

23 October 2020

To the Independent Board Committee

Dear Sirs,

**VOLUNTARY CONDITIONAL GENERAL CASH OFFER
BY HAITONG INTERNATIONAL SECURITIES COMPANY LIMITED
ON BEHALF OF
ROSE DYNAMICS LIMITED
TO ACQUIRE ALL THE ISSUED SHARES OF
THE CROSS-HARBOUR (HOLDINGS) LIMITED
(OTHER THAN THOSE ALREADY OWNED BY OR
AGREED TO BE ACQUIRED BY ROSE DYNAMICS LIMITED
AND PARTIES ACTING IN CONCERT WITH IT)**

INTRODUCTION

We refer to our appointment as the independent financial adviser to the Company to advise the Independent Board Committee in respect of the Offer. Details of the Offer are set out in the composite offer and response document jointly issued by the Offeror and the Company dated 23 October 2020 (the “**Composite Document**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Composite Document unless the context otherwise requires.

The Independent Board Committee, comprising all the independent non-executive Directors, namely Mr. Ng Kwok Fu, Mr. Luk Yu King, James and Mr. Leung Yu Ming, Steven, who have no direct or indirect interest in the Offer, has been established by the Company in accordance with Rule 2.1 of the Takeovers Code to make recommendation to the Independent Shareholders as to whether the terms of the Offer are fair and reasonable and as to acceptance of the Offer. We, Optima Capital, have been appointed by the Company as the independent financial adviser in accordance with Rule 2.4 of the Takeovers Code to advise the Independent Board Committee in respect of the Offer. Our appointment has been approved by the Independent Board Committee.

We are not associated or connected with the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them. We are therefore considered eligible to give independent advice in respect of the Offer. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company or the Offeror, their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice and recommendation, we have relied on the information and facts supplied, and the opinions expressed, by the executive Directors and management of the Company (the “**Management**”) and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material respects at the time they were provided and expressed, and continue to be true, accurate and complete in all material respects up to the Latest Practicable Date. We have reviewed, among other things, (i) the Joint Announcement; (ii) the Composite Document; (iii) the annual reports of the Company for the three years ended 31 December 2017 (the “**2017 Annual Report**”), 2018 (the “**2018 Annual Report**”) and 2019 (the “**2019 Annual Report**”); (iv) the interim report of the Company for the six months ended 30 June 2020 (the “**2020 Interim Report**”); and (v) other information obtained from the public domain. We have also sought and received confirmation from the Management that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information have been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group or the Offeror or the associates of any of them, nor have we carried out any independent verification of the information supplied. Should there be any subsequent material changes in such information during the Offer Period, the Company will inform the Shareholders as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Shareholders shall also be informed as soon as practicable when there are any material changes to the information contained or referred to in this letter and our opinion after the Latest Practicable Date and throughout the Offer Period.

In relation to the Offer, we have not considered the tax implications on the Independent Shareholders of the acceptance or non-acceptance of the Offer since these depend on their individual circumstances. In particular, the Independent Shareholders who are overseas residents or subject to overseas taxation or Hong Kong taxation on securities dealings should consider their own tax position and, if in an doubt, should consult their own professional advisers.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our advice with regard to the Offer, we have taken into account the following principal factors and reasons:

1. Terms and conditions of the Offer

The Offer is being made by Haitong International Securities on behalf of the Offeror on the following basis:

For each Offer Share HK\$14 in cash

The Offer is being extended to all Shareholders other than the Offeror and the Offeror Concert Parties.

The Offer Shares to be acquired under the Offer shall be fully paid and shall be acquired free from all liens, equities, mortgages, charges, encumbrances, rights of pre-emption and other third party rights and interests of any nature and together with all rights, benefits and entitlements attaching to them as at the Closing Date or subsequently becoming attached to them, including the right to receive and retain all dividends and other distributions, if any, the record date in respect of which falls on or after the Closing Date. Should any future dividend be declared by the Company, the Shareholders (including those who tender their acceptances of the Offer before the Closing Date) would be entitled to retain such dividend if the record date in respect of which is fixed for a date falling before the Closing Date, and the dividend declared would not reduce the Offer Price.

The Offer is subject to the satisfaction of the Conditions as described in the letter from Haitong International Securities contained in the Composite Document. In particular, the Offer is subject to valid acceptances of the Offer having been received (and not, where permitted, withdrawn) by 4:00 p.m. (Hong Kong time) on the Closing Date (or such later time or date as the Offeror may, subject to the rules of the Takeovers Code, decide) which, together with the Shares held, acquired or agreed to be acquired before or during the Offer, will result in the Offeror and the Offeror Concert Parties holding in aggregate more than 50% of the voting rights of the Company. The Offeror reserves the right to waive, in whole or in part, all or any of the Conditions other than the Condition relating to minimum level of acceptances as described above. In respect of other Conditions, the Offeror is not aware of any Authorisations or consents which are required, and any other matter that would constitute a breach of such Conditions.

Further details on the terms and conditions of the Offer, including the procedures for acceptance, are set out in the letter from Haitong International Securities contained in the Composite Document, Appendix I to the Composite Document and the accompanying Form of Acceptance.

2. Principal businesses of the Group

The principal activities of the Group include (i) operation of driver training centres (the “**Motoring School Operation**”); (ii) operation of tunnels (the “**Tunnel Operation**”); (iii) investments in and management of financial assets (the “**Treasury Management Business**”); and (iv) operation of an electronic toll collection system and provision of telematics service (the “**Electronic Toll Operation**”).

Set out below is the breakdown of segment revenue of the Group for each of the three financial years ended 31 December 2017 (“**FY2017**”), 2018 (“**FY2018**”) and 2019 (“**FY2019**”) and the six months ended 30 June 2019 (“**HY2019**”) and 30 June 2020 (“**HY2020**”) (collectively, the “**Track Record Period**”):

	FY2017 <i>(Audited)</i> <i>HK\$'000</i>	FY2018 <i>(Audited)</i> <i>HK\$'000</i>	FY2019 <i>(Audited)</i> <i>HK\$'000</i>	HY2019 <i>(Unaudited)</i> <i>HK\$'000</i>	HY2020 <i>(Unaudited)</i> <i>HK\$'000</i>
Motoring School Operation	402,714	440,027	465,345	219,154	222,582
Tunnel Operation	2,500	2,500	2,500	1,250	1,250
Treasury Management Business	40,670	182,696	211,258	110,259	144,612
Electronic Toll Operation	13,801	13,801	12,945	2,145	1,834
Total segment revenue	459,685	639,024	692,048	332,808	370,278
Unallocated head office and corporate revenue	1,906	1,913	3,889	963	4,462
Total revenue	461,591	640,937	695,937	333,771	374,740

2.1 Motoring School Operation

The Motoring School Operation is conducted through the Group’s 70%-owned subsidiary, namely Alpha Hero Limited (“**AH**”, together with its subsidiaries, “**AHG**”). The financial results of AHG are consolidated into the financial statements of the Group. The remaining 30% interest in AH is held by Wilson Parking International Holdings Limited. Revenue generated from the Motoring School Operation represented a majority part of the Group’s total revenue and accounted for approximately 87.2%, 68.7%, 66.9% and 59.4% of the Group’s total revenue for FY2017, FY2018, FY2019 and HY2020 respectively.

The commencement of the Motoring School Operation can be traced back to 1983 with the establishment of the Hong Kong School of Motoring, which is the first government designated driving school in Hong Kong. In addition to new learners' courses and driving improvement programs for individual learners, AHG also provides corporations with tailor-made driving courses for fleet drivers such as delivery crew and airport logistic crew, as well as China drivers' training. Currently, there are four driving schools in Hong Kong under the Motoring School Operation which are situated in Siu Lek Yuen (the "Siu Lek Yuen Driving School"), Yuen Long (the "Yuen Long Driving School"), Ap Lei Chau (the "Ap Lei Chau Driving School") and Kwun Tong (the "New Kwun Tong Driving School") respectively. AHG also operates the A1 driving school and the driving improvement school. Set out below is the breakdown of revenue generated by the Motoring School Operation during the Track Record Period:

	FY2017 <i>(Audited)</i> <i>HK\$'000</i>	FY2018 <i>(Audited)</i> <i>HK\$'000</i>	FY2019 <i>(Audited)</i> <i>HK\$'000</i>	HY2019 <i>(Unaudited)</i> <i>HK\$'000</i>	HY2020 <i>(Unaudited)</i> <i>HK\$'000</i>
Siu Lek Yuen Driving School	184,710	179,774	203,715	96,312	86,735
Yuen Long Driving School	112,807	124,396	115,328	56,687	51,321
Ap Lei Chau Driving School	68,939	86,674	85,210	40,070	41,471
New Kwun Tong Driving School	—	—	8,003	—	18,638
Other income	<u>36,258</u>	<u>49,183</u>	<u>53,089</u>	<u>26,085</u>	<u>24,417</u>
	<u>402,714</u>	<u>440,027</u>	<u>465,345</u>	<u>219,154</u>	<u>222,582</u>

The Siu Lek Yuen Driving School, the Ap Lei Chau Driving School and the New Kwun Tong Driving School are operating at sites leased from the Hong Kong Government, while the site for operating the Yuen Long Driving School at Nam Sang Wai was acquired by AHG in 1992. In addition, AHG also acquired properties for use as driving training centres, sales outlets and classrooms. As at 30 June 2020, AHG owned seven properties located in various locations in Hong Kong for the aforesaid purposes.

