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## GROUP INTRODUCTION

RHL International is one of the pioneering professional valuation and real estate consultants in Asia. Established since 1972, our group offers high quality professional services on Corporate Valuation & Advisory and Real Estate Solution & Surveying Practice. As an active participant in exchanging ideas and experience with regulators, government institutions and corporations, our group maintains vigilant to the dynamic changes in the market. Leveraging our extensive track record, technical resources and market intelligence, we are dedicated to provide tailored services to meet with the unique needs of our clients.

## EDITOR'S MESSAGE

Welcome to the Asset Valuation Bulletin issued by RHL Appraisal Limited. In this knowledge-based economy, a successful corporate management and investor need to be versatile to capture business opportunities, whilst understanding in accounting and finance is imperative to deal with the dynamic market. In response we launch this bulletin with the aim to share with you a wide range of useful knowledge and information, including but not limited to insight on current rules, and regulations, technical knowledge, market news and practical experience relating to asset valuation. We hope this bulletin could become one of your preferred knowledge update platforms.

## TOPICS

- Impact of IFRS 9 updates on Business Valuation
- N type and R type CBBC

## Financial Instruments Valuation

“Am I making a gain or loss?” As business expands, the proper use of financial instruments is the best way to facilitate investment, financing and risk management needs.”

## IMPACT OF IFRS 9 UPDATES ON BUSINESS VALUATION

Equity investments classified as available for sale (AFS) or interest in associate under the scope of IFRS 9 are required to be stated in fair value. Investor that needs to disclose should firstly consider whether a market reference price on the underlying equity is available. These include traded price on stock exchanges or recent share transactions at or close to the valuation date. Should the underlying equity lacks such references, business valuation conducted by independent valuer may be required.

Equity value of a company could be valued by one or more valuation approaches, namely Asset-based Approach\*, Market Approach and Income Approach. Determining the appropriate approach is subject to case by case analysis, as each has their own limitation and information requirement. Asset-based Approach may not be able to reflect the future economic benefit of the company's development and underestimates the potential of the company, and thus the value. Market approach has the advantage of requiring relatively less information from the investor and the invested company, but may not be appropriate when inadequate comparable is available or the business is at start-up stage.

Income Approach estimates the future economic benefits generated by the company, that is Free Cash Flow to Firm (“FCFF”) or Free Cash Flow to Equity (“FCFE”), and discounts to its present value using a discount rate appropriate for the risks associated with realizing the cashflows. A discount for lack of control is then applied to reflect the status of non-controlling interest of a company. Discount for lack of control is the amount or percentage to be deducted from the pro rata share of equity value to reflect the absence of some or all of the powers of control. As such, a discount for lack of control should be considered in the calculation of the value of AFS investment.



## Real Estate Valuation

“With 45 years of experience in handling multifarious cases, we have developed expertise in valuating real estates for a broad range of properties.”

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# Asset Valuation Bulletin

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Common issue using income approach is that the investor has limited authority on the management and operation of the invested company, hence receiving a detailed cashflow forecast prior to statutory financial reporting deadline for the investor poses a substantial hurdle.

\*Asset-based approach, from the description of AICPA (ASA) and NACVA, is for measuring the value of equity instruments. In common practice, it determines the value of equity interest, instead of an individual asset, by subtracting the total amount of liabilities from the total amount of assets. The valuation approaches are named Cost Approach, Market Approach and Income Approach in the International Valuation Standards (IVS).

## Business Valuation

““What is the value of a business?” Whether you are an executive, an investor or a stakeholder of a corporation, knowing the value of a business and its assets is critical in formulating sound and reasonable business decisions.”

## N TYPE AND R TYPE CBBC

N type CBBC refers to a CBBC where its Call Price equals to its strike price (no residual value). When it is called, investor will not receive anything and will lose all the investment costs. R type CBBC refers to a CBBC where its Call Price differs from its strike price (some residual values). When it is called, investor will receive the difference between the settlement price and the strike price. (The positive amount of the settlement price less the strike price for Bull Contract; The positive amount of the strike price less the settlement price for Bear Contract) But, in the adverse case where the settlement price is at or goes beyond the strike price, no residual will be received and the total loss will be all the investment costs.

	Bull Contract	Bear Contract	Residual value
<b>N type</b>	Call Price = Strike price	Call Price = Strike price	No residual value
<b>R type</b>	Call Price > Strike price	Call Price < Strike price	Greater or equal to 0
<b>Mandatory Call Prerequisite</b>	Underlying asset price falls to Call Price	Underlying asset price rises to Call Price	



## Corporate Restructuring

“To improve the performance of a business, it is necessary to go through reorganization of the corporation. Realigning the core business may involve divestiture, spin-off or privatization.”

### Comparing CBBC with Warrants

	CBBC	Warrants
Sensitivity to underlying asset price	CBBC almost moves as the same pace as the asset price in normal cases	Sensitivity to underlying asset price movement depends on strike price, risk-free rate, maturity and volatility. It can move as the same pace as the asset price but also can be insensitive to the asset price.
Sensitivity to Implied volatility	Almost insensitive	Quite sensitive
Finance cost	Clearly stated in the formula in the issuance document	Counted in the premium of the option price
Timevalue	Relatively low	Relatively high
Maturity	Between 3 months to 5 years	Between 6 months to 5 years
Mandatory Call by issuer	Called when asset price hits the Call Price	Not callable normally
Settlement Price	For underlying assets are shares of a Hong Kong-listed company : The closing price of the underlying assets on last trading day.	For underlying assets are shares of a Hong Kong-listed company : Five days average closing price before expiry day.

In the next issue, we will view the valuation method of CBBC.

## About Us

### Professional Team

Our team comprises of professionals who have finance and/or real estate related academic background and internationally recognized qualifications, such as CPA, FRM, registered professional surveyors, and with diverse experience and up-to-date knowledge of the current market environment. We committed to provide our clients with high standard services.

The Group is committed to provide high standard of professional services in compliance with international standard and Government Statutory requirements.

### Corporate & Valuation Advisory

Our experience in operating businesses in the mainland China and cooperating with overseas parties has become our competitive advantage in offering comprehensive client solution to overseas as well as mainland clients. We cover real estate as well as other industries such as natural resources, green energy and finance area.

- Valuation (including Real Estate, Business Valuation, Plant & Machinery)
- Real Estate Solutions and Surveying Practice
- Industry Market Research & Analysis
- Project Feasibility Study and Advisory
- Financial Analysis
- Investment Advisory
- Due Diligence
- Portfolio, Asset and Facilities Management

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