MILLION STARS HOLDINGS LIMITED
萬星控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8093)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE AUDITED ANNUAL RESULTS FOR THE YEAR ENDED 30 JUNE 2020

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

*This announcement, for which the directors (the "**Directors**") of Million Stars Holdings Limited (the "**Company**") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "**GEM Listing Rules**") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.*

The Announcement of Audited Annual Results for the Year Ended 30 June 2020 made by the Company on 30 October 2020 referred to a disclaimer of opinion to the consolidated financial statements related thereto ("**Disclaimer of Opinion**"). With regards to the context and circumstances in relation to the Disclaimer of Opinion, the Company hereby sets out further details in this supplemental announcement.

The auditors issued the Disclaimer of Opinion on the following two matters:

(1) INTANGIBLE ASSETS

Details of the Disclaimer of Opinion for acquisition and impairment assessment of intangible assets

During the year ended 30 June 2020, the Company and its subsidiaries (the "**Group**") acquired certain intangible assets, including mobile applications, concession rights for the licensed mobile game applications and software relating to its internet advertising agency business and operation, with an aggregate consideration of RMB48,000,000 (approximately HK$52,668,000). These acquired intangible assets mainly generate revenue from game top-ups through licensing third-party launches, or generate revenue through licensing third-party usage.

Among these intangible assets, intangible assets of RMB32,000,000 (approximately HK$35,112,000) including the operation rights of a number of mobile applications and mobile games of RMB24,000,000, as well as one of the software of RMB8,000,000, are expected to generate revenue for the Group in the future. Prior to launching these mobile applications and mobile games and software into the market and generating revenue, the Company needs to invest resources to complete the development thereof, apply to relevant government authorities for approvals, seek cooperative mobile stores and payment channel providers, and carry out marketing promotion. After the mobile applications and mobile games are launched into the market, the Company will continuously upgrade these mobile applications and mobile games and software and conduct maintenance and marketing promotion therefor.

The remaining intangible assets of RMB16,000,000 (approximately HK$17,556,000) included other software systems and platforms used by the Group itself.

Pursuant to Hong Kong Accounting Standard 36 "Impairment of Assets", the management of the Company performed impairment assessments on the Group's intangible assets at the end of the reporting period (i.e. the year ended 30 June 2020). The impairment assessment was performed with reference to a professional valuation performed by an independent professional valuer (International Valuation Limited) by comparing the carrying amounts and the recoverable amounts of the intangible assets. The recoverable amount of the intangible assets is the higher of (i) the fair value less costs of disposal and (ii) the value-in-use.

In assessing the recoverable amount of the intangible assets, the management of the Company and the independent professional valuer have taken into consideration the characteristics and future plans of each intangible asset to determine the most appropriate valuation method. As the Company had planned to realize and maximize the value of the operation rights of mobile applications and mobile games and a software of acquisition costs of RMB32,000,000 through commercializing and launching the products into the market, it was considered most appropriate to use the discounted cash flow approach to evaluate the recoverable amount (value-in-use) of such intangible assets. As for other software systems and platforms of acquisition costs of RMB16,000,000 used by the Group itself, as the use thereof did not generate cash inflow and there was no similar transaction information in the open market, it was considered most appropriate to use the cost replacement method to evaluate the recoverable amount (fair value less costs of disposal) of such intangible assets.

The discounted cash flow approach was used to evaluate the mobile applications and mobile games and a software. The discounted cash flow approach is a projection prepared by the management of the Company of the cash inflows and outflows generated by businesses relating to the intangible assets in the coming years. The timing and amounts of such cash inflows and outflows are subject mainly to the future business development relating to such intangible assets, including the following conditions:

(i) the development and launch of certain mobile applications and mobile games and a software will be completed pursuant to the business development plans;

(ii) the marketing measures are effective and have the expected effects;

(iii) the expected life cycle of the mobile applications and mobile games and software.

There are significant uncertainties about these conditions affecting the business development including, for instance, the protracted COVID-19 pandemic situation. However, the cash flow projection has been made based on the existing and latest information available to the management of the Company and their understanding of the business at the time of the acquisitions.