As at 30 June 2020, AHG had a team of around 370 driving instructors and a fleet of around 610 training vehicles, including private cars, light goods vehicles, medium goods vehicles, motorcycles, buses, skid cars, skid bikes and articulated vehicles.

2.2 Tunnel Operation

The Tunnel Operation during the Track Record Period comprised the operations of two tunnels in Hong Kong, namely the Tate's Cairn Tunnel ("TCT") and the Western Harbour Tunnel ("WHT"). The operation of TCT was carried out through Tate's Cairn Tunnel Company Limited ("TCTCL"), a 39.5%-owned associate of the Group, under a 30-year franchise granted by the Hong Kong Government. The franchise expired in July 2018 and TCTCL was voluntarily wound up subsequent thereto in 2020. The operation of WHT is being carried out through Western Harbour Tunnel Company Limited ("WHTCL"), a 50%-owned associate of the Group, under a 30-year franchise granted by the Hong Kong Government which will be expiring in August 2023. The revenue recorded by the Group under the Tunnel Operation segment during the Track Record Period represented service fees for the provision of certain general management services by the Group to TCTCL and WHTCL. Despite the immaterial amount of revenue under this segment, the Tunnel Operation is the largest profit contributor to the Group during the Track Record Period as the Group shared profits from these associated companies through equity method (please refer to the paragraph headed "Historical financial results of the Group" below for further details).

WHT is a dual 3-lane immersed tube tunnel and is the third road tunnel to cross Victoria Harbour, linking Yau Ma Tei in West Kowloon with Sai Ying Pun on the Hong Kong Island. It was constructed by WHTCL under a build-operate-transfer model proposed by the Hong Kong Government. The project agreement was entered into in 1993 and the construction of WHT was completed in April 1997 at a total cost of around HK\$7 billion. Upon the expiry of the franchise in August 2023, the ownership of WHT will be transferred to the Hong Kong Government, while WHTCL will remain as an associate of the Company.

2.3 Treasury Management Business

The Treasury Management Business involves investing and financing activities and management of investments in financial assets, including fund investment units, listed and unlisted equity and debt securities, interest-bearing instruments and cash and bank balances. The investment objective for the Treasury Management Business is to increase the value of its investments so as to enhance returns for the Shareholders. Through maintaining a mix of different types of investment instruments in its portfolio comprising listed and unlisted equity and debt securities, interest-bearing instruments and fund investments, the Group seeks not only to enhance its source of revenue in order to mitigate the risks of losing income from any one particular source, but also to achieve consistent risk adjusted returns by maximising total yields and capital appreciation and minimising risks in its investment portfolio.

Revenue generated from the Treasury Management Business mainly represented interest income from debt securities, interest-bearing instruments and bank deposits, and dividend income from equity securities, which accounted for approximately 8.8%, 28.5%, 30.4% and 38.6% of the Group's total revenue for FY2017, FY2018, FY2019 and HY2020 respectively. According to the Group's accounting policies, the financial assets are either stated at fair value (for equity securities, listed debt securities and unlisted fund investments) or at amortised cost (for unlisted debt securities and interest-bearing instruments). Fair value adjustments of these financial assets will be accounted for through profit or loss or other comprehensive income, subject to the Group's classification of the nature of the financial assets.

As at 30 June 2020, the Group had bank deposits and cash of approximately HK\$2,135.7 million and other investments in financial assets of approximately HK\$4,971.8 million, the breakdown of which is set out below:

	HK\$ million	% to total
<i>Financial assets measured at fair value through other comprehensive income</i>		
- Listed equity securities	619.2	12.5
- Listed debt securities	752.5	15.1
<i>Financial assets measured at fair value through profit or loss</i>		
- Listed equity securities	1,258.4	25.3
- Listed debt securities	392.4	7.9
- Unlisted fund investments	1,149.6	23.1
- Unlisted equity security	132.9	2.7
<i>Financial assets measured at amortised cost</i>		
- Unlisted debt security	65.0	1.3
- Interest-bearing instruments	601.8	12.1
	<u>4,971.8</u>	<u>100.0</u>

As at 30 June 2020, the Group had listed and unlisted equity securities of approximately HK\$2,010.5 million in aggregate, representing approximately 40.5% of the total investment portfolio of the Group. Among the equity securities, the Group held (i) 22,902,000 shares of, or approximately 0.18% interests in, China Evergrande Group (stock code: 3333.HK) (“**China Evergrande**”) with fair value of approximately HK\$458.0 million, representing approximately 9.2% of the total investment portfolio of the Group; and (ii) 54,255,000 shares of, or approximately 0.63% interests in, China Evergrande New Energy Vehicle Group Limited (formerly known as Evergrande Health Industry Group Limited) (stock code: 708) (“**Evergrande Vehicle**”) with fair value of approximately HK\$563.2 million, representing approximately 11.3% of the total investment portfolio of the Group. Other than these two listed securities, the Group also held 20 other listed and unlisted equity securities with an aggregate fair value of approximately HK\$989.3 million, representing approximately 20.0% of the total investment portfolio of the Group, covering various industry sectors including finance, property, natural resources, industrial and infrastructure, and retail.

As at 30 June 2020, the Group held listed and unlisted debt securities of approximately HK\$1,209.9 million in aggregate, representing approximately 24.3% of the total investment portfolio of the Group. These debt securities comprised a total of nine listed bonds and one unlisted bond with coupon rates ranging from 6.35% to 12% per annum, and they were mainly issued by companies listed on the Stock Exchange or their subsidiaries (including a subsidiary of China Evergrande) primarily operating in the PRC and the United Kingdom real estate sector.

The Group also invested in various unlisted funds with focuses on different industry sectors, regions and asset types. Among the fund investments, as at 30 June 2020, the Group held about 41,805 class A shares of, or 25% interests in, the Diversified Absolute Return Fund (“DARF”) with fair value of approximately HK\$465.5 million, representing approximately 9.4% of the total investment portfolio of the Group. Apart from DARF, the Group also held investments in a total of eight unlisted funds with an aggregate fair value of approximately HK\$684.1 million, representing approximately 13.7% of the total investment portfolio of the Group. The underlying investments of these funds include listed and unlisted equity instruments, structured financing products and venture capital deals in various regions including but not limited to the PRC and Hong Kong, covering various industry sectors including biopharmaceuticals, biotechnology, healthcare and related services, technology and e-commerce.

In addition to the above investments, the Group also invested in a total of seven interest-bearing instruments with aggregate outstanding amount (net of provision for impairment losses) of approximately HK\$601.8 million as at 30 June 2020, representing approximately 12.1% of the total investment portfolio of the Group. These instruments bear interests ranging from 10% to 12% per annum and are maturing in 2020 and 2021.

2.4 Electronic Toll Operation

The Electronic Toll Operation is undertaken by Autotoll (BVI) Limited (“Autotoll”), a jointly controlled entity which is owned as to 50% by The Autopass Company Limited (a 70%-owned subsidiary of the Group) and as to the remaining 50% by Electronic Toll Systems Limited. As such, the Group has an effective interest of 35% in Autotoll. During the Track Record Period, the Group accounted for its investment in Autotoll as a joint venture and shared the profit from Autotoll through equity method. The revenue of the Electronic Toll Operation segment during the Track Record Period represented fee income generated from the provision of certain general management and administrative services by the Group to Autotoll.

Autotoll is a provider of intelligent transport system (“ITS”) in the transport and logistics industries in Hong Kong. It has been managing and operating the electronic toll collection (“ETC”) system in Hong Kong since 1992 and the revenue generated therefrom accounted for approximately 44.3% to 65.9% of the total revenue of Autotoll during the Track Record Period. It also offers comprehensive logistics support services such as the provision of global positioning system (“GPS”) service through the launch of telematics service platform in August 2004. The non-ETC business accounted for approximately 34.1% to 55.7% of the total revenue of Autotoll during the Track Record Period.

As at 30 June 2020, there were 61 auto-toll lanes in operation at 12 toll roads and tunnels in Hong Kong. The total number of tags in circulation for the ETC service was about 357,400 and the number of subscribers for the GPS service was about 13,100 at the end of June 2020.

