MEDIA RELEASE
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Proposal to restore value at the Cross-Harbour (Holdings) Limited (SEHK:32)

Background

Lanyon Asset Management ("Lanyon") and Black Crane Capital ("Black Crane") are significant shareholders in the Cross-Harbour (Holdings) Limited (SEHK:32). We have been disappointed for some time with how the Company has been managed. Shareholders have been paid only a fraction of the dividends the Company could afford to have distributed, and the shares have persistently traded at an enormous discount to underlying value.

At the Company's AGM on 18 May 2020, Lanyon and Black Crane put forward resolutions to replace two of the currently sitting directors. Our resolutions had the aim of getting the Board to focus on the restoration of value to all shareholders through implementation of the following critical initiatives:

(1) **Liquidation of the securities/bond portfolio** which has been managed in the Company's Treasury Management Business ("TMB") in such a way that it has delivered an atrocious average annual return of only 1% over the last 14 years (compared with an 8% compound annual return for the Hang Seng Index over the same period);

(2) The **sale of the Company's yacht** which was purchased for HK$119m and we believe provides absolutely no value to shareholders.

Taking the above actions that we proposed will enable the payment of a special dividend to all shareholders of over HK$15.00 per share, or over 135% of the current share price of HK$10.92[1]. The Company would maintain its ownership of its key Western Harbour Tunnel shareholding, driving school and tolling operations.

Collectively, the directors of the Company paid themselves HK$67m in directors fees and held only 4 formal director's meetings last year. Lanyon and Black Crane proposed two experienced directors to serve for no fee. Lanyon and Black Crane believe that the incumbent directors should reduce their excessive fees.

Finally, Lanyon and Black Crane recommended that the Company substantially increase its ongoing dividend payout ratio to no less than 80% of net profit after tax, implying an annual dividend of over HK$2.00 per share or a yield of over 17% on the current share price.

[1] Closing share price of HK$10.92 as at 29 May 2020.

In short, Lanyon and Black Crane felt enough was enough and shareholders deserved to be treated better.

Our proposals for Board change at the AGM were defeated. We summarise below some key concerns arising from the AGM.

Limiting shareholders' rights to ask questions and make statements at the 2020 AGM

The Guide on Meetings issued by the Hong Kong Stock Exchange states the following as its first principle: "*The boards of issuers should be responsible for maintaining an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with them and encourage their participation.*"

At the AGM on 18 May 2020, shareholders' rights to ask questions of the Board and make statements prior to the relevant resolutions being put to the vote at the AGM were severely curtailed. Only two shareholders were allowed to do so, after which, and despite repeated further requests from other shareholders, they were told that the Company refused to allow any other shareholders to speak until after all resolutions were voted on.

The key reason why physical AGMs are required is because the meeting is designed to offer shareholders a forum to raise issues with the Board and for there to be dialogue. In fact, for most shareholders it is their only opportunity to engage directly with the Board.

Further, the Guide states as follows: "*The chairman of the board should attend the annual general meeting. He should also invite the chairmen of the audit, remuneration, nomination and any other committees (as appropriate) to attend. In their absence, he should invite another member of the committee or failing this his duly appointed delegate, to attend.* ***These persons should be available to answer questions at the annual general meeting****.*" (Emphasis added)

We believe that the Company has, by limiting shareholders' ability to ask questions of the Board and make statements relevant to the proposed resolutions prior to the voting on such resolutions, denied shareholders the ability to make their voting decisions on a fully informed basis.

Accusations of short term profiteering distract from long term TMB underperformance

At the AGM, the Company's Chairman, Mr Cheung Chung Kiu made some remarks to the effect that the Board were trying to protect Hong Kong shareholders from "Australian shareholders" who were willing to see the Company destroyed for short term gain, encapsulated by the idiom he used of "killing the chicken to take the eggs" ((殺雞取卵).

