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# VALUATION OF RIGHT-OF-USE ASSETS

## As at 5 February 2024

For Asiaray Media Group Limited

Project Code: FC202401009

Prepared by Flagship Appraisals and Consulting Limited

**LETTER OF OPINION**

Ref: FC202401009

5 July 2024

The Board of Directors  
Asiaray Media Group Limited  
16/F, Kornhill Plaza – Office Tower  
1 Kornhill Road  
Quarry Bay, Hong Kong

Dear Sirs/Madams,

**Re: Valuation of Right-Of-Use Assets**

In accordance with the instructions from Aaiaray Media Group Limited (the "Company"), we are engaged to measure the right-of-use assets of the following tenancy agreements (the "Leases"):

Lease	Item	Date of Commence
A	Advertising resources in Shenzhen metro line 3, line 6, sub-line 6, line 10, line 14 and line 16	5 February 2024
B	Advertising resources in Shenzhen metro line 12	5 February 2024

The valuation date of the right-of-use assets of Lease A and Lease B is 5 February 2024 (the "Valuation Date").

Our analysis and conclusions, which are to be used only in their entirety, are for the use of the Company's management (the "Management") solely for internal reference. They are not to be used for any other purposes or by any other party for any purpose, without our express written consent. None should rely on our analysis and conclusion as a substitute for their own judgement or due diligence.

This valuation engagement is conducted in accordance with the International Valuation Standards. The estimate of value that results from a valuation engagement is expressed as a conclusion of value.

Based on our analysis, as described in this valuation report, the right-of-use assets of the Leases as at the Valuation Date were as follows:

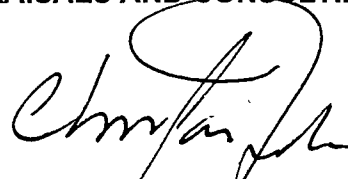
Lease	Right-of-use assets (RMB)
A	178,162,000
B	22,288,000

This conclusion is subject to the assumptions, the Limiting Conditions and the Statement of General Services Conditions described in this report. We have no obligation to update this report or our conclusion of value for information that comes to our attention after the date of this report.

Yours faithfully,

For and on behalf of

**FLAGSHIP APPRAISALS AND CONSULTING LIMITED**



**Ferry S.F. Choy**

*MSc. Fin, CFA, ICVS*

Managing Director

**Contents**

<b>1. EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>2. INTRODUCTION .....</b>	<b>2</b>
<b>3. SCOPE OF SERVICES .....</b>	<b>2</b>
<b>4. BASIS OF VALUE.....</b>	<b>2</b>
<b>5. SOURCES OF INFORMATION .....</b>	<b>2</b>
<b>6. KEY TERMS OF THE LEASE .....</b>	<b>3</b>
<b>7. VALUATION METHODOLOGY .....</b>	<b>4</b>
<b>8. MAJOR ASSUMPTIONS .....</b>	<b>4</b>
<b>9. LIMITING CONDITIONS.....</b>	<b>5</b>
<b>10. CONCLUSION.....</b>	<b>6</b>
<b>EXHIBIT A – STATEMENT OF GENERAL SERVICES CONDITIONS .....</b>	<b>7</b>
<b>EXHIBIT B – INVOLVED STAFF BIOGRAPHIES .....</b>	<b>8</b>
<b>EXHIBIT C – INCREMENTAL BORROWING RATE DERIVATION .....</b>	<b>9</b>

**1. EXECUTIVE SUMMARY**

Governing Standard: International Valuation Standards

HKFRS 16 Lease

Purpose: Internal reference

Standard of Value: Right-of-use assets

Client Name: Asiaray Media Group Limited

Asset Valued:

Lease	Item
A	Advertising resources in Shenzhen metro line 3, line 6, sub-line 6, line 10, line 14 and line 16
B	Advertising resources in Shenzhen metro line 12

Valuation Methodology: Income Approach

Valuation Date: 5 February 2024

Report Date: 5 July 2024

Conclusion of Value:

Lease	Right-of-use assets (RMB)
A	178,162,000
B	22,288,000

## **2. INTRODUCTION**

In accordance with the Company's instructions, we estimated the right-of-use assets of the Leases according to the requirement under HKFRS 16 Lease ("HKFRS 16") to facilitate the Management to assess the impact on its financial statement.