3. Historical financial results of the Group

Set out below is a summary of the financial results of the Group during the Track Record Period extracted from the annual reports and interim report of the Company:

	FY2017 <i>(Audited)</i> <i>HK\$'000</i>	FY2018 <i>(Audited)</i> <i>HK\$'000</i>	FY2019 <i>(Audited)</i> <i>HK\$'000</i>	HY2019 <i>(Unaudited)</i> <i>HK\$'000</i>	HY2020 <i>(Unaudited)</i> <i>HK\$'000</i>
Total revenue	461,591	640,937	695,937	333,771	374,740
Other revenue	25	26	26	13	13
Other gains/(losses) — net	605,306	(390,724)	(45,375)	43,332	(155,836)
Direct costs and operating expenses	(178,142)	(199,420)	(214,295)	(124,726)	(127,146)
Selling and marketing costs	(30,655)	(29,282)	(32,366)	(14,183)	(16,597)
Administrative and corporate expenses	(152,634)	(176,681)	(218,629)	(58,181)	(52,162)
(Provision)/reversal of impairment losses on financial assets	—	(5,970)	(17,779)	352	(22,753)
Profit/(loss) from operations	705,491	(161,114)	167,519	180,378	259
Finance costs	(40)	(52)	(4,576)	(2,273)	(1,747)
Share of profit of associates	596,244	609,028	616,536	297,546	201,929
Share of profit of a joint venture	13,429	14,895	16,154	10,587	19,788
Profit before taxation	1,315,124	462,757	795,633	486,238	220,229
Income tax (expenses)/credit	(87,882)	32,710	(24,706)	(11,268)	(12,173)
Profit for the year	<u>1,227,242</u>	<u>495,467</u>	<u>770,927</u>	<u>474,970</u>	<u>208,056</u>
Attributable to:					
The Shareholders	1,180,048	447,391	727,306	455,361	184,347
Non-controlling interests	47,194	48,076	43,621	19,609	23,709
	<u>1,227,242</u>	<u>495,467</u>	<u>770,927</u>	<u>474,970</u>	<u>208,056</u>
Earnings per Share (HK\$)	<u>3.17</u>	<u>1.2</u>	<u>1.95</u>	<u>1.22</u>	<u>0.49</u>

3.1 Total revenue

Total revenue of the Group represented principally (i) course fee from the Motoring School Operation; (ii) income from the Treasury Management Business comprising interest income from debt securities and interest-bearing instruments, dividend income from equity securities and interest income from bank deposits; and (iii) management service fees charged to the associated companies and joint venture of the Group.

FY2017 versus FY2018

Total revenue increased from approximately HK\$461.6 million in FY2017 to approximately HK\$640.9 million in FY2018, which was mainly due to (i) the increase in income from the Motoring School Operation by approximately 9.3% from approximately HK\$402.7 million in FY2017 to approximately HK\$440.0 million in FY2018 as a result of the increase in demand for driving lessons and the number of driving lessons delivered; (ii) the increase in dividend income from equity instruments by approximately 610.9% from approximately HK\$15.6 million in FY2017 to approximately HK\$110.9 million in FY2018 which was mainly attributable to the dividend income of approximately HK\$71.5 million received from Tai United Holdings Limited (stock code: 718.HK) (“**Tai United**”) in FY2018; and (iii) the increase in interest income from debt securities by approximately 404.6% from approximately HK\$8.7 million in FY2017 to approximately HK\$43.9 million in FY2018 as a result of additional interest income from fixed-rate bonds purchased during FY2018.

FY2018 versus FY2019

Total revenue increased from approximately HK\$640.9 million in FY2018 to approximately HK\$695.9 million in FY2019 which was mainly due to (a) the increase in income from the Motoring School Operation by approximately 5.8% from approximately HK\$440.0 million in FY2018 to approximately HK\$465.3 million in FY2019 as a result of the increase in demand for driving lessons and the number of driving lessons delivered; and (ii) the increase in interest income from debt securities by approximately 129.6% from approximately HK\$43.9 million in FY2018 to approximately HK\$100.8 million in FY2019 as a result of full year impact of purchases of fixed-rate bonds made in FY2018.

HY2019 versus HY2020

Total revenue increased from approximately HK\$333.8 million in HY2019 to approximately HK\$374.7 million in HY2020 which was mainly due to the increase in interest income from interest-bearing instruments by approximately 181.2% from approximately HK\$15.4 million in HY2019 to approximately HK\$43.3 million in HY2020.

3.2 Other gains or losses

Other gains or losses mainly represented fair value changes of the unlisted fund investments and listed debt or equity instruments.

FY2017 versus FY2018

The Group recorded other losses of approximately HK\$390.7 million in FY2018 as compared to other gains of approximately HK\$605.3 million in FY2017. The other losses in FY2018 were mainly attributable to (i) fair value loss of approximately HK\$102.2 million on the investment in the shares of China Evergrande; (ii) fair value loss of approximately HK\$159.6 million on the investment in the shares of Tai United; and (iii) fair value loss of approximately HK\$223.4 million on the investment in the shares of Freeman Fintech Corporation Limited (stock code: 279.HK) ("**Freeman Fintech**"), while the other gains in FY2017 were mainly attributable to the fair value gains of approximately HK\$646.1 million from the investment in the shares of China Evergrande.

FY2018 versus FY2019

The other losses recorded by the Group decreased from approximately HK\$390.7 million in FY2018 to approximately HK\$45.4 million in FY2019. The other losses in FY2019 were mainly attributable to fair value loss of approximately HK\$52.0 million on unlisted fund investments and approximately HK\$20.4 million on listed securities. The other losses in FY2018 were mainly attributable to the fair value loss of China Evergrande, Tai United and Freeman Fintech as discussed above.

HY2019 versus HY2020

The Group recorded other losses of approximately HK\$155.8 million for HY2020 as compared to other gains of approximately HK\$43.3 million for HY2019. The other losses in HY2020 were mainly attributable to fair value losses of approximately HK\$110 million on the investment in the shares of China Dili Group (stock code: 1387.HK) and approximately HK\$36.6 million on the investment in the shares of China Evergrande. The other gains in HY2019 were mainly attributable to the fair value gain of approximately HK\$33.5 million on the investment in listed debt securities and approximately HK\$9.4 million on the investment in listed equity securities.

3.3 Direct costs and operating expenses

Direct costs and operating expenses mainly represented direct costs and operating expenses related to the Motoring School Operation such as staff cost for the training instructors, depreciation of rights-of-use assets relating to leased premises of the driving schools and depreciation expenses for the training vehicles. As advised by the Management, the increase in such expenses from approximately HK\$178.1 million in FY2017 to approximately HK\$199.4 million in FY2018 and further to approximately HK\$214.3 million in FY2019 was largely in line with the growth in business during this period. No material fluctuation in such expenses was noted in HY2020 as compared with those in HY2019.

3.4 Administrative and corporate expenses

Administrative and corporate expenses mainly represented administrative expenses relating to head office including general staff costs, directors' remunerations, depreciation of right-of-use assets relating to leased offices and other corporate costs. Such expenses increased from approximately HK\$152.6 million in FY2017 to approximately HK\$176.7 million in FY2018 and further to approximately HK\$218.6 million in FY2019, mainly due to lease expenses relating to the Motoring School Operation. No material fluctuation in such expenses was noted in HY2020 as compared with those in HY2019.

3.5 Share of profit of associates

The Group's share of profit of associates referred to the share of profits of WHTCL and TCTCL respectively.

FY2017 versus FY2018

The Group's share of profit of associates for FY2018 comprised profit from TCTCL and WHTCL of approximately HK\$56.4 million and HK\$552.6 million respectively. Profit sharing from WHTCL increased from approximately HK\$514.9 million in FY2017 as a result of the increase in throughput of WHT and the implementation of toll increase effective from 27 May 2018. Profit sharing from TCTCL in FY2018 was less than that in FY2017 due to the expiry of the franchise for operating the TCT in July 2018.

FY2018 versus FY2019

The Group's share of profit of associates increased slightly to approximately HK\$616.5 million in FY2019 and was mainly attributable to the increase in profit sharing of WHTCL as a result of approximately 8.4% increase in toll revenue contributed by the increase in throughput of WHT and the implementation of toll increase effective from 1 June 2019.

HY2019 versus HY2020

The Group's share of profit of associates decreased to approximately HK\$201.9 million in HY2020 as compared to approximately HK\$297.5 million in HY2019 and was due to the significant drop of toll revenue by approximately 24.8% to approximately HK\$724.1 million in HY2020 as compared to approximately HK\$963.4 million in HY2019. Despite the implementation of toll increase effective from 1 June 2019, the traffic of WHT dropped significantly by approximately 30.3% as a result of the negative impact brought by the COVID-19 pandemic and thus negatively impacted the revenue and profitability of WHTCL.

3.6 Share of profit of a joint venture

The Group's share of profit of a joint venture referred to the share of profit from Autotoll, which increased moderately during the Track Record Period from approximately HK\$13.4 million in FY2017 to approximately HK\$16.2 million in FY2019 mainly as a result of an increase in administration fee income of ETC operation and increase in income from provision of intelligent transport system solutions.

The share of profit from Autotoll in HY2020 amounted to approximately HK\$19.8 million, representing an increase of approximately 86.9% as compared to that in HY2019, which was mainly due to the increase in administration fee income of ETC operation and project income earned by Autotoll.

3.7 Profit for the year/period attributable to the Shareholders

The Group recorded profit attributable to Shareholders of approximately HK\$1,180.0 million for FY2017, HK\$447.4 million for FY2018, HK\$727.3 million for FY2019 and HK\$184.3 million for HY2020 respectively. The following table summarises the segmental results of the Group during the Track Record Period:

	FY2017 <i>(Audited)</i> <i>HK\$'000</i>	FY2018 <i>(Audited)</i> <i>HK\$'000</i>	FY2019 <i>(Audited)</i> <i>HK\$'000</i>	HY2019 <i>(Unaudited)</i> <i>HK\$'000</i>	HY2020 <i>(Unaudited)</i> <i>HK\$'000</i>
Motoring School Operation	158,452	161,216	141,546	64,318	68,908
Tunnel Operation	598,744	611,527	619,036	298,794	203,179
Electronic Toll Operation	27,003	28,471	28,867	12,732	21,508
Treasury Management Business	<u>645,923</u>	<u>(214,653)</u>	<u>144,136</u>	<u>151,951</u>	<u>(35,003)</u>
Segment profit before taxation	1,430,122	586,561	933,585	527,795	258,592
Other revenue	25	26	26	13	13
Unallocated head office and corporate income and expenses	<u>(115,023)</u>	<u>(123,830)</u>	<u>(137,978)</u>	<u>(41,570)</u>	<u>(38,376)</u>
Profit before taxation	<u>1,315,124</u>	<u>462,757</u>	<u>795,633</u>	<u>486,238</u>	<u>220,229</u>

It can be shown in the table above that the performance of the Motoring School Operation and the Electronic Toll Operation was stable throughout the Track Record Period. Notwithstanding a drop in profit contribution in HY2020, the Tunnel Operation remained the main profit contributor of the Group, accounting for approximately 45.5%, 132.2%, 77.8% and 92.3% of the profit attributable to Shareholders for FY2017, FY2018, FY2019 and HY2020 respectively. Excluding the share of profit from the Tunnel Operation, the Group would have recorded a loss for FY2018. The fluctuations in the financial results of the Group were largely due to the less consistent performance of the Treasury Management Business which was subject to a larger extent to market volatility than the other operating segments of the Group.