Both Lanyon and Black Crane are professional and experienced institutional fund managers with a long term investment horizon. Neither Lanyon nor Black Crane have any intention of destroying the Company for short term gain. More specifically however, Mr Cheung is incorrect in implying that our proposal to improve how the Company is managed represents a short term gain at the expense of a longer term loss. In actuality, leaving the Company to continue controlling the sizable funds accumulated in the TMB is what is likely to result in a poor long term outcome, judging by the extensive period of sustained underperformance from 2006 to 2019 when a meagre estimated 1% average annual return was delivered. This is the reason we believe that the share price of the Company has persistently traded at an enormous discount to underlying value and we seek to create (short and long term) value for all shareholders of the company by rectifying this.

Unsubstantiated claims of "foreign funds" pushing for massive toll increases

Mr Cheung further claimed at the AGM that some "foreign funds" had proposed a massive increase in the toll fees for the Western Harbour Tunnel. Mr Cheung claimed the requests included increasing tolls for private cars to HK$220 from the current HK$75 level, which could then be paid back to shareholders. The Company resisted this proposal, he said, because shareholder interests needed to be balanced with those of society. Mr Leung Wai Fai, an Executive Director of the Company, was also quoted by the press to have made similar statements[2].

While neither Mr Cheung nor Mr Leung explicitly identified which funds they claim had made such a proposal or even state when such a proposal had been made, given that these statements were made in the context of the proposals for change made by Black Crane and Lanyon, we believe that shareholders and the wider public may have been led to believe that we made such a proposal to the Board.

For the record, neither Black Crane nor Lanyon has proposed any toll increase. Any suggestion that we have done so is false.

Further, we have contacted a number of other funds which are shareholders of the Company and have been informed that none of them have proposed any toll fee increase in the past few years. Incidentally, all of the funds we contacted expressed dismay at the Company's portfolio performance, investment activities and purchase of a yacht.

We hereby invite Mr Cheung and Mr Leung to state publicly the identity of the funds which they claim made such a toll fee proposal and the date when such a proposal was made. We further invite Mr Cheung and Mr Leung to state for the record that no such request for a toll increase was in fact made by either Lanyon or Black Crane to correct any false impression they may have created.

[2] Ming Pao 19 May 2020 (港通股東會否決基金入局 小股東冀公司沽投資組合遊艇)

"Market practice" for the Company to own a yacht for the use of senior personnel

At the AGM, Mr Yeung Hin Chung, an Executive Director of the Company, stated that the yacht purchased by the Company was for the use of the Company's senior personnel. As far as we are aware, this is the first time that the Company has disclosed this as the purpose of the yacht.

To put this into context, the HK$119 million which the Company spent on the yacht and related equipment in 2013 was greater than the total dividend paid out to shareholders that year.

At the AGM, Mr Yeung claimed that it is "market practice" for companies to have a yacht for the use of senior personnel. We do not agree. To say something is market practice to our mind means that it is the norm in the market. We do not believe that it is the norm that companies listed on the Stock Exchange in Hong Kong have purchased yachts for the recreational use of their senior personnel; rather we believe the opposite to be true.

Further, we do not believe it is acceptable practice for the Board of the Company to spend more of the Company's money on buying a yacht for recreational use by senior personnel than the amount of money distributed to shareholders by dividend.

Given that on the face of it there appears to us to be zero commercial rationale for the Company to have purchased this yacht, we invite the Board to explain publicly:

(1) whether there is any commercial benefit to the Company's ownership of the yacht;
(2) if so, what this commercial benefit is exactly;
(3) how this commercial benefit is quantified;
(4) whether the quantum of this benefit justifies the HK119 million paid;
(5) whether the purchase of the yacht was approved by the Board (and if so whether all directors voted in favour of the purchase);
(6) if the purchase of the yacht was approved by the Board, how the directors feel that this decision was made in fulfilment of their fiduciary duties to the Company; and
(7) if the decision to purchase the yacht was not taken by the Board, who made this decision and under what authority and what the Board's reaction was.