## **3. SCOPE OF SERVICES**

The Management engages us in performing an independent assessment of the right-of-use assets of the Leases as at the Valuation Date for internal reference.

## **4. BASIS OF VALUE**

The right-of-use assets of the Leases according to HKFRS 16, should meet the following criteria:

At the commencement date, a lessee shall measure the right-of-use asset at cost. The cost of the right-of-use asset shall comprise the following:

- (i) The amount of the initial measurement of the lease liability;
- (ii) Any lease payments made at or before the commencement date, less any lease incentives received;
- (iii) Any initial direct costs incurred by the lessee; and
- (iv) An estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The lessee incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying assets during a particular period.

## **5. SOURCES OF INFORMATION**

Sources of data utilized in our analysis include but are not limited to the following:

- The Leases;
- Moody's research; and
- Bloomberg.

We also relied upon publicly available information from sources on capital markets, including industry reports, various databases of publicly traded companies and news. We express no opinion and accept no responsibility for the accuracy and completeness of the financial information or other data provided by others. We assume that the financial and other information provided is accurate and complete, and we have relied upon this information in our assessment.

## 6. KEY TERMS OF THE LEASE

Lessor:

Lease	Lessor
A	Shenzhen Metro Group Co.,Ltd.
B	Shenzhen Line 12 Rail Transit Co., Ltd. <sup>1</sup>

Lessee:

Shanghai Asiaray Advertising Media Company Limited<sup>2</sup>

Premises:

Lease	Item
A	Advertising resources in Shenzhen metro line 3, line 6, sub-line 6, line 10, line 14 and line 16
B	Advertising resources in Shenzhen metro line 12

License Fee of Lease A and Lease B:

The minimum license fee would be charged on a fixed amount basis and, the license fee would be adjusted by a predefined percentage starting from the second operation year. When the actual annual advertising revenue exceeds the target annual advertising revenue, the excess amount is paid to the property owner based on the proportion specified by the property owner.

The annual operating rights fee is divided into twelve equal monthly payments.

The term of the Leases is from 5 February 2024 to 31 December 2029 with a rent-free period.

<sup>1</sup> English name for illustrative purpose only. The official name in Chinese is 深圳市十二號綫軌道交通有限公司.

<sup>2</sup> English name for illustrative purposes only. The official name in Chinese is 上海雅仕維廣告傳播有限公司.

## 7. VALUATION METHODOLOGY

According to HKFRS 16, a lessee shall measure the right-of-use asset at cost at the commencement date. The cost of the right-of-use asset shall comprise the criteria listed in Section 4 Basis of Value of this Report.

Based on these requirements, the cost of the right-of-use asset is a stream of future payments. Therefore, the income approach is adopted in this valuation to measure the right-of-use assets.

**Income Approach:** The value of an asset is the sum of the present value of future economic benefits streams. In this case, the future economic benefits streams refer to the future payments under the Leases.

## 8. MAJOR ASSUMPTIONS

We have adopted the following assumptions in our valuation.

- (i) The reference date of market data and information is 5 February 2024.
- (ii) The cash flows are derived based on the Leases; and
- (iii) The incremental borrowing rate of 5.00% for the Leases reflects the risks associated with the Lessee and the time value of money. Exhibit C sets out the details of the incremental borrowing rate derivation.

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## 9. LIMITING CONDITIONS

We have made no investigation of and assumed no responsibility for the title to or any liabilities against the Company.

The opinion expressed in this report has been based on the information supplied to us by the Company and their staff, as well as from various institutes and government bureaus without verification. All information and advice related to this valuation are provided by the Management. Readers of this report should perform due diligence themselves. We have exercised all due care in reviewing the supplied information. Although we have compared key supplied data with expected values, the accuracy of the results and conclusions from the review are reliant on the accuracy of the supplied data. We have relied on this information and have no reason to believe that any material facts have been withheld, or that a more detailed analysis may reveal additional information. We do not accept responsibility for any errors or omissions in the supplied information and do not accept any consequential liability arising from commercial decisions or actions resulting from them.

This valuation reflects facts and conditions existing as at the Valuation Date. Subsequent events have not been considered, and we have no obligation to update our report for such events and conditions.

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## 10. CONCLUSION

In conclusion, as described in this valuation report, the right-of-use assets of the Leases as at the Valuation Date are as follows:

Lease	Right-of-use assets (RMB)
A	178,162,000
B	22,288,000


The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under this valuation. Moreover, we have neither personal interests nor bias with respect to the parties involved.