4. Historical dividend payout

The Company has a consistent track record of paying dividends for over a decade. The following table summarises the dividend payout of the Company during the Track Record Period:

	FY2017	FY2018	FY2019	HY2019	HY2020
Dividend per Share (HK\$)	0.38	0.40	0.42	0.12	0.12
Dividend payout ratio ^(Note 1)	12.0%	33.3%	21.5%	9.8%	24.5%
Dividend yield ^(Note 2)	2.95%	3.44%	3.47%	1.09%	1.09%

Notes:

1. Dividend payout ratio is calculated by dividing dividend per Share by earnings per Share for the relevant year or period.
2. Dividend yield is calculated by dividing the dividend per Share by the year/period end closing price of the Shares for the relevant year or period.

As shown above, the Company's dividend payout ratio was about 12.0% for FY2017, 33.3% for FY2018 and 21.5% for FY2019. The interim dividend per Share for HY2020 remained the same at HK\$0.12 per Share as for HY2019.

The Offer Price of HK\$14.0 per Share translates to a dividend yield of approximately 2.86% based on the average dividend of HK\$0.40 per Share for FY2017, FY2018 and FY2019.

5. Financial position of the Group

Set out below is a summary of the financial position of the Group as at 31 December 2019 and 30 June 2020 extracted from the annual report and interim report of the Company:

	31 December 2019 <i>(Audited)</i> <i>HK\$'000</i>	30 June 2020 <i>(Unaudited)</i> <i>HK\$'000</i>
Non-current assets		
Property, plant and equipment	414,193	381,009
Interests in associates	714,835	573,777
Interest in a joint venture	108,949	128,768
Other financial assets	2,312,796	2,742,236
Deposits for acquisition of tangible assets	6,240	138
Deferred tax assets	4,964	5,504
	<u>3,561,977</u>	<u>3,831,432</u>
Current assets		
Inventories	712	720
Other financial assets	2,479,236	2,229,542
Trade, other receivables, deposits and prepayments	101,341	107,856
Amount due from a joint venture	9,000	—
Taxation recoverable	5,597	—
Dividend receivable	105,356	57,350
Bank deposits and cash	1,926,867	2,135,725
	<u>4,628,109</u>	<u>4,531,193</u>
Total assets	<u>8,190,086</u>	<u>8,362,625</u>
Current liabilities		
Trade and other payables	108,581	60,621
Contract liabilities	363,011	426,528
Lease liabilities	55,192	54,060
Taxation payable	39,430	12,511
Dividend payable	646	25,571
	<u>566,860</u>	<u>579,291</u>
Non-current liabilities		
Lease liabilities	116,481	89,004
Deferred tax liabilities	3,924	3,029
	<u>120,405</u>	<u>92,033</u>
Total liabilities	<u>687,265</u>	<u>671,324</u>
Total equity	<u>7,502,821</u>	<u>7,691,301</u>
Attributable to:		
The Shareholders	7,343,940	7,526,072
Non-controlling interests	158,881	165,229
	<u>7,502,821</u>	<u>7,691,301</u>

5.1 Assets

As at 30 June 2020, total assets of the Group amounted to approximately HK\$8,362.6 million. Major components of the total assets include (i) other financial assets (including unlisted fund investments, listed and unlisted equity and debt securities and interest-bearing instruments) of approximately HK\$4,971.8 million, representing approximately 59.5% of the total assets; (ii) bank deposits and cash of approximately HK\$2,135.7 million, representing approximately 25.5% of the total assets; (iii) interest in associates (being the carrying value of the Group's investment in WHTCL) of approximately HK\$573.8 million, representing approximately 6.9% of the total assets; (iv) interest in a joint venture (being the carrying value of the Group's investment in Autotoll) of approximately HK\$128.8 million, representing approximately 1.5% of the total assets; and (v) property, plant and equipment (mainly represented the leasehold land at Nam Sang Wai, eight self-owned properties, right-of-use assets relating to the sites for the Siu Lek Yuen Driving School, the Ap Lei Chau Driving School and the New Kwun Tong Driving School, motor vehicles, furniture, fixtures and equipment and leasehold improvement used for the Motoring School Operation) of approximately HK\$381.0 million, representing approximately 4.6% of the total assets.

The aggregate value of the other financial assets increased by approximately HK\$179.7 million as at 30 June 2020 as compared to that as at 31 December 2019 which was attributable to the net effect of (i) the acquisitions of financial assets including listed and unlisted debt securities, unlisted fund investments, interest-bearing instruments and an unlisted equity security of approximately HK\$827.7 million; (ii) the disposal of financial assets including unlisted fund investments, unlisted debt security and interest-bearing instruments of approximately HK\$578.7 million; and (iii) the net fair value loss on the portfolio of approximately HK\$69.2 million during HY2020.

Interests in associates decreased from approximately HK\$714.8 million as at 31 December 2019 to approximately HK\$573.8 million as at 30 June 2020 and was mainly due to the dividend payout of WHTCL during HY2020 of approximately HK\$343.0 million which exceeded the share of profit of WHTCL of approximately HK\$201.9 million.

There was no material change in bank deposits and cash position and the property, plant and equipment of the Group as at 30 June 2020 as compared to that as at 31 December 2019. As at 30 June 2020, the Group owned a 70% interest in the leasehold land in Nam Sang Wai, details of which are further discussed in paragraph 6.1 headed "Motoring School Operation" below, and seven properties which are shops or office area located in Tsuen Wan, Cheung Sha Wan, Mongkok, To Kwa Wan and Causeway Bay for the Motoring School Operation. In addition, the Group owned an apartment in Conventional Plaza Apartments for business accommodation purpose. These leasehold land and properties are mainly for own use in the Motoring School Operation which were recognised at costs in the accounts of the Group.

5.2 Liabilities

As at 30 June 2020, total liabilities of the Group amounted to approximately HK\$671.3 million, which mainly consisted of (i) contract liabilities (being driving course fees received in advance) of approximately HK\$426.5 million, representing approximately 63.5% of the total liabilities; (ii) lease liabilities, which mainly represented the future lease payments for the remaining lease terms of the leased premises for the driving schools of approximately HK\$143.1 million, representing approximately 21.3% of the total liabilities; and (iii) trade and other payables of approximately HK\$60.6 million, representing approximately 9.0% of total liabilities. As advised by the Management, the increase in contract liabilities was mainly attributable to the increase in the number of enrolments for driving courses. Such contract liabilities will gradually be recognised as revenue of the Group when the driving lessons are delivered and will not require any cash outlay from the Group to settle such contract liabilities. The decrease in lease liabilities was mainly due to the settlement of lease payments during HY2020.

The Group did not have any debts or bank loans or material contingent liabilities as at 30 June 2020. The commitments of the Group represented capital commitments of approximately HK\$31.9 million to unlisted fund investments.

5.3 Equity attributable to Shareholders

Equity attributable to the Shareholders increased from approximately HK\$7,343.9 million as at 31 December 2019 to approximately HK\$7,526.1 million as at 30 June 2020. The increase was mainly attributable to (i) profits generated for HY2020 attributable to the Shareholders of approximately HK\$184.3 million; and (ii) the increase in fair value of financial assets measured at fair value through other comprehensive income of approximately HK\$109.6 million.

Based on 372,688,206 Shares in issue as at 30 June 2020, the equity per Share attributable to the Shareholders ("NAV") as at 30 June 2020 was approximately HK\$20.19.

6. Prospects of the businesses of the Group

6.1 Motoring School Operation

During the Track Record Period, the enrolment number for driving courses of the Motoring School Operation recorded moderate growth in FY2019 and HY2020. The enrollment number for both FY2017 and FY2018 was about 27,800 which increased to about 33,400 in FY2019. The enrollment number for HY2020 was about 21,300, representing about 64% of that in FY2019. As advised by the Management, the increase was mainly due to the commencement of operation of the New Kwun Tong Driving School in August 2019 as well as the increase in demand for motorcycle training courses particularly in HY2020. The Management expects that the business of the Motoring School Operation will remain stable with no significant growth impetus, as the increasing demand for delivery services in Hong Kong may possibly create demand for motorcycle training, balancing off other negative factors such as economic downturn and competition from other driving schools and individual driving instructors.