Assumptions adopted in the valuations of the mobile applications and mobile games and a software of acquisition costs of RMB32 million

The cash flow projection about the operation rights of mobile applications and mobile games and a software was based on certain major assumptions, including:

Particulars	**Costs of acquisition** *RMB*	**Average annual revenue** *RMB*	**Average annual net cash inflow (after tax)** *RMB*	**Discount rate before tax** *%*	**Growth rate after five years** *%*
Xiangwan Games Assistant# (享玩遊戲助手)	4,500,000	1,988,000	690,000	21.20	3.00
Rentu# (認圖)	2,000,000	851,000	318,000	21.20	3.00
Chang Game# (暢遊戲)	2,000,000	1,225,000	325,000	21.10	3.00
Youliao# (有料)	4,000,000	1,038,000	362,000	21.10	3.00
Huajianyin# (花間吟)	4,000,000	1,572,000	588,000	21.20	3.00
Chaofan Wangzhe# (超凡王者)	1,500,000	1,038,000	362,000	21.10	3.00
Daojian Jingjie# (刀劍境界)	1,500,000	950,000	377,000	21.40	3.00
Bixue Qingtian# (碧雪情天3D)	2,500,000	1,274,000	558,000	20.90	3.00
Jianxia Zhuanqi# (劍俠傳奇)	2,000,000	1,128,000	512,000	21.40	3.00
Artificial Intelligence Information Filter System Software# (人工智慧資訊過濾系統軟體)	8,000,000	2,602,000	2,212,000	24.20	3.00
	32,000,000				

Assumptions adopted in the valuations of the other software system and platforms of acquisition costs of RMB16 million

The cost replacement method was used to evaluate the recoverable amount of other software systems and platforms. The cost replacement method is based on certain major assumptions, including:

Particulars	**Costs of acquisition** *RMB*	**Development time for each system/ platform#** *of Month*	**Number of technical staff members for development required for each system/ platform#** *of staff*	**Average monthly salary of each technical staff member** *RMB*
Youtu Photo Management System# (優圖圖片管理系統)	4,000,000	12 months	7	about 20,000
Jiaying Video Management System# (佳影視頻管理系統)	4,000,000	12 months	7	about 20,000
ALB Business Management Platform# (ALB業務管理平台)	4,000,000	12 months	7	about 20,000
Youji Jixiao Management Platform# (優績績效管理平台)	4,000,000	12 months	7	about 20,000
	16,000,000			

According to the valuation, the carrying amounts of certain intangible assets exceeded their recoverable amounts. On this basis, an impairment loss of HK$16,129,000 was recognized for the year ended 30 June 2020 as follows:

	HK$'000
Cost	
At 1 July 2019	—
Addition	52,668
Exchange differences	(549)
At 30 June 2020	52,119
Accumulated amortization and impairment loss	
At 1 July 2019	—
Amortization charge for the year	3,028
Impairment loss for the year	16,129
Exchange differences	(31)
At 30 June 2020	19,126
Carrying amount at 30 June 2020	32,993

The responsibilities of the auditors include obtaining sufficient and appropriate audit evidence to assess the reasonableness of the assumptions used by the management of the Company and the feasibility of the business plans of the cash flow projection for the impairment assessments of intangible assets. In respect of the operation rights of mobile applications and mobile games and a software using discounted cash flow approach, the auditors requested the Company to provide relevant supporting documents of the business development plans of the intangible assets, such as the business contracts or the historical records of cash flows generated by the intangible assets, so that the auditors may review whether the valuation of such intangible assets by the management was reasonable. However, certain mobile applications and mobile games and software had not yet been launched into the market, which means there were limited historical records substantiating the estimated cash flow projection. In respect of the software systems and platforms currently used by the Group itself with the potential to be licensed to third parties in future, the auditors requested the Company to provide relevant supporting documents or information in relation to the development of such intangible assets, including the human resources records of the required technical staff for development, the qualifications required for such technical staff for development and records of the time required for the development. However, it was difficult for the Company as the purchaser to obtain records on the development of relevant intangible assets. Therefore, as at the date of the audit report, the Company was of the view that it was not feasible or possible to procure and provide such documents as required by the auditors.

As such, the auditors of the Company are of the view that, the business and operation information of the relevant intangible assets was insufficient to ascertain the reasonableness of the assumptions made by the management and the feasibility of the business plans applied in the cash flow projection of the intangible assets. Therefore, the auditors issued the Disclaimer of Opinion on the impairment assessment of the Group's intangible assets in the consolidated financial statements.

