



# ASSET VALUATION BULLETIN

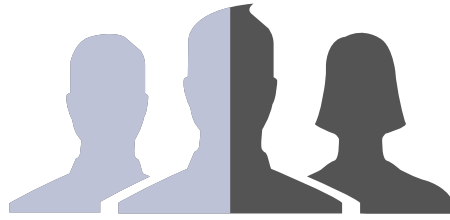
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A wide-angle photograph of the Hong Kong skyline, featuring numerous skyscrapers and the Victoria Harbour. A traditional Chinese junk boat with red sails is visible in the foreground on the water. The sky is blue with scattered white clouds. The image is partially overlaid with a teal gradient on the right side.

# 2020

# OUR TEAM



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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 4-SIMPLE ILLUSTRATION OF VALUING THE CBBC BY MONTE CARLO SIMULATION

In our previous issues of AVB on CBBC, part 2 have introduced the N type and R type of CBBC and in part 3 we discussed on one of the applicable valuation method, Monte Carlo Simulation. Today, let's take N type Bull Contract as an example to illustrate how to value CBBC by Monte Carlo Simulation. Assume we simulate 5 stock price paths.

Redemption Price / Strike Price = \$70

Time to maturity = 10 months

Risk-free rate = 3% per 10 months

STOCK PRICE	STARTING TIME	AFTER 2 MONTHS	AFTER 4 MONTHS	AFTER 6 MONTHS	AFTER 8 MONTHS	AFTER 10 MONTHS
PATH 1	\$100	\$57	\$23	\$78	\$69	\$95
PATH 2	\$100	\$123	\$156	\$92	\$86	\$132
PATH 3	\$100	\$180	\$164	\$206	\$231	\$199
PATH 4	\$100	\$90	\$70	\$126	\$176	\$31
PATH 5	\$100	\$81	\$63	\$15	\$42	\$75

### 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.

In path 1, the Bull Contract is redeemed after 2 months.

In path 4 and 5, the Bull Contract is redeemed after 4 months.

For path 2, the value of Bull Contract = \$132 - \$70 = \$62

For path 3, the value of Bull Contract = \$199 - \$70 = \$129

Value of Bull Contract = (Sum of value of Bull Contract in each path /  
no. of paths)\*

discount factor

$$= (\$62 + \$129) / 5 / (1 + 3\%) = \$37.09$$

Of course it is only a simple illustration of Monte Carlo Simulation. In reality, we need at least tens of thousands of paths and several hundred steps to get a relatively accurate result which converges to a theoretical value. The advantage of Monte Carlo Simulation is that it can be adopted in lots of complex financial instruments. Nevertheless, the disadvantage is that it is time consuming and require a large computational power. Also, it is hard to handle the financial instruments that can be early exercised. However, many mathematicians and data scientists publish different ways to reduce the computational time and valuation errors, and the computational power is also getting stronger nowadays.

The R type Bull Contract, N type and R type Bear Contract can be valued by Monte Carlo Simulation in a similar practice.

In the last issue, we will learn some extension 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.

# IVSC on recent development in goodwill impairment assessment

In an ongoing debate on the effectiveness of current application of goodwill impairment assessment, the International Valuation Standards Council (IVSC) have recently explored and discussed in a three-part article series on their findings and perspective.

The first part of the series <sup>1</sup> discusses whether goodwill is a wasting asset or not. It essentially points out both on theoretical and empirical grounds that goodwill is not a wasting asset hence concluding the deficiency in amortizing goodwill, as advocated by various stakeholders. Whilst it is simple to apply and provide a consistent “impairment” across its finite life, an amortization policy on goodwill is found to be inconsistent with how an acquired business is priced commercially, and it lacks or impedes the information value delivered to financial statement users in regards to goodwill, which its impairment are mostly triggered by scattered firm specific events instead of a consistent reduction over years.

- 1 <https://www.ivsc.org/news/article/is-goodwill-a-wasting-asset>
- 2 <https://www.ivsc.org/news/article/information-value-of-the-current-impairment-test-leading-or-lagging-indicator>

## 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.

In the second part of the series <sup>2</sup>, it is argued that current goodwill impairment framework fail to be a leading indicator. IVSC has analyzed the accounting framework and it seems that inadequacy does exist. Impairment do not appear to consistently serve as a leading indicator of future cash flows and returns and there is persistent time lag in the disclosure of goodwill impairments. Four potential reasons have been examined including i) impairment shielding from internally generated headroom, ii) amortizing of acquired intangible assets; iii) the current view on what are the impairment triggers and iv) behavioral consideration – a reluctance to take impairment by the company assessed. In which this leads to further debate on whether it is appropriate for goodwill impairment test to be a one-way downside test.

Hence in the final part of the series which has yet to be published, IVSC shall continue to consolidate public views and provide their suggestion on practical recommendations to enhance the information value of the goodwill impairment test. We will continue to closely monitor the latest development and its impact on current valuation accordingly.

- 1 <https://www.ivsc.org/news/article/is-goodwill-a-wasting-asset>
- 2 <https://www.ivsc.org/news/article/information-value-of-the-current-impairment-test-leading-or-lagging-indicator>

### 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.



## 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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