

## VALUATION OF RIGHT-OF-USE ASSETS

As at 1 November 2024

For A & S Group (Holdings) Limited

Project Code: FC202408070

Prepared by Flagship Appraisals and Consulting Limited

**LETTER OF OPINION**

Ref: FC202408070

30 September 2024

The Board of Directors  
A&S Group (Holdings) Limited  
Room 11, 14th Floor, Tower 2, Ever Gain Plaza  
88 Container Port Road  
Kwai Chung, Hong Kong

Dear Sirs/Madams,

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

In accordance with the instructions from A & S Group (Holdings) Limited (the "Company") and A & S (HK) Logistics Limited (the "Tenant"), we are engaged to measure the right-of-use assets of the lease (the "Cainiao Tenancy Agreement II"), which is the warehouse tenancy agreement entered into between the Tenant and Hong Kong Cingleot Investment Management Limited (the "Landlord") in respect of the lease of Portion of L2 (being the Compartments C) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong (the "Cainiao Warehouse II").

The valuation date of the right-of-use assets of the Cainiao Tenancy Agreement II is 1 November 2024 (the "Valuation Date"). It is noted that the Valuation Date is after the reporting date of this report. Therefore, we used the market data as of 20 September 2024 for this valuation.

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 judgment 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 Cainiao Tenancy Agreement II as at the Valuation Date is **HK\$16,102,000** (HONG KONG DOLLAR SIXTEEN MILLION ONE HUNDRED AND TWO THOUSAND ONLY).

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, MRICS*

Managing Director

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## 1. EXECUTIVE SUMMARY

Governing Standard:	International Valuation Standards and HKFRS 16 Lease
Purpose:	Internal reference
Standard of Value:	Right-of-use assets
Client Name:	A & S Group (Holdings) Limited and A & S (HK) Logistics Limited
Asset Valued:	Portion of L2 (being the Compartments C) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong
Valuation Methodology	Income Approach
Valuation Date:	1 November 2024
Report Date:	30 September 2024
Conclusion of Value:	HK\$16,102,000

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## **2. INTRODUCTION**

According to the Management, as of the reporting date of this report, they entered into the Cainiao Tenancy Agreement II. The Cainiao Warehouse II is held by the Landlord for investment. The Cainiao Warehouse II is a logistics center located at Hong Kong International Airport, and the Cainiao Warehouse II currently lies within an area zoned "Other Specified Uses" under Chek Lap Kok Outline Zoning Plan No. S/I-CLK/16. The estimated area of the Cainiao Warehouse II is approximately 40,000 square feet. The Cainiao Warehouse II is primarily utilized for freight forwarding related to air freight and logistics operations, along with ancillary office facilities to support these services. The construction of the Cainiao Warehouse II began in mid-2018 and was completed in 2023. The government rent is assessed at 3% of the rateable value of the Cainiao Warehouse II. Due to the newly established nature of Cainiao Warehouse II and the unique nature of its operations, we cannot find publicly available information on the rental rates for the Cainiao Warehouse II. In accordance with the instructions from the Company and the Tenant, we estimated the right-of-use assets of the Cainiao Tenancy Agreement II 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**

We are engaged to perform an independent assessment of the right-of-use assets of the Cainiao Tenancy Agreement II as at the Valuation Date for internal reference.

## **4. BASIS OF VALUE**

We evaluate the right-of-use assets of the Cainiao Tenancy Agreement II according to HKFRS 16.

## **5. SOURCES OF INFORMATION**

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

- The Cainiao Tenancy Agreement II;
- The Aswath Damodaran's research on country risk premium;
- Moody's research; and
- Bloomberg.

We also relied upon publicly available information from sources on capital markets, including industry reports, 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 CAINIAO TENANCY AGREEMENT II

Lessor	Hong Kong Cingleot Investment Management Limited
Tenant	A & S (HK) Logistics Limited
Premises	Portion of L2 (being the Compartments C) of Cainiao Smart Gateway, Chek Lap Kok, Hong Kong
Rent details	The rent is HK\$711,637 per calendar month, exclusive of rates, government rent, utility expenses and management charges. The term of the Cainiao Tenancy Agreement II is from 1 November 2024 to 30 June 2027 (both dates inclusive) with rent-free periods. The rent-free periods are three months and fifteen days from 1 January 2025 to 15 April 2025 (both days inclusive), three months from 1 January 2026 to 31 March 2026 (both days inclusive) and three months from 1 January 2027 to 31 March 2027 (both days inclusive)
Reinstatement cost	Per the Management, the reinstatement costs for the Lease are HK\$1,067,000.

## 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:

- (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.

Based on the above requirements, the cost of the right-of-use asset is a stream of future payments. Therefore, the income approach is the only applicable methodology in this valuation to measure the right-of-use asset.

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

## **8. MAJOR ASSUMPTIONS**

We have adopted the following assumptions in our valuation.

- (i) The reference date of market data and information is 20 September 2024;
- (ii) The cash flows are derived based on the Cainiao Tenancy Agreement II; and
- (iii) The incremental borrowing rate of 4.80% for the Cainiao Tenancy Agreement II reflects the risks associated with the Tenant 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 and the Tenant.

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 Cainiao Tenancy Agreement II as at the Valuation Date is **HK\$16,102,000** (HONG KONG DOLLAR SIXTEEN MILLION ONE HUNDRED AND TWO THOUSAND ONLY).