Actions to remove the Disclaimer of Opinion about the intangible assets

As described in above, due to the lack of historical records of business data of intangible assets, the auditors are of the opinion that the business and operating information about the intangible assets is insufficient to ascertain the reasonableness of the assumptions made by the management and the feasibility of business plans applied in cash flow projection for the intangible assets. Having discussed and communicated with the auditors and in order to provide the audit evidence required by the auditors, the management aims to launch the intangible assets as soon as practical, and to provide operating data as a reference for cash flow projection for the year ending 30 June 2021. Therefore, the management will formulate and implement the following action plans to address the auditor's concerns in order to remove the Disclaimer of Opinion:

(i) Actively communicate with auditors and update them on the latest business developments and operation of certain mobile applications and software;

(ii) Accelerate the launch of the intangible assets, and the commercialisation of the products according to the business plan;

(iii) Formulate marketing plans and maximise the revenue-generating capabilities of applications and software;

(iv) Collect information and input data during the whole process of operation of intangible assets, which may be used to verify cash flow projection/valuation for assessment of impairment on intangible assets.

The Company has discussed and agreed with its auditors that the audit qualification in relation to the intangible assets would be removed from the financial statements as of 30 June 2021 if the business plans are implemented and the relevant operational data, such as historical records of cash flows generated by the intangible assets, can be obtained by the auditors for the year ending 30 June 2021.

In addition, after discussion and communication between the management and the auditors, it is understood that the Disclaimer of Opinion is arising from the limitation of scope in relation to the intangible assets. If the Company disposes of intangible assets on or before 30 June 2021, the intangible assets will be derecognized on the consolidated statement of financial position as at 30 June 2021 and the Company will no longer need to perform impairment assessment on the carrying amounts of the intangible assets as at 30 June 2021. As agreed with the auditors, the Disclaimer of Opinion in relation to the intangible assets will be removed upon such disposal. As such, the management may consider alternative proposals to realise intangible assets, including, but not limited to, disposal of intangible assets (if applicable) if a suitable acquirer can be identified.

Further details regarding the intangible assets

Changes in the value of inputs or assumptions or valuation methodology

The parameters, assumptions or valuation methods which have changed from those adopted in the previous valuations are as follows:

(i) The discount rate used to evaluate the operating rights of mobile applications and mobile games and a software (intangible assets)

As of 30 June 2020, the discount rates before tax used by International Valuation Limited in the impairment assessment of the operating rights of mobile applications and mobile games and a software were approximately 20% to 25%. However, the discount rate used in the valuation of intangible assets at the time of acquisition were approximately 13% to 16%.

(ii) Valuation methods adopted in the software systems and platforms used by the Group itself

The impairment assessment of the software systems and platforms as of 30 June 2020 and the valuation of the software systems and platforms on the acquisition date use the cost replacement method to evaluate the relevant values. In the valuation of the software systems and platforms on the acquisition date, the PRC valuer applied a multiplying factor that takes into account the fact that the development of such systems and platforms also depends upon various factors including the technical level of the R&D staff and the R&D experience. However, this factor was not taken into account in the valuation as of 30 June 2020 for impairment assessment of the intangible assets carried out by International Valuation Limited, which led to the difference in valuation results.

Reasons for change in value of inputs or assumptions or valuation methodology from those previously adopted

Due to such intangible assets, and the parties to the transactions are located in China, reference was made to the valuation performed by a PRC valuer when the consideration of the transactions for these assets was determined. As the Company was preparing the consolidated financial statements of the Group as of 30 June 2020 and was conducting impairment assessment of these assets in accordance with applicable accounting standards (i.e., Hong Kong Accounting Standards), it has appointed a Hong Kong-based valuer to evaluate the recoverable amount of the assets in accordance with relevant valuation standards. Therefore, the aforesaid differences in the parameters, assumptions or valuation methods may occur as compared with those adopted in the previous valuations.

In addition, discount rates are the key inputs applied in the discounted cash flow approach used in the valuation. Discount rate is a rate of return that an investor would require on an investment in the business. This rate of return should reflect a range of macroeconomic, industry, and company-specific factors that translate into the degree of perceived risk to achieve the projected results. The Capital Asset Pricing Model ("**CAPM**"), which considers several inputs of data, was applied in estimating such discount rates. To the best knowledge of the management, the effect of the outbreak of the COVID-19 is considered through the specific risk premium applied in the CAPM, which in turn has an increasing impact to the discount rates used in the discounted cash flow approach and the valuation of the intangible assets as of 30 June 2020.

