investment performance has been poor - the securities portfolio should be liquidated

Following our discussions over many years with yourself, Stella Chung (Financial Controller) and Edmond Leung, we understand that capital allocation decisions for the CHH investment portfolio are made by an Investment Committee. In practice, we understand these decisions are actually initiated and made by Mr. Cheung Chung Kiu.

We also note that any potential infrastructure acquisition opportunities for the company are reviewed by yourself and Stella. Whist we are supportive of a careful, patient investment strategy we note that there have been no acquisitions of any transport infrastructure companies or concessions for over 10 years.

The company maintains and has been investing capital in a portfolio of listed equity securities, listed debt securities and unlisted fund investments.

We also note that there have been some investments in Evergrande entities, including China Evergrande (3333.HK) and Evergrande Health Industry Group Limited (708.HK). These two investments are the two single largest investments in the CHH portfolio. It appears that Mr. Cheung Chung Kiu maintains a personal relationship with China Evergrande founder and chairman, Mr. Hui Ka-yan.

On 3 June 2019, CHH announced details of a 'Connected Transaction', where CHH purchased US$18m of notes issued by C C Land Holdings Limited (1224. HK). Mr. Cheung Chung Kiu is the founder, Chairman and largest shareholder in CC Land with a stake of 51.87%.

We serve to highlight these transactions as we believe they indicate that these related-party investments are being made, unfortunately, without the sole focus of generating attractive returns to CHH shareholders.

In our view, the lack of transparency provided to investors regarding the composition of the investment portfolio, coupled with these known investments that are perceived to be poorly aligned and made with related parties, is a significant reason for the enormous discount the market applies to the company's securities. Whilst these are only two investments from the total CHH investment portfolio, given the lack of disclosure and poor transparency, we expect there are more.

In addition, the investment portfolio, in aggregate, has performed very poorly.

Our analysis indicates that in the period from 2011 to 2018, the CHH portfolio has generated total net investment gains of only ~HK$265m. This indicates an annual compound return on average gross assets of only 1.5%.

The CHH portfolio has significantly underperformed the Hang Seng index which has appreciated by 71% over that same period.

We feel the CHH investment portfolio is being managed ineffectively and CHH shareholders have suffered from these poor returns.

We strongly urge that the CHH portfolio, in entirety, should be liquidated and that the realised cash proceeds should be returned to shareholders. **A liquidation of the investment portfolio would, on our analysis, enable the payment of a dividend of $11.60 per share, or 107% of the current CHH share price.**

2. <u>The yacht provides no value to CHH shareholders and should be sold</u>

We understand that a yacht, currently held as an asset on the CHH balance sheet, was purchased in February 2012 for ~HK$119m.

Whilst very little detail of this asset has been disclosed to shareholders, we do not believe that the CHH yacht provides any value for, nor any benefit to, CHH shareholders. We query why the company owns it and what it is used for.

We recommend that the yacht be immediately sold and the realised cash from the sale should be returned to shareholders. **We estimate that the sale of the yacht would enable the payment of a further $0.20 dividend to shareholders.**

3. Surplus cash should be returned to shareholders

As at 31 December 2018, the company maintained a net cash balance of HK$1.499bn or $4.02 per share. This compares to a balance of HK$3.284bn as at 31 December 2017. This cash balance is being slowly frittered away on new investments that are unlikely to create value for CHH shareholders.

We estimate that the current cash balance as at 30 June 2019 should be HK$1.875bn or $5.03 per share (subject to any additional investments being made in the period from 1 January 2019 to 30 June 2019).