Uncertainly around Company's disclosure relating to TMB returns

In our open letter to shareholders issued prior to the AGM, we stated that "The TMB's investment strategy has resulted in a meagre estimated 1% average annual return from 2006 to 2019, far below the 8% compound annual return (inclusive of dividends) of the HSI over the same period."

In response, Mr Leung claimed at the AGM that, according to the Company's own figures the TMB activities had generated an annual return of 13% over the last five years and 6% over the last ten years.

Based upon the information disclosed in the Company's Annual Reports, we do not understand how the TMB performance figures stated by Mr Leung can be correct. Using information publicly disclosed in the Annual Reports, we believe the Company's TMB activities generated an annual return of 2% over the last five years (2015-19) and 0% over the last ten years (2010-19).

As disclosed in our open letter, our methodology in calculating the annual return of the TMB is as follows: we took the TMB reportable segment profit(loss) before tax each year (disclosed explicitly in the Company's annual reports) and divided this by the respective TMB segment net assets (i.e. TMB segment assets minus TMB segment liabilities, also disclosed explicitly in the Company's annual reports) each year to calculate a return generated by the TMB each year. The average annual return we state is the simple average of these annual returns over the relevant time period. The table below illustrates these calculations.

Cross-Harbour Holdings Limited: TMB returns analysis

FY December		**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
TMB assets[1]	*(HK$m)*	1,261	1,115	1,004	1,398	2,048	2,941	3,377	4,987	5,647	6,291
TMB liabilities[1]	*(HK$m)*	367	166	9	2	2	1	2	65	1	1
TMB net assets	*(HK$m)*	893	950	995	1,395	2,046	2,940	3,375	4,923	5,646	6,290
TMB reportable segment profit(loss) before tax[1]	*(HK$m)*	43	(91)	(24)	(18)	(3)	91	(140)	646	(215)	144
% return on TMB net assets	**(%)**	**4.8%**	**-9.5%**	**-2.4%**	**-1.3%**	**-0.1%**	**3.1%**	**-4.1%**	**13.1%**	**-3.8%**	**2.3%**

Average p.a. % return on TMB net assets (2015-19)	***(%)***	**2%**
Average p.a. % return on TMB net assets (2010-19)	***(%)***	**0%**

[1] *Source: Cross-Harbour Holdings Limited annual reports*

Frankly, an average annual return of 0% over the last ten years is abysmal by any standard. In contrast, the compound annual return (inclusive of dividends) of the Hang Seng Index was 7% over the last five years (2015-19) and 6% over the last ten years (2010-19).

We also note that, at the AGM, Mr Leung stated lower figures for how the Hang Seng Index performed over the respective five and ten year periods than those we calculated (5% and 4% respectively, i.e. approximately 2% points lower than the figures we calculate). For transparency, we can disclose that our figures are sourced from Bloomberg: "HSI 1 index".

We invite the Board to publicly substantiate the claim made by Mr Leung at the AGM (and which was then quoted by several newspapers[3]) that the TMB achieved an annual return of 13% over the last five years and 6% over the last ten years. Given that the TMB assets account for 77% of the Company's total asset base in 2019, it is important that the stock

[3] Ming Pao 19 May 2020 (港通股東會否決基金入局 小股東冀公司沽投資組合遊艇)， Apple Daily 19 May 2020（**基金入港通董事局失敗**）, Sing Tao 19 May 2020（基金受挫港通股東會 要求大派息無功而回）

market is appropriately informed about the performance of, by far, the Company's largest reportable segment.

Conclusion: the Board needs to take action

We invite members of the Board to do the right thing and implement the proposals we have set out to bring value to all shareholders of the company.

ENDS

FOR FURTHER INFORMATION, PLEASE CONTACT:

Lanyon

- David Prescott, Managing Director & Portfolio Manager
  dprescott@lanyonam.com

Black Crane

- Peter Kennan, Chief Investment Officer
  peter.kennan@black-crane.com