Latest status of the intangible assets and implementation of the business plan

Except that the acquisition of one of the mobile applications of acquisition cost of RMB4,000,000 was cancelled and the carrying amount of the relevant intangible asset would be derecognised on the consolidated statement of financial position of the Company, the Group's development team is actively working on finalizing the remaining mobile games and getting them ready to commercialise. The basic functions of the mobile games are completed, and the mobile games are being upgraded to add more features which can enhance the income generating ability. If there is no unforeseeable and uncontrollable accident that may delay the business plan of the Group, the management scheduled to complete the upgrade in the first quarter of 2021 and will then apply for the games copyright issuance from the General Administration of Press and Publication which will take approximately 3 months. The management is also selecting the appropriate app stores for launch of these mobile games, such as Huawei App Store, Xiaomi App Store, Baidu Mobile Assistant and other mainstream Android platforms, and Apple's IOS platform.

The development of the mobile applications has been basically completed and is currently undergoing internal testing. The mobile applications are also expected to be launched in the first quarter of 2021. The Group plans to launch these mobile applications via a cloud-based platform through a major network operator in the PRC and will apply to become a registered mobile application supplier approved by the PRC network operator which will take approximately 3 months. The Group will be responsible for providing cloud-based applications, products and after-sale maintenance services that satisfy the requirements of the cloud-based platform of the PRC network operator. The income from the users of the PRC network operator will pay the fees for the products' functions and the income will be shared between the Group and the PRC network operator on an agreed proportion.

The management of the Group regularly update its auditors about the latest status of the intangible assets. When the intangible assets are launched, the Group will collect the relevant data generated from the operation of these intangible assets for revising the cash flow projections and will provide these information to its auditors for addressing the audit's concern.

Impact to the existing operation and assets if the Company decided to proceed with the disposal of intangible assets

The Group provides internet advertising agency services to its customers in the PRC and overseas through mainstream internet platforms. The Group has been affected to an extent by the macroeconomic environment downturn of China, the slowdown of games copyright issuance and increase in competition in the internet advertising industry since 2019. Therefore, as an effort and strategy to continue strengthening the current business while constantly seeking out future growth opportunities in order to create synergies with the current business as well as diversifying the line of business of the Company, the Group has been engaging in strategic moves and actions by investing in companies in the same industry and acquiring operating rights for some mobile apps, mobile games and commercial software. The management believes that the relationship with its customers and the experience in the internet advertising services business of the Group can further enhance the Group's capability in generating more revenue and profit as well as managing its business risks in the future.

COVID-19 outbreak has severe impacts on most players of the industry in the world since 2020. Amid the pandemic the Group's customers of the internet advertising business have started tightening their budgets on marketing and advertising activities. To adapt to the evolving business environment, the Group proactively adjusts its business through strengthening the selection of customers to ensure that quality customers are prioritised in an appropriate way so that resources of the Company are used to best serve the business needs of these quality customers, while certain customers with relatively low margin are served by the Company in an appropriate manner but also in line with their profiles. As a result, the Group reported a revenue of HK$47,924,000 and gross profit of HK$2,723,000 for the three months ended 30 September 2020 from the existing business. The gross margin has significantly increased to 5.68% for the three months ended 30 September 2020 from 1.96% for the year ended 30 June 2020. The management of the Company is confident that as the epidemic recedes, the global economy and the advertising business of the Group will gradually recover and improve.

The acquisitions of the intangible assets and the investment in associate during the year ended 30 June 2020 were the strategic plans of the Group to expand its business portfolio and enable the Group to access to a new customer base. The disposal of the intangible assets would not affect the operation of the existing advertising business.