Yours faithfully,

For and on behalf of

**FLAGSHIP APPRAISALS AND CONSULTING LIMITED**



**Ferry S.F. Choy**

*MSc. Fin, CFA, ICVS*

Managing Director



## **EXHIBIT A – STATEMENT OF GENERAL SERVICES CONDITIONS**

The service(s) provided by Flagship Appraisals and Consulting Limited will be performed in accordance with professional valuation standards. Our compensation is not contingent in any way upon our conclusions of value. We assume, without independent verification, the accuracy of all data provided to us. We will act as an independent contractor and reserve the right to use subcontractors. All files, working papers or documents developed by us during the course of the engagement will be our property. We will retain this data for at least seven years after the completion of the engagement.

Our report is to be used only for the specific purpose stated herein, and any other use is invalid. No reliance may be made by any third party without our prior written consent. You may show our report in its entirety to those third parties who need to review the information contained herein. None should rely on our report as a substitute for their own due diligence or judgment. No reference to our name or our report, in whole or in part, in any document you prepare and/or distribute to third parties may be made without our written consent.

You agree to indemnify and hold us harmless against and from any and all losses, claims, actions, damages, expenses, or liabilities, including reasonable attorneys' fees, to which we may become subject in connection with this engagement. You will not be liable for our negligence. Your obligation for indemnification and reimbursement shall extend to any controlling person of Flagship Appraisals and Consulting Limited, including any director, officer, employee, subcontractor, affiliate or agent. In the event we are subject to any liability in connection with this engagement, regardless of the legal theory advanced, such liability will be limited to the amount of fees we received for this engagement.

We reserve the right to include your company name in our client list, but we will maintain the confidentiality of all conversations, documents provided to us, and the contents of our reports, subject to a legal or administrative process or proceedings. These conditions can only be modified by written documents executed by both parties.

**EXHIBIT B – INVOLVED STAFF BIOGRAPHIES**

**Ferry S.F. Choy, MSc. Fin, CFA, ICVS**

**Managing Director**

Mr. Choy is the Managing Director of Flagship Appraisals and Consulting Limited. He has worked in the accounting and valuation profession for more than 15 years. Mr. Choy has served many listed companies in Hong Kong, China, Malaysia and Singapore. Mr. Choy's experience included management advice, project evaluation, public listings, M&A and valuation of different assets.

Mr. Choy is a Charterholder of Chartered Financial Analyst (CFA), an International Certified Valuation Specialist (ICVS) – a professional credential in business valuation issued by the International Association of Certified Valuation Specialists (IACVS). He served on the Continuous Education Committee of the IACVS Hong Kong Chapter, providing business valuation training courses to members. He also conducts seminars in different professional bodies, including HKICPA and CPA Australia.

Mr. Choy has acted as a valuation specialist in listed companies' transactions. He has also provided support in different Family law assignments involving business valuations, asset tracking and recovery, expenditure analysis and Duxbury calculations and advising on business, partnership and shareholder disputes.

**John T.H. Poon**

**Senior Analyst**

Mr. Poon holds a Master of Science degree in Economics from the Chinese University of Hong Kong. He currently holds the position of Senior Analyst of Flagship Appraisals and Consulting Limited and assists in various valuation assessments for transaction and financial reporting purposes.

**EXHIBIT C – INCREMENTAL BORROWING RATE DERIVATION**
**Determination of Incremental Borrowing Rate**

The discount rate is a function of the risk-free rate, credit risk premium and country risk premium.

- a) Risk-free rate: we refer to the yield to maturity of the Chinese Government Bond with a similar term as of the Valuation Date;
- b) Credit rating: we performed a financial ratio analysis of the Company to estimate the credit rating based on Moody's research ;
- c) Credit risk premium: we search for comparable bonds with similar credit ratings to estimate the credit spread; and
- d) Country risk premium: we referred to Aswath Damodaran's research. The spread between PRC and the US was considered as the country risk premium.

The incremental borrowing rate for the Leases is calculated below:

	<u>5 February 2024</u>
Risk-free Rate	2.16%
OAS	2.10%
Country Risk Premium	0.77%
<b>Incremental Borrowing Rate</b>	<b>5.00%</b>
<b>(Round off to 2 decimal places)</b>	