

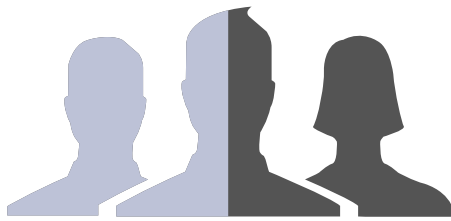


ASSET VALUATION BULLETIN

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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.

PART 3-METHODOLOGY OF VALUATING THE CBBC

Previously we have introduced the features of the CBBC, in this 3rd issue of Understanding CBBC, we shall take a closer look on the valuation aspect of this popular financial instrument.

Valuation method

There are many valuation methods to value CBBC. Each have their own distinctive advantages and limitations. One of the most common adopted model is Monte Carlo Simulation. Monte Carlo simulations are used to model the probability of different outcomes in a process that cannot easily be predicted due to the intervention of random variables. It is a technique used when there are uncertainties in prediction and forecasting, which in our case is the movement of the underlying asset price.

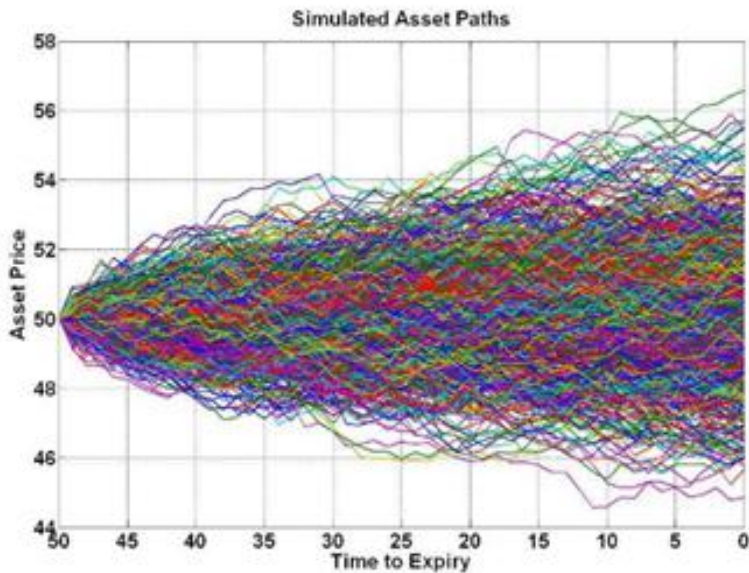
Since the value of the CBBC depends on the underlying asset price, employing Monte Carlo Simulation allow us to model possible movements of the asset prices. One can simulates different paths of the asset price according to the initial asset price, volatility, risk-free rate and time to maturity. There will be one settlement amount of each paths and through simulating tens of thousands of paths and discounting the settlement amount of each paths to the present value, the expected value of the CBBC can be calculated as taking the average of the discounted settlement amounts of different paths. The figure below is an example illustrating around thousand paths of the asset price movement simulated over time using relevant asset volatility.

Scope of Business :

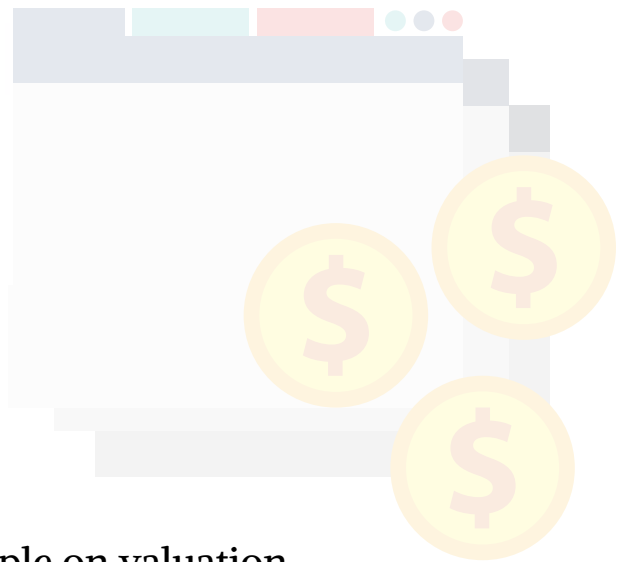
Business and Intellectual properties Valuation

“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. In these situations, it is vital that you engage an expert you can trust to provide an accurate and independent opinion on the assets' value.

Monte Carlo Simulation



(Source: Google picture (<http://bit.ly/2SlfwY0>))



In next issue, we will view an real life example on valuation of CBBC.

Scope of Business: Financial Instrument Valuation & Sensitivity Analysis

Due to the increasing role of financial instruments and their significant impact on the value of a corporation, mark-to-market valuation of complex financial instruments is required to match current accounting standards.

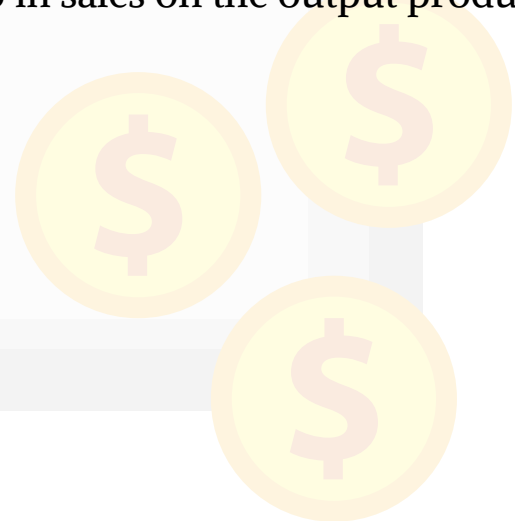
Leveraging a team of experts adept at applying sophisticated financial models, our group provides solutions for equity or debt-related instruments and derivatives.