Details of the intangible assets

We have set out the details in a tabular format as below:

Purchaser	Seller	Relationship	Purchase Date	Particulars		Valuation method	Costs of acquisitions (Exchange rate @ 1.0973) RMB	Costs of acquisitions (Exchange rate @ 1.0973) HK$	Valuation amounts as per valuation reports as at 30 June 2020 RMB	Carrying amounts as at 30 June 2020 (Exchange rate @ 1.09615) RMB	Carrying amounts as at 30 June 2020 (Exchange rate @ 1.09615) HK$
DRHD*	Beijing Xiangwan Technology Co., Ltd.# (北京享玩科技有限公司)	Independent third party	16-Dec-19	Xiangwan Games Assistant# (享玩遊戲助手)	mobile application/ game	Discounted cash flow approach	4,500,000	4,938,000	3,245,000	3,245,000	3,557,000
DRHD	Beijing Xiangwan Technology Co., Ltd.	Independent third party	31-Jan-20	Rentu# (認圖)	mobile application/ game	Discounted cash flow approach	2,000,000	2,194,000	1,511,000	1,511,000	1,656,000
DRHD	Beijing Xiangwan Technology Co., Ltd.	Independent third party	10-Feb-20	Chang Game# (暢遊戲)	mobile application/ game	Discounted cash flow approach	2,000,000	2,194,000	1,560,000	1,560,000	1,710,000
							8,500,000	9,326,000			
DRHD	Beijing Changrao Technology Co., Ltd.# (北京暢饒科技有限公司)	Independent third party	19-Dec-19	Youliao# (有料)	mobile application/ game	Discounted cash flow approach	4,000,000	4,389,000	1,730,000	1,730,000	1,896,000
DRHD	Beijing Changrao Technology Co., Ltd.	Independent third party	03-Jan-20	Huajianyin# (花間吟)	mobile application/ game	Discounted cash flow approach	4,000,000	4,389,000	2,762,000	2,762,000	3,028,000
							8,000,000	8,778,000			

Purchaser	Seller	Relationship	Purchase Date	Particulars		Valuation method	Costs of acquisitions (Exchange rate @ 1.0973)		Valuation amounts as per valuation reports as at 30 June 2020	Carrying amounts as at 30 June 2020 (Exchange rate @ 1.09615)	
							RMB	*HK$*	*RMB*	*RMB*	*HK$*
DRHD	Beijing Yuexiang Xindong Technology Co., Ltd.# (北京樂享欣動科技有限公司)	Independent third party	10-Dec-19	Chaofan Wangzhe# (超凡王者)	mobile application/ game	Discounted cash flow approach	1,500,000	1,646,000	1,730,000	1,412,500	1,548,000
DRHD	Beijing Yuexiang Xindong Technology Co., Ltd.	Independent third party	24-Jan-20	Daojian Jingjie# (刀劍境界)	mobile application/ game	Discounted cash flow approach	1,500,000	1,646,000	1,803,000	1,425,000	1,562,000
DRHD	Beijing Yuexiang Xindong Technology Co., Ltd.	Independent third party	24-Jan-20	Bixue Qingtian# (碧雪情天3D)	mobile application/ game	Discounted cash flow approach	2,500,000	2,743,000	2,755,000	2,375,000	2,603,000
DRHD	Beijing Yuexiang Xindong Technology Co., Ltd.	Independent third party	19-Feb-20	Jianxia Zhuanqi# (劍俠傳奇)	mobile application/ game	Discounted cash flow approach	2,000,000	2,195,000	2,403,000	1,917,000	2,101,000
							7,500,000	8,230,000			
SHWX**	Lansha Xunxi Technology (Shanghai) Co., Ltd.# (藍沙訊息技術(上海)有限公司)	Independent third party	07-Jan-20	Artificial Intelligence Information Filter System Software# (人工智慧資訊過濾系統軟體)	Software	Discounted cash flow approach	8,000,000	8,778,000	7,670,000	6,830,000	7,488,000

Purchaser	Seller	Relationship	Purchase Date	Particulars		Valuation method	Costs of acquisitions (Exchange rate @ 1.0973) RMB	Costs of acquisitions (Exchange rate @ 1.0973) HK$	Valuation amounts as per valuation reports as at 30 June 2020 RMB	Carrying amounts as at 30 June 2020 (Exchange rate @ 1.09615) RMB	Carrying amounts as at 30 June 2020 (Exchange rate @ 1.09615) HK$
DRHD	Shenzhen Yidao Network Co., Ltd.# (深圳譯道網絡有限公司)	Associate of the Group	14-Jan-20	Youtu Photo Management System# (優圖圖片管理系統)	Software	Cost replacement method	4,000,000	4,389,000	1,333,000	1,333,000	1,461,000
DRHD	Shenzhen Yidao Network Co., Ltd.	Associate of the Group	12-Feb-20	Jiaying Video Management System# (佳影視頻管理系統)	Software	Cost replacement method	4,000,000	4,389,000	1,333,000	1,333,000	1,461,000
							8,000,000	8,778,000			
DRHD	Beijing Ouye Network Technology Co., Ltd.# (北京歐耶網絡科技有限公司)	Independent third party	30-Dec-19	ALB Business Management Platform# (ALB業務管理平台)	Software	Cost replacement method	4,000,000	4,389,000	1,333,000	1,333,000	1,461,000
DRHD	Beijing Ouye Network Technology Co., Ltd.	Independent third party	13-Feb-20	Youji Jixiao Management Platform# (優績績效管理平台)	Software	Cost replacement method	4,000,000	4,389,000	1,333,000	1,333,000	1,461,000
							8,000,000	8,778,000			
							48,000,000	52,668,000			32,993,000