As disclosed in paragraph 2 headed “Principal businesses of the Group” above, the Siu Lek Yuen Driving School, the Ap Lei Chau Driving School and the New Kwun Tong Driving School are operating on sites leased from and designated as driving school by the Hong Kong Government. We have discussed with the Management and understand that the Hong Kong Government introduced in 2018 the grant of lease of site for the operation of driving school through open tender. Since the commencement of the operation of the Siu Lek Yuen Driving School, its lease had been successfully renewed for consecutive periods till the expiry of its last lease in May 2018, with the present lease granted consecutively to AHG through open tender until February 2023. The lease of the Ap Lei Chau Driving School has also been successfully renewed for consecutive periods since commencement of its operation and its present lease will expire in August 2021. AHG submitted tender for its consecutive lease upon expiry of the present lease and as at the Latest Practicable Date, AHG had been awarded the tender for the consecutive lease of the Ap Lei Chau Driving School up to August 2023. The present lease of the New Kwun Tong Driving School, being its first lease, was granted through open tender until July 2023. The Management will submit tender for the leases of sites for the operations of driving schools whenever they are invited.

On the other hand, as mentioned in the letter from the Board, the lot, at which the Yuen Long Driving School is located, is within an area zoned by the Town Planning Board “Other Specified Use” annotated “Comprehensive Development to include Wetland Restoration Area” (in short “OU(CDWRA)”) under the prevailing approved Nam Sang Wai Outline Zoning Plan No. S/YL-NSW/8 (the “**Application Site**”). The Yuen Long Driving School has been operating in the Application Site since 1994 under a planning permission for temporary driving school and ancillary uses, which was first granted in 1992 and renewed from time to time with the current one to expire in 2022. In 2011, the Town Planning Board advised AHG to relocate the Yuen Long Driving School to other suitable locations in order to minimize the interface issues with future residential developments in that area and facilitate the implementation of “OU(CDWRA)” zone. Following such advice from the Town Planning Board, AHG has taken steps to identify other suitable replacement sites. Upon considering, among other factors, that no other suitable site has so far been considered appropriate for relocating the Yuen Long Driving School, an application for amendment of plan has been made to the Town Planning Board for a long-term establishment of the Yuen Long Driving School in the Application Site with wetland restoration proposal, which will involve the rezoning of the Application Site as an OU(CDWRA) sub-zone and introducing “driving school” as a permitted use to the designated OU(CDWRA) sub-zone. The application will be considered by the Town Planning Board at its meeting tentatively scheduled to take place on 18 December 2020.

On the other hand, as far as the Directors are aware, there had been no attempts made by other developers to the Town Planning Board for undertaking residential development covering the Application Site since the acquisition of the Application Site by the Group in 1992, except for a recent application to the Town Planning Board made by a developer in 2020 for undertaking residential development at the Nam Sang Wai area covering the Application Site. Such application would be considered by the Town Planning Board at its meeting to be held tentatively on 6 November 2020. The Company had filed an objection to the application. As the said application had received more than six thousand comments (most of them are negative) from the public, the Company considers that the chances of a successful redevelopment plan involving the Application Site would be remote. As at the Latest Practicable Date, there had not been any discussions or negotiations between the Company and the Hong Kong Government (including the Town Planning Board) regarding the potential conversion of use of the Application Site operating as driving school to other uses.

Due to the extensive land requirement for off-street driving training, it would be difficult for AHG to locate other sites for the Motoring School Operation. If the leases and/or designation of any of the driving schools is not granted or renewed or any redevelopment plan is to be implemented concerning the area at which the Yuen Long Driving School is located and no available sites could be identified in place of the existing sites, the operation of the relevant driving school may be temporarily suspended or ceased, which will adversely affect the Motoring School Operation.

6.2 Tunnel Operation

As mentioned in the 2019 Annual Report, WHT has been under-utilised due to the lower tolls at the other cross-harbour tunnels and poor connecting roads leading to and from WHT. Set out below is the vehicular flow through the three cross-harbour tunnels (including WHT) in recent years:

Year/ Month	Cross Harbour Tunnel	Eastern Harbour Crossing	WHT	Market share of WHT ^(Note)
2015	42,238,498	27,546,065	23,843,658	25.5%
2016	41,972,669	27,730,541	24,677,967	26.1%
2017	41,527,796	28,173,747	24,666,847	26.1%
2018	41,040,724	28,485,605	25,214,599	26.6%
2019	38,937,866	28,823,264	25,469,064	27.3%
2019/01	3,532,352	2,497,313	2,227,618	27.0%
2019/02	3,139,242	2,122,429	1,766,140	25.1%
2019/03	3,546,161	2,513,407	2,322,834	27.7%
2019/04	3,370,805	2,269,819	2,055,635	26.7%
2019/05	3,483,557	2,439,186	2,204,555	27.1%
2019/06	3,305,516	2,341,850	1,998,448	26.1%
2019/07	3,389,551	2,355,763	2,003,698	25.9%
2019/08	3,323,507	2,357,398	1,983,538	25.9%
2019/09	3,327,810	2,396,918	2,043,655	26.3%
2019/10	3,391,594	2,436,660	2,122,927	26.7%
2019/11	1,794,173	2,730,211	2,672,642	37.1%
2019/12	3,333,598	2,362,310	2,067,374	26.6%
2020/01	3,348,971	2,337,247	1,938,110	25.4%
2020/02	2,976,241	1,888,880	1,213,834	20.0%
2020/03	3,213,876	2,071,378	1,346,502	20.3%
2020/04	2,991,559	1,905,713	1,144,434	18.9%
2020/05	3,291,946	2,263,105	1,484,515	21.1%
2020/06	3,308,682	2,375,463	1,685,246	22.9%

Source: The Transport Department of Hong Kong

Note: The market share of WHT is calculated by dividing the vehicular flow of WHT by the sum of the vehicular flow of the Cross Harbour Tunnel, the Eastern Harbour Crossing and WHT.

As shown in the above table, WHT consistently maintained a market share of about 25% to 27% in previous years, except for the month of November 2019 where a higher market share was recorded, possibly due to the closure of the Cross Harbour Tunnel momentarily during the occurrence of social events. The total vehicular flow at WHT dropped in HY2020 as compared to the corresponding period in 2019, and the market share of WHT also dropped to around 19% to 23% for the months of February to June 2020. As advised by the Management, the drop in vehicular flow was mainly attributable to the outbreak of the COVID-19 pandemic and the associated social distancing measures implemented by the Hong Kong Government. As there was an overall drop in road traffic during this period, users tended to switch to use the other two cross-harbour tunnels with lower tolls than WHT, resulting in a drop in market share of WHT during HY2020.

As mentioned in the 2019 Annual Report, various traffic improvement works recently completed or to be completed are expected to attract more traffic through WHT. For instance, the opening of the Central-Wanchai bypass in February 2019 connecting WHT with the Island Eastern Corridor makes the travelling from Island East to WHT quicker and easier. Route 4 was also rerouted through the new underground tunnel to the bypass relieving traffic around Gloucester Road and Connaught Road and as a result the traffic at WHT's Central exit becomes smoother. Construction of a carriageway connecting Nga Cheung Road to southbound toll plaza of WHT is expected to be completed in 2020, which will make access easier to WHT from West Kowloon area. The Hong Kong Government is planning to improve the junction from Man Cheung Street underpass and Rumsey Street flyover, and works would be completed in 2020. The continuing development of West Kowloon Cultural District and opening of various arts and cultural venues is expected to further attract more traffic to West Kowloon area and contribute to WHT's traffic in the future.

Having considered the above and the historical financial results of WHT, the Management is of the view that the adverse impact brought by the COVID-19 pandemic on WHT is short term. When the vehicular flow resumes to normal following the gradual easing down of the COVID-19 pandemic and with the completion of various improvement works in the areas connecting the WHT, WHT is expected to regain its market share to the previous level and the Tunnel Operation remains to be a stable profit contributor to the Group until the expiry of the franchise in August 2023. We concur with the Management's view in this regard.

6.3 Treasury Management Business

The performance of the Treasury Management Business is subject to various risk factors, including but not limited to political, economic, technology and financial risks that are specific to individual industry sectors and investee companies of the Group's investment portfolio. As discussed in the paragraph headed "Historical financial results of the Group" above, the performance of the Treasury Management Business had been erratic during the Track Record Period. While the Treasury Management Business had contributed substantial revenue to the Group during the Track Record Period in the form of interest and dividend income, the business also affected the overall financial performance of the Group as a result of the fluctuations in the fair value of the investment portfolio held by the Group. The future performance of the Treasury Management Business is less predictable than the other business segments of the Group.

6.4 Electronic Toll Operation

As regards the operation of ETC, the number of tag subscription saw a moderate net growth in recent years, from 332,609 as at 31 December 2017 to 357,462 as at 30 June 2020. Nevertheless, the introduction of the “stop-and-go” e-payment system since 2017 which allows drivers to pay tolls by Octopus or contactless credit cards has become a competitor to the ETC service of Autotoll and the Management expects that the demand for autotoll services may be adversely affected.

As mentioned in the 2019 Annual Report, the Transport Department of Hong Kong published a smart mobility roadmap for Hong Kong in July 2019, which includes in-vehicle units (“IVU”) and free-flow tolling system (“FFTS”) smart mobility initiatives. An IVU is a tag enabled with radio frequency identification technology for a vehicle to receive real-time traffic information and used to facilitate the new electronic tolling system (i.e. FFTS). FFTS will be implemented by phases at government tolled tunnels and roads and eventually replace the current ETC system. As advised by the Management, the FFTS project is divided into four parts for tendering. As at the Latest Practicable Date, Autotoll had submitted tender for the backend system of FFTS, the result of which is yet to be known. Autotoll also intends to submit tenders for other two systems of FFTS when they are open for tendering.