TRADE TALKS

The trade tension and implementation of trade restrictions between two of the world's largest economies: US and China, have marked a major step back in globalisation. Movement and withdrawal of capital flows from the trade disputed regions have intensified as prudent investors seek to lower risk. Whilst trade tariff and embargo, being a charge on import goods increases trading costs which may be transferred to consumers, both in terms of pricing or availability of choices. Businesses that are slow moving and fail to tune from export to domestic market may have their turnover and the profitability severely cut down and contribute to a slower economic growth.

Take a manufacturing company as an example, its raw materials or parts may be sourced from various countries, as each countries have their unique resources and specialisation, whilst their end products have a broad market and are sold to different countries.

Trade restriction imposed by governments will increase their costs and limit quality of inputs available, hence resulting in higher pricing and drop in sales on the output products.



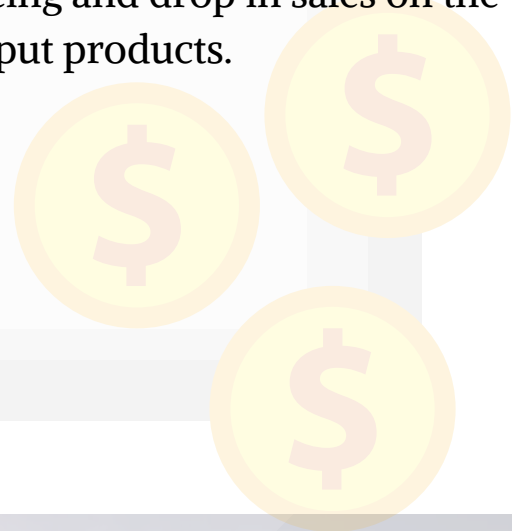
Scope of Business: Scenario Analysis & Calculation of Value

We can help executives better understand any future financial impact while also enabling them to fulfill risk management disclosures in compliance with accounting standards or acquisition negotiations. We provide scenario analysis services that calculate the value of financial instruments or the business to be invested. Our professional analysis can give you the insight you need to determine the terms of financial instruments with counter parties or terms of negotiation for a business.

Some industries seek to avoid the issue by relocating their factories to unaffected region. It is, however, a difficult decision since it is a long-term investment to set up new factories which involves a huge amount of capital investment and thus hurts the company's cash flow and profit short-run. It is also not easy to shift a complex supply and logistic channel to new location. Exposure to higher operational risk, country risk, and different currency risks shall provide new challenges.

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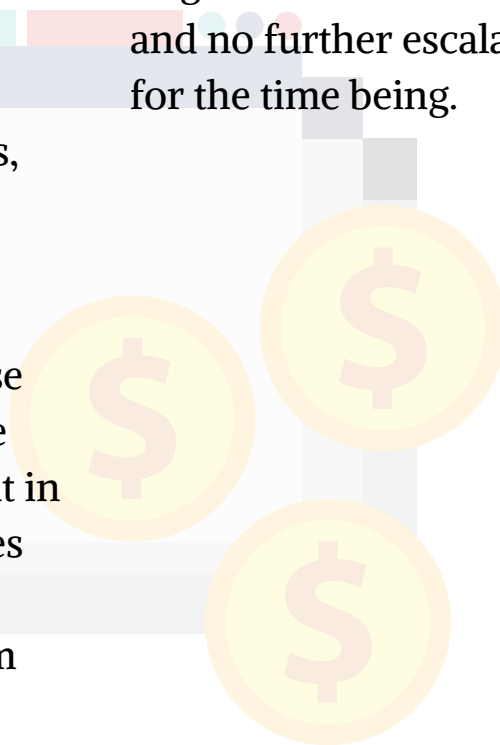
Scope of Business: Property, Plant & Machinery Valuation

Our valuation specialists are experienced in asset valuations for a multitude of industries to serve your every business decision or compliance requirement. We serve clients who operate in all kinds of business. And for industrial sector, we have worked for various types of industrial including electronics and electrical production, metal processing, power generation, natural resources, the environmental and recycling industry, and many more.

Consequently countermeasure may be taken against the tariff imposed. Interest rate might cut down or countries might devalue their currency. This may, however, trigger further uncertainties in the currency and interest rate arena.

In view of equity value of the business, the above factors are traditionally exposed to business, operating and trading risk shall have a significant impact on the financial performance. When assessing their equity value, these factors should be reflected in the financial forecast, and may result in a higher discount rate. Businesses that are agile and light in fixed assets may however benefit from this changes and prosper in this situation.

All in all, the current trade dispute provides a classic example on policy risk. The world looks upon the back and forth trade talks between the major powers and with the most recent consensus reached in the Osaka G20 Summit, let us have our fingers crossed that it can be settled and no further escalation will come, for the time being.





About Us

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.

- 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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