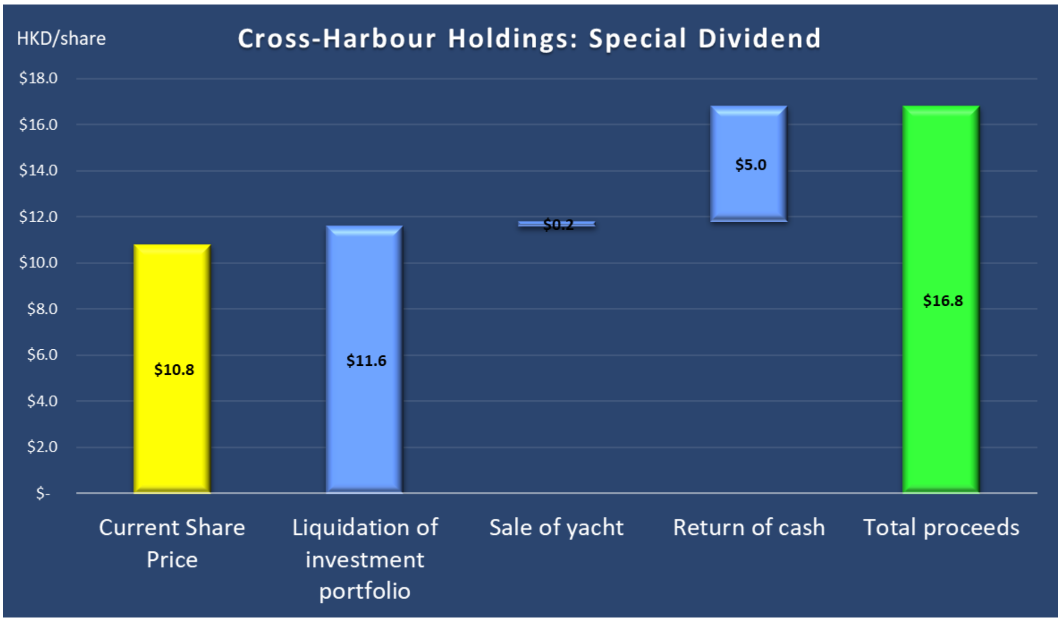
Given the poor investment returns achieved from the CHH portfolio and the broader market's concerns with what is perceived to be poorly aligned, related party transactions, we urge the company to return the cash to shareholders. **A return of the surplus cash would enable the payment of a dividend of $5.00 per share**.

Total special dividend

In aggregate, we believe that CHH should pay a dividend to shareholders from:

(1) the liquidation of the investment portfolio ($11.60);
(2) the sale of the yacht ($0.20); and
(3) the return of surplus cash ($5.00).

This would comprise a total payment(s) of $16.80 per share or almost 160% of the current share price. This is indicated below.



A payment of a dividend of this magnitude would not be without precedent in Hong Kong. We highlight that this dividend transaction would be similar to the dividend paid at Y.T. Realty (0075.HK) in March 2016. Mr. Cheung Chung Kiu was also the Chairman of Y.T Realty at that time. The special cash dividend paid by Y.T. Realty of $3.80 per share compared to the trading price, prior to the declaration of the special dividend, of $0.92.

The Board of CHH could maintain the company's transport infrastructure investment in the Western Harbour Tunnel Company Limited and retain the Motoring School and Autotoll assets, should they be deemed as core assets for the group.

Current and future dividend policy

We believe that the CHH current dividend policy is ill-considered and totally inappropriate. CHH has paid dividends to its shareholders of only $0.34 in the last 12 months. This is despite the company receiving in excess of $1.90 per share in dividends from the stake in WHTCL alone.

On an ongoing basis, should CHH choose to pay dividends to their shareholders equal only to their share of the WHTCL dividends, we believe CHH could increase their annual dividend (until expiry of the franchise in August 2023) to $2.25 – $2.50 per share. This would imply a dividend yield in excess of 20% on the current share price for at least the next four years.

We believe that a modification of the dividend policy will lead to a significant re-rating in CHH shares.

Investor communication is ineffective

Whilst we acknowledge that CHH disclosure appears to satisfy the HK stock exchange minimum requirements, we believe that investor communication has done little to arrest the significant valuation discount in the company's securities.

In our view, the company has displayed a distinct lack of care and attention and the investors have penalised the company for a lack of transparency.

Investor communication from CHH is significantly below what is now commonly regarded as the minimum acceptable standard for a listed company.

We understand that CHH are due to report their HY results for the period ending 30 June 2019, on 26 August 2019. We believe that the company can significantly improve investor understanding of the company's fundamentals by:

- Releasing a slide-deck presentation at the time of the results outlining financial performance, an overview of each of the divisions and strategy moving forward.
- Arranging a conference call or meeting for analysts, investors and other interested parties to discuss the results and provide an opportunity for shareholders to ask questions of the management team.

This would be an opportune time to announce the company's intention to liquidate the investment portfolio and to sell the yacht, for distribution to shareholders.

I would appreciate your immediate response to these important suggestions which we feel would benefit all shareholders enormously. We would be pleased to meet with the Board and management team to discuss the changes that we believe are critical.

While it is our desire to work constructively with the Board to address the matters discussed herein, we must make abundantly clear our dissatisfaction with the status quo.

LANYON
ASSET MANAGEMENT

Should the Board decide against pursuing these initiatives that will benefit all shareholders, we reserve our rights to take steps to protect the value of our investment through the means available to us as a minority shareholder.

Should we again not receive a formal response, we reserve the right to publicly release this letter and to publish the letter on our website, https://www.lanyonam.com/cross-harbourholdings/

Your sincerely,

Prescott

David Prescott
Managing Director
Lanyon Asset Management