Taking into account the uniqueness of the business nature, we are of the view that the operation of ETC is a steady business with some competition from other electronic means of payment. The growth of the Electronic Toll Operation appears to rest with the ability of Autotoll to successfully tender for contracts for new smart mobility initiatives or any other new tolling system proposed to be implemented by the Hong Kong Government, which is uncertain at the moment.

6.5 Our view

In summary, we note that the businesses of the Motoring School Operation, the Tunnel Operation and the Electronic Toll Operation are stable and consistently generated positive results despite the short term impact of the COVID-19 pandemic to the Tunnel Operation. Yet, as discussed above, there are challenges and uncertainties pertaining to each of these businesses. In particular, we are mindful that the franchise for the Tunnel Operation, being the main profit contributor to the Group, will expire in August 2023. There was no indication as at the Latest Practicable Date that the franchise may be extended. Following the expiry of the franchise, WHT will be transferred to the Hong Kong Government. As advised by the Management, the treatment of the interests in WHTCL upon expiry of the franchise for operating WHT in August 2023 would be similar to that of TCTCL which will remain as an associate of the Group until it is eventually dissolved. As there will be no tunnel operations after the expiry of the franchise, WHTCL will cease to generate profit contribution to the Group thereafter, which would significantly and adversely affect the profitability of the Group. Based on the current conditions of the assets for the operation of WHT, the Management does not expect any additional material costs would be incurred and borne by the Group when the ownership of WHT is transferred to the Hong Kong Government.

In addition, the overall financial performance of the Group during the Track Record Period has been affected by the fluctuating performance of the Treasury Management Business. The Treasury Management Business has been experiencing significant market volatility recently and the outlook for investment market in general is gloomy given the impact of COVID-19 and the increasing political tension globally. The Directors are of the view, with which we concur, that the rapid changes in domestic and external environment could bring unexpected risks to the Treasury Management Business and to the Group as a whole.

7. Information on the Offeror and intention of the Offeror

7.1 Background of the Offeror

The Offeror is an investment holding company incorporated in the British Virgin Islands with limited liability. It is directly and wholly owned by Windsor Dynasty which is in turn wholly and beneficially owned by Mr. Cheung. As at the Latest Practicable Date, the Offeror held 84,572,621 Shares, representing approximately 22.69% of the total issued Shares.

7.2 Intention of the Offeror

As disclosed in the letter from Haitong International Securities contained in the Composite Document, as at the Latest Practicable Date, the Offeror had no intention to (i) discontinue the employment of any employees of the Group or change the composition of the Board; (ii) redeploy the fixed assets of the Group other than those in its ordinary and usual course of business; or (iii) introduce any major changes in the existing operations and business of the Group.

7.3 Maintaining listing status of the Company

The Offeror intends to maintain the listing status of the Company on the Stock Exchange. If the Offeror acquires the requisite percentage of Offer Shares to enable it to compulsorily acquire all the issued Shares, the Offeror does not intend to exercise its right to compulsorily acquire the remaining Shares. The Offeror will take such steps as are necessary or procure the Company to take such steps as are necessary to ensure that the Company maintains an adequate public float so as to comply with the applicable requirements of the Listing Rules.

8. Evaluation of the Offer Price

8.1 *Comparison of the Offer Price against historical Share prices*

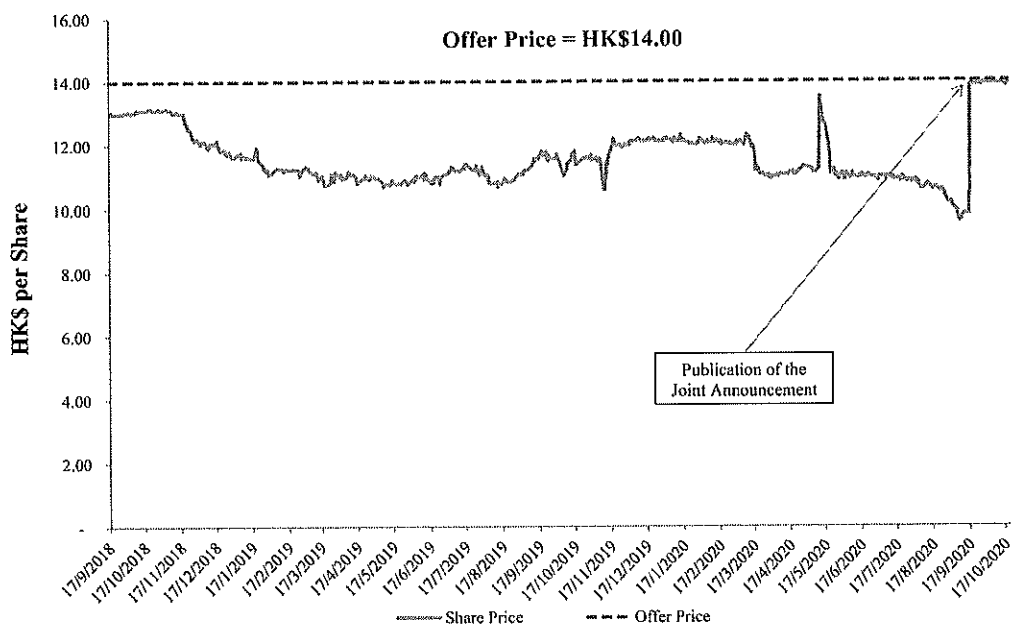
The Offer Price of HK\$14 represents:

- (i) a premium of approximately 0.7% over the closing price of HK\$13.9 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (ii) a premium of approximately 42.4% over the closing price of HK\$9.83 per Share as quoted on the Stock Exchange on the Last Trading Day;
- (iii) a premium of approximately 44.5% over the average closing price of approximately HK\$9.69 per Share based on the daily closing prices as quoted on the Stock Exchange for the last five trading days immediately prior to and including the Last Trading Day;
- (iv) a premium of approximately 41.6% over the average closing price of approximately HK\$9.89 per Share based on the daily closing prices as quoted on the Stock Exchange for the last ten trading days immediately prior to and including the Last Trading Day;
- (v) a premium of approximately 34.9% over the average closing price of approximately HK\$10.38 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 30 trading days immediately prior to and including the Last Trading Day;
- (vi) a premium of approximately 28.3% over the average closing price of approximately HK\$10.91 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 90 trading days immediately prior to and including the Last Trading Day; and
- (vii) a premium of approximately 23.6% over the average closing price of approximately HK\$11.33 per Share based on the daily closing prices as quoted on the Stock Exchange for the last 180 trading days immediately prior to and including the Last Trading Day.

As shown above, the Offer Price represents substantial premium over the closing prices of the Shares prior to the Joint Announcement. As further discussed below, the Offer Price is higher than the closing price of the Shares for the entire two-year period before the Last Trading Day which ranged from HK\$9.58 to HK\$13.50 per Share.

8.2 Historical price trend of the Shares

The chart below depicts the closing price of the Shares traded on the Stock Exchange from 17 September 2018, being the date falling two years preceding the date of the Joint Announcement, up to and including the Last Trading Day (the “**Review Period**”) and from 18 September 2020 (being the first trading day after the publication of the Joint Announcement) up to the Latest Practicable Date. We consider the Review Period is appropriate for our analysis of the historical Share price performance as it covers a sufficiently long period reflecting the financial results announced by the Company from time to time as well as smoothing out the distortions which may have been caused by short term volatility in the overall stock market.



Source: The website of the Stock Exchange and Bloomberg

The closing price of the Shares was about HK\$13 from 17 September 2018 to 19 November 2018, and gradually dropped to below HK\$11 on 15 March 2019. Since then and until mid-November 2019, the closing price of the Shares fluctuated within a narrow range of around HK\$11 and reached a temporary bottom of HK\$10.6 on 11 November 2019. During the period from 11 November 2019 to 12 May 2020, the closing price of the Shares fluctuated within a range between HK\$10.6 and HK\$12.3. We note that on 11 May 2020, the Company announced that there was a Shareholder stating its intention to propose two individuals for election in place of two retiring Directors standing for re-election at the annual general meeting held on 18 May 2020. Following such announcement, the closing price of the Shares saw a substantial jump from HK\$11.24 on 12 May 2020 to HK\$13.5 on 13 May 2020. We have enquired with the Management and understand that they were not aware of any reason for the aforesaid sudden surge in the closing price of the Shares. Such Share price increase was not sustained, with the Share price dropped and returned to a similar level before the aforesaid announcement and closed at HK\$11.10 on 22 May 2020. Since then, the closing price of the Shares showed a downward trend in general and reached the bottom during the Review Period before the Last Trading Day of HK\$9.58 on 9 September 2020. The Shares closed at HK\$9.83 on the Last Trading Day.

Trading in the Shares was suspended from 15 September 2020 to 17 September 2020 (both days inclusive) pending the publication of the Joint Announcement. Immediately thereafter, the closing price of the Shares surged to HK\$13.84 on 18 September 2020, which is the first trading day immediately following the Joint Announcement. Since then, the closing price of the Shares maintained in the range of HK\$13.89 to HK\$13.94 and closed at HK\$13.9 as at the Latest Practicable Date.