* *Beijing Dongrun Hudong Technology Company Limited, which is a subsidiary of the Group*

** *Shanghai Wanxing Network Technology Limited, which is a subsidiary of the Group*

For identification only

(2) INVESTMENT IN ASSOCIATE

Details of the Disclaimer of Opinion for purchase price allocation, share of result, share of net assets and impairment assessment relating to the Company's interests in Yidao Network

On 30 August 2019, Beijing Dongrun Hudong Technology Company Limited* (北京東潤互動科技有限公司) ("**Beijing Dongrun**"), a wholly-owned subsidiary of the Company, entered into a capital increase and subscription agreement with Shenzhen Yidao Network Co., Ltd.* (深圳譯道網絡有限公司) (the "**Target Company**", a company incorporated in the PRC with limited liability) and Mr. Feng Tao, the sole shareholder of the Target Company, pursuant to which, Beijing Dongrun subscribed for the increase in the registered capital of the Target Company by RMB50,000,000 (equivalent to approximately HK$55,720,000) in cash. Upon completion, the Target Company will be held as to 35% by Beijing Dongrun and 65% by Mr. Feng Tao. The subscription was subsequently completed on 28 October 2019. For details, please refer to the disclosable transaction announcement dated 30 August 2019.

Pursuant to Hong Kong Accounting Standard 28 (2011) "Investment in Associates and Joint Ventures", the management of the Company completed its purchase price allocation relating to the acquisition of Yidao Network during the year, and accounted for the share of its results using the equity method.

Pursuant to Hong Kong Accounting Standard 36 "Impairment of Assets", the management of the Company performed an impairment assessment with reference to a valuation using discounted cash flow approach performed by an independent professional valuer (International Valuation Limited) by comparing the carrying amount and the recoverable amount of the investment in the associate at the end of the reporting period (i.e. the year ended 30 June 2020).

In assessing the recoverable amount of the investment in the associate, the management of the Company and the independent professional valuer used discounted cash flow approach to assess the recoverable amount of the investment in the associate. As the associate was in operation and had historical operating data for reference, it was considered most appropriate to use the discounted cash flow approach to assess the recoverable amount (value-in-use) of these intangible assets.

The discounted cash flow approach is a projection by the management of the Company of the cash inflows and outflows generated by businesses relating to the associate in the coming years. The timing and amounts of these cash inflows and outflows are subject mainly to the future business development of the investment in the associate, including the following conditions:

(i) the marketing measures are effective and have the expected effects

(ii) There are no major adverse factors affecting the operation of the associates

There remain great uncertainties about these operating assumptions affecting the business development of the associate including, for instance, the protracted COVID-19 pandemic situation. However, the cash flow projection has been based on the latest information obtained by the management of the Company from Yidao Network as well as its understanding of the business.

The associate of the Company was responsible in preparing the cash flow forecast in accordance with their best understanding and estimate for the future business of the associate. The Company obtained such forecast from the associate, discussed the business plan with the associate and reviewed the latest management accounts and major business agreements. The Company also discussed with its valuer regarding the use of discount rates. The management of the Company has used its best endeavour in making the assumptions. The major assumptions are as below:

Average annual revenue: approximately RMB71,500,000

Average annual net cash inflow: approximately RMB15,000,000

Discount rate before tax: approximately 22%

Growth rate: 3%

According to the valuation, 100% share of the associate was valued at RMB84,000,000 (i.e. RMB29,400,000 or HK$32,162,000 was attributable to the proportion of the Group's ownership interest in Yidao Network) as at 30 June 2020. The carrying amount of the investment in the associate exceeded its recoverable amount. On this basis, an impairment