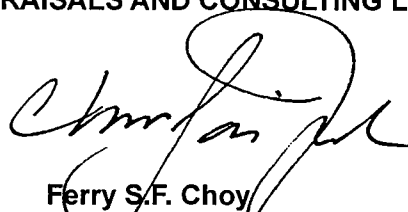
The opinion of value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in the subject under 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, MRICS*

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, MRICS**

**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) and an International Certified Valuation Specialist (ICVS) — a professional credential in business valuation issued by the International Association of Certified Valuation Specialists (IACVS) and a member of the Royal Institution of Chartered Surveyors (MRICS). 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, MSc. Econ, CFA**

**Assistant Manager**

Mr. Poon holds a Master of Science degree in Economics from the Chinese University of Hong Kong. He currently holds the position of Assistant Manager of Flagship Appraisals and Consulting Limited and assists in various valuation assessments for transaction and financial reporting purposes. He was involved in engagements in relation to various industries, including communication, mining, property management, construction, manufacturing and finance.

## EXHIBIT C – INCREMENTAL BORROWING RATE DERIVATION

Depending on the asset type, the incremental borrowing rate would be a mixture of secured and unsecured borrowing rates. After determining the secured and unsecured borrowing rates, we would apply the market loan-to-value ratio to arrive at the incremental borrowing rate for the assets.

The formula of the discount rate:

	(Secured borrowing rate x Market loan-to-value ratio)
+	(Unsecured borrowing rate x (1 - Market loan-to-value ratio))
=	Incremental borrowing rate

### Determination of Secured Borrowing Rate

We have adopted a "Three-step approach" method to determine the secured borrowing cost. Under the Three-step approach, a discount rate is estimated with 1) an appropriate reference rate; 2) risk-free rate adjustments; and 3) other lease-specific adjustments.

- a) Reference rate: we refer to the latest average mortgage rate in Hong Kong as a benchmark for secured borrowings;
- b) Risk-free rate adjustment: as the terms of mortgages usually are much longer than those of tenancy agreements, it is necessary to adjust the mortgage rate to reflect the term difference;
- c) Other lease-specific adjustments: we have adjusted the borrowing rate according to the type of underlying assets. The reference rate published by the HKMA mainly reflects the cost of financing domestic properties instead of non-domestic properties. Therefore, adjustment using the difference between the yield of domestic and non-domestic properties is necessary to reflect the actual borrowing costs of the Tenant. The yields of different types of properties come from the Hong Kong Census and Statistics Department.

We finally came up with a secured borrowing rate of 4.58%.

### **Determination of Unsecured Borrowing Rate**

The discount rate of unsecured debt 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 Hong Kong Government Bond with a similar term as of the Valuation Date;
- b) Credit rating: we have performed a financial ratio analysis to estimate the credit rating of the Company based on Moody's research and our estimated credit rating is Ba1;
- c) Credit risk premium: we search for comparable bonds with similar credit ratings to estimate the credit spread. The credit rating of the comparable bonds is Ba1. Besides, their average maturity is 1.3 years; and
- d) Country risk premium: we have made reference to Aswath Damodaran's research. We calculated the spread between Hong Kong and the US and considered it as the country risk premium.

We finally came up with an unsecured borrowing rate of 5.14%.

### **Determination of Market Loan-to-value Ratio**

To determine the market loan-to-value ratio, we reference the HKMA requirement. According to the HKMA, the maximum market loan-to-value ratio for commercial and industrial properties is 60%. Therefore, we apply 60% market loan-to-value ratio in the analysis.

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The incremental borrowing rate of the Cainiao Tenancy Agreement II is calculated below:

**Secured Borrowing Rate**

Average Mortgage Rate		4.13%
Adjustment		0.45%

**Adjustment on Term**

Risk-free Rate (Subject lease)	2.85%	
Risk-free Rate (Mortgage)	2.91%	-0.06%

**Adjustment on Lease Type**

Yield on Domestic Property	2.84%	
Yield on Non-domestic Property	3.35%	+0.51%

<b>Secured Borrowing Rate</b>		<b>4.58%</b>
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**Unsecured Borrowing Rate**

Risk-free Rate		2.85%
Credit Spread		1.73%
Country Risk Premium		0.56%

<b>Unsecured Borrowing Rate</b>		<b>5.14%</b>
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Market Loan-to-value Ratio		60%
Weight for Secured Borrowing Rate		60%
Weight for Unsecured Borrowing Rate		40%

<b>Incremental Borrowing Rate</b>		<b>4.80%</b>
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*Remarks: Numbers may not sum to total due to rounding*

## EXHIBIT D – DETAILED CALCULATION

The table below presents the detailed calculation of the right-of-use assets of the Cainiao Tenancy Agreement II.

Right-of-use assets calculation			
Date	Rent (HK\$)	Discount factor	Present value of rent (HK\$)
Nov-24	711,637	1.00	711,637
Dec-24	711,637	1.00	708,802
Apr-25	355,819	0.98	348,787
May-25	711,637	0.98	694,794
Jun-25	711,637	0.97	692,026
Jul-25	711,637	0.97	689,269
Aug-25	711,637	0.96	686,523
Sep-25	711,637	0.96	683,788
Oct-25	711,637	0.96	681,064
Nov-25	711,637	0.95	678,350
Dec-25	711,637	0.95	675,648
Apr-26	711,637	0.93	664,945
May-26	711,637	0.93	662,295
Jun-26	711,637	0.93	659,657
Jul-26	711,637	0.92	657,029
Aug-26	711,637	0.92	654,411
Sep-26	711,637	0.92	651,804
Oct-26	711,637	0.91	649,207
Nov-26	711,637	0.91	646,620
Dec-26	711,637	0.91	644,044
Apr-27	711,637	0.89	633,842
May-27	711,637	0.89	631,316
Jun-27	711,637	0.88	628,801
<b>Sum</b>	<b>16,011,833</b>		<b>15,034,658</b>
Reinstatement cost			1,067,456
<b>Right-of-use assets (Rounded)</b>			<b>16,102,000</b>

Remarks: Numbers may not sum to total due to rounding