During the Review Period, the closing price of the Shares ranged between HK\$9.58 and HK\$13.50 and the average closing price of the Shares was approximately HK\$11.49. As shown in the chart above, the closing price of the Shares was consistently below the Offer Price throughout the whole Review Period. The Offer Price represents premia of approximately 46.1%, 3.7% and 21.8% over the lowest closing price, the highest closing price and the average closing price of the Shares during the Review Period respectively. In our opinion, the increase in the closing price of the Shares after the publication of the Joint Announcement was likely to be associated with the market response to the Offer. There is no assurance that the closing price of the Shares will remain at the current level or continue to rise if the Offer closes, lapses or does not become unconditional for any reason.

8.3 Liquidity of the Shares

The following table sets out the trading volume of the Shares during the period between the date falling one year preceding the date of the Joint Announcement up to and including the Latest Practicable Date:

	Number of trading days in the relevant month/period	Total trading volume for the month/period ^(Note 1)	Average daily trading volume for the month/period ^(Note 2)	Percentage of average daily trading volume to the total issued Shares as at the end of each month/period ^(Note 3)	Percentage of average daily trading volume to the total number of Shares held by public Shareholders as at the end of each month/period ^(Note 4)
2019					
From 16 September to 30 September	11	661,556	60,141	0.0161%	0.0187%
October	21	936,109	44,576	0.0120%	0.0138%
November	21	31,772,303	1,512,966	0.4060%	0.5167%
December	20	6,471,775	323,588	0.0868%	0.1123%
2020					
January	20	1,286,645	64,332	0.0173%	0.0224%
February	20	1,239,539	61,976	0.0166%	0.0215%
March	22	3,008,807	136,763	0.0367%	0.0475%
April	19	2,395,540	126,081	0.0338%	0.0438%
May	20	2,927,852	146,392	0.0393%	0.0509%
June	21	1,136,550	54,121	0.0145%	0.0188%
July	22	1,046,750	47,579	0.0128%	0.0165%
August	21	473,162	22,531	0.0060%	0.0078%
From 1 September to the Last Trading Day	10	437,398	43,739	0.0117%	0.0152%
From the first trading day following the Joint Announcement to the Latest Practicable Date	20	10,834,744	541,737	0.1454%	0.1882%
Average				0.061%	0.078%

Notes:

1. Total trading volume is expressed in terms of number of Shares traded.
2. Average daily trading volume is calculated by dividing the total trading volume for the month/period by the number of trading days during the month/period excluding any trading days on which trading of the Shares on the Stock Exchange was suspended for the whole trading day.
3. Based on 372,688,206 Shares in issue as at the end of each month/period or at the Latest Practicable Date.
4. The total number of Shares held by the public is calculated based on the number of total issued Shares excluding those held by the Offeror and the Offeror Concert Parties as at the end of each month/period or at the Latest Practicable Date.

As illustrated in the above table, the average daily trading volume ranged from 22,531 Shares to 1,512,966 Shares, representing approximately 0.006% to 0.406% of the total number of Shares in issue as at the end of the respective month/period, and approximately 0.0078% to 0.5167% of the total number of Shares held by public Shareholders as at the end of the respective month/period. We note that the trading volume during November 2019 was exceptionally high, which, as disclosed in Stock Exchange official website, was related to the acquisition by the Offeror of 29,343,000 Shares in the market. As a result of such acquisition, the shareholding interest of the Offeror in the Company increased from approximately 13.47% to 21.35%. There was an increase in average daily trading volume during the period after the publication of the Joint Announcement to the Latest Practicable Date, representing approximately 0.1454% of the total issued Shares and 0.1882% of the public float.

We are of the view that the liquidity of the Shares during the one-year period preceding the date of the Joint Announcement had been thin. In this light, the Independent Shareholders may find it difficult to dispose of a large number of Shares in the open market without exerting a downward pressure on the price of the Shares.

8.4 Comparison of Offer Price against net asset value per Share

The Offer Price represents:

- (i) a discount of approximately 29.0% to the audited consolidated NAV of approximately HK\$19.71 per Share as at 31 December 2019 (which was calculated by dividing the audited consolidated NAV as at 31 December 2019 of approximately HK\$7,343,940,000 by 372,688,206 issued Shares); and
- (ii) a discount of approximately 30.7% to the unaudited consolidated NAV of approximately HK\$20.19 per Share as at 30 June 2020 (which was calculated by dividing the unaudited consolidated NAV as at 30 June 2020 of approximately HK\$7,526,072,000 by 372,688,206 issued Shares).

In assessing the Offer Price against the NAV as at 30 June 2020, we have considered the following factors:

- (i) historical trading price vis-à-vis NAV — we note that the Shares had been consistently traded at discounts to the NAV for a prolonged period of time, with discounts ranging from 12.5% to 50.0% in the past 10 years. In particular, the discounts to NAV at which the Shares were traded throughout the Track Record Period as shown below indicate that the trading price of the Shares does not have correlation to the growth of the NAV:

Year/period end	NAV per Share <small>(Note 1)</small> HK\$	Average closing Share price <small>(Note 2)</small> HK\$	Discount to NAV per Share <small>(Note 3)</small> %
31 December 2017	16.97	13.12	22.7%
30 June 2018	16.62	12.22	26.5%
31 December 2018	18.50	10.99	40.6%
30 June 2019	19.24	11.80	38.7%
31 December 2019	19.71	11.09	43.7%
30 June 2020	20.19	10.10 ^(Note 4)	50.0%

Source: The website of the Stock Exchange and Bloomberg

Notes:

1. Being the audited/unaudited consolidated NAV as at the respective year/period end date as extracted from the respective annual/interim results announcement published by the Company.
2. Representing the average closing Share price during the period from the trading day following the publication by the Company of its audited annual results or unaudited interim results (as the case may be) to the trading day on which the subsequent unaudited interim results or audited annual results (as the case may be) were published.
3. Representing the discount of the average closing Share price to the NAV per Share as at the respective year/period end date.
4. Representing the average closing Share price during the period from 27 August 2020, being the trading day following the publication by the Company of its unaudited 2020 interim results, to the Last Trading Day.

This indicates that investors might not have valued the Shares based solely on the underlying value of the Group's assets;

- (ii) composition of the assets of the Group — as discussed in the paragraph headed “Financial position of the Group” above, the assets of the Group comprised a substantial portfolio of investments in financial assets (accounting for approximately 59.5% of the total assets) and other assets including bank deposits and cash (accounting for 25.5% of the total assets), investments in associates and joint venture (accounting for approximately 8.4% of the total assets), and property, plant and equipment (accounting for approximately 4.6% of the total assets);
- (iii) recent fair value changes of the investment portfolio — in view of the significant size and contribution of the financial assets to the Group’s total assets and that a substantial amount of the financial assets are carried at their fair value in the Group’s accounts, we have requested the Management to provide an update of the investment portfolio and their latest fair value changes subsequent to 30 June 2020. We note that based on the fair value of the investments as at 31 August 2020, there was a net fair value gain of approximately HK\$970.2 million over the fair value as at 30 June 2020, principally associated with the rise in share price of Evergrande Vehicle. Taking into account such fair value change, the NAV could have amounted to approximately HK\$8,496.3 million (equivalent to approximately HK\$22.8 per Share), and the Offer Price would represent a discount of approximately 38.6% to such NAV. Nevertheless, significant fluctuations in market prices of certain of the Group’s equity investments including China Evergrande and Evergrande Vehicle were seen in September 2020. Substantial drops in the respective share price of China Evergrande and Evergrande Vehicle were noted on 25 September 2020, with the fair value of the Group’s investments in these equities recorded decreases of about 23.8% and 39.1% respectively as compared to their fair value as at 31 August 2020, slashing off substantially the aforesaid unrealised gain in fair value recorded during June to August 2020. Although the share prices of China Evergrande and Evergrande Vehicle rebounded on 28 September 2020, there is no certainty about the future price performance of these shares or other investments in financial assets held by the Group. The NAV is in our view subject to high degree of market volatility and it would not be appropriate to take into account unrealised fair value changes in the assessment of the Offer Price, as further discussed below;
- (iv) size and nature of the investment portfolio — approximately 39.2% of the investment portfolio of other financial assets as at 30 June 2020 are unlisted equity and debt securities, interest-bearing instruments and unlisted fund investments with no readily available market. While the remaining 60.8% of the investment portfolio of other financial assets are listed securities, the ability to realise such investments in the market is dependent on market conditions as well as the liquidity of and market appetite for the particular listed security. Given the substantial size of the entire investment portfolio and having reviewed the liquidity of individual listed equity security in comparison to the holdings of the Group in that listed equity security, we consider it unlikely that the Company would be able to liquidate the entire investment portfolio within a short period of time and without suffering costs and discounts to their fair value as stated in the Group’s financial statements, and such fair value does not necessarily represent the cash value that the Group may be able to receive from realisation of the investments; and
- (v) businesses of the Group — we note that it is the intention of the Offeror to continue with the existing businesses of the Group and maintain the listing status of the Company. Certain of the Group’s assets such as property, plant and equipment and interests in associates and joint venture are stated at their respectively carrying values in the financial statements. It would not be practicable for the Group to realise such assets without causing disruption to or incurring extra costs for the continuation of the businesses of the Group.

Taking into account the above, we consider that the NAV per Share does not fairly represent the cash value that the Company may actually distribute or return to the Shareholders while the Company will continue to operate as a going concern or be put under a liquidation scenario. In particular, the Shares had not been traded at a price level close to or above the NAV for a prolonged period of time which implies that the market might not have valued the Shares solely with reference to the NAV and Independent Shareholders may not be able to realise their investments in the Shares through an on-market transaction at a price equal or similar to the NAV. Accordingly, in assessing the Offer Price, it would only be appropriate to consider the discount represented by the Offer Price to the NAV in conjunction with other factors including but not limited to the financial performance and business prospects of the Group, the future intention of the Offeror about the Group and, more particularly, the comparison of the Offer Price to the historical and prevailing Share prices, which are more relevant from the perspective of Independent Shareholders in considering the return from their investments in the Shares.

8.5 Comparison against comparable companies

We have considered assessing the Offer Price by making reference to market valuation of companies listed in Hong Kong which are principally engaged in businesses similar to those of the Group. However, we have not been able to identify any listed companies in Hong Kong which are principally engaged in either of the Motoring School Operation, the Tunnel Operation or the Electronic Toll Operation. The other shareholders of AH (the holding company of the Motoring School Operation), WHTCL (the holding company of the Tunnel Operation) and Autotoll (the holding company of the Electronic Toll Operation) are associated companies/subsidiaries of companies listed in Hong Kong. Based on the published financial reports of these companies, they are sizeable conglomerates with the Motoring School Operation, Tunnel Operation and Electronic Toll Operation representing immaterial parts to their overall business scales, and their other businesses are dissimilar to those of the Group. Accordingly, we consider it not appropriate to treat these listed conglomerates as comparable companies to the Company or to perform any analysis of the Offer Price with reference to the market valuation of such companies. In the absence of any appropriate comparable companies, we have focused our analysis of the Offer Price on the share price and trading performance and underlying fundamentals of the Company as discussed above.

8.6 Comparison against takeover precedents

For the purpose of our analysis of the Offer Price, we have also identified recent takeover precedents in the market from the website of the Stock Exchange (the “**Precedents**”) based on the following criteria: (i) the company subject to the offer is publicly listed on the Stock Exchange; (ii) the relevant offer is a voluntary general offer (excluding privatisation proposals); (iii) the relevant offer price involves cash consideration only; and (iv) the takeover proposal was first announced during the period from 17 September 2019, being the date falling one year preceding the date of the Joint Announcement, up to and including the Latest Practicable Date. The list of Precedents set out below is exhaustive based on the aforesaid criteria and is considered sufficient to provide a fair and representative sample to be taken as a general reference of the prevailing market practices in relation to the terms of the Offer.

Date of announcement	Company name and stock code	Offer price/ initial offer price HK\$	closing price per share on the last trading day %	Premium or (discount) to the		
				average closing price per share for the last five trading days up to and including the last trading day %	average closing price per share for the last 10 trading days up to and including the last trading day %	average closing price per share for the last 30 trading days up to and including the last trading day %
17 July 2020	CST Group Limited (stock code: 985)	0.028	12.0	16.7	21.7	25.4
14 May 2020	The Sincere Company, Limited (stock code: 244)	0.3806	8.7	20.4	24.0	38.3
15 March 2020	Easy Repay Finance & Investment Limited (stock code: 8079)	0.29	(27.5)	(22.3)	(20.1)	(20.1)
21 February 2020	Lai Fung Holdings Limited (stock code: 1125.HK)	8.99	(7.6)	(8.8)	(9.3)	(6.8)
3 February 2020	ICO Group Limited (stock code: 1460)	0.05	25.0	17.9	14.4	7.2
8 January 2020	AV Concepts Holdings Limited (stock code: 595)	0.35	12.9	14.0	20.1	27.2
	<i>Average</i>		3.9	6.3	8.5	11.9
	<i>Median</i>		10.4	15.3	17.3	16.3
	<i>Maximum</i>		25.0	20.4	24.0	38.3
	<i>Minimum</i>		(27.5)	(22.3)	(20.1)	(20.1)
17 September 2020	The Offer	14.00	42.4	44.5	41.6	34.9

Source: The website of the Stock Exchange and Bloomberg

As illustrated in the table above, the premia of the Offer Price over the closing price of the Shares on the last trading day and the average closing prices of the Shares for the five, 10 and 30 consecutive trading days were approximately 42.4%, 44.5%, 41.6% and 34.9% respectively, which are significantly higher than the maximum premium as well as the average premium of the Precedents.

CONCLUSION AND RECOMMENDATION

Having considered the principal factors and reasons as discussed above, in particular,

- (i) the Offer Price exceeds the historical closing prices of the Shares throughout the two-year period before the Joint Announcement, which ranged from HK\$9.58 to HK\$13.50 per Share. It also represented significant premium over the prevailing market price of the Shares — 42.4% over the closing price of the Shares as at the Last Trading Day, and 44.5%, 34.9%, 28.3% and 23.6% over the average closing price of the Shares during the 5-day, 30-day, 90-day and 180-day periods prior to and including the Last Trading Day. The increase in Share price after the Joint Announcement is in our view likely to be associated with the Offer and there is no assurance that such level of Share price can be sustained if the Offer closes or lapses;
- (ii) the liquidity of the Shares were in general very thin, with average trading volume representing less than 0.06% and 0.07% of the total issued share capital and public float of the Shares respectively. Such low liquidity renders it difficult for Independent Shareholders to dispose of their Shares in the market without exerting downward pressure on the Share price;
- (iii) despite the businesses of the Group had been profitable in the past, there are challenges and uncertainties lying ahead of the Group. The franchise for the Tunnel Operation, being the main profit contributor to the Group, will expire in 2023 and there is no indication that the franchise may be extended. The business of the Motoring School Operation had been stable but no significant growth impetus is seen. The Electronic Toll Operation, though had been performing stably, is expected to see increasing competition from other electronic means of payment. There is no certainty that Autotoll will be awarded any of the tenders for FFTS or any other new tolling system proposed to be implemented by the Hong Kong Government to provide a new revenue source for the Electronic Toll Operation. The Treasury Management Business is experiencing significant market volatility recently and the outlook of the investment market in general is gloomy given the impact of COVID-19 and increasing political tension globally;
- (iv) the Offeror had indicated that it does not intend to make any major changes to the businesses of the Group following the Offer;
- (v) the Group has a consistent dividend payout record over a long period of time. Nevertheless, in light of the expiry of the franchise for WHT which historically contributed a substantial amount of profit and generated substantial dividend and cashflow to the Group, there is uncertainty that the Company is able to declare dividend payout in a similar ratio as it maintained before. Those Independent Shareholders who look for stable recurring income may consider reinvesting the proceeds from accepting the Offer to other public utilities company listed on the Stock Exchange which provide similar dividend yield to that implied by the Offer Price of approximately 2.86% based on the historical average dividend payout of the Company;
- (vi) although the Offer Price represents a discount of approximately 30.7% to the NAV as at 30 June 2020, such NAV comprised principally investments in listed and unlisted equity, debt and funds. In light of the size of the entire investment portfolio, the liquidity of the individual listed equity security in comparison to the holdings of the Group in that listed equity security, the recent volatility in the stock market affecting the marketability of the listed investments in the portfolio

and certain of the investments are unlisted with no readily available market, it would be impracticable for the Company to immediately liquidate the portfolio without suffering a discount to their carrying value, not to mention the time and costs which may be incurred in connection with the liquidation. There is also no assurance that the proceeds, if any, so realised would be made available to the Shareholders as dividend, as the Company will continue to operate as a going concern and require capital to fund its ongoing operations. The ability of the Company to declare dividend is dependent on the financial position and future cashflow requirements of its businesses and other factors to be considered by the Board; and

- (vii) the Offer on the other hand provides an option with certainty for the Independent Shareholders to receive a cash consideration of HK\$14 per Share which represents a substantial premium over historical and prevailing market prices if they wish to exit their investment in the Shares,

we consider the terms of the Offer are fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to accept the Offer.

Independent Shareholders should note that the closing price of the Shares as at the Latest Practicable Date is lower than the Offer Price of HK\$14 per Offer Share and the Shares were consistently trading at a level below the NAV. There is no guarantee that the Shares will be traded at a price level comparable to the NAV in the future. Independent Shareholders who wish to realise all or part of their investments in the Company are reminded to carefully and closely monitor the market price and the liquidity of the Shares during and before the end of the Offer Period and consider to sell in the open market instead of accepting the Offer if the net proceeds of such sale after deducting all transaction costs are more than the net amount to be received under the Offer. Independent Shareholders should also note that the Offeror has stated that it does not intend to make any major changes to the businesses of the Group following the Offer. Those Independent Shareholders who are attracted to the future prospects and performance of the businesses of the Group may consider retaining all or part of their investments in the Shares.

The procedures for accepting the Offer are set out in Appendix I to the Composite Document as well as the accompanying Form of Acceptance. The latest time and date for acceptance of the Offer is 4:00 p.m. on 7 December 2020. Independent Shareholders are urged to read carefully the Composite Document and its appendices and act according to the timetable if they wish to accept the Offer.

Yours faithfully,
for and on behalf of
OPTIMA CAPITAL LIMITED



Beatrice Lung
Managing Director, Corporate Finance

Ms. Beatrice Lung is a responsible officer of Optima Capital and a licensed person registered with the SFC to carry out type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the SFO and has participated in the provision of financial advisory and independent financial advisory services for various transactions involving companies listed on the Stock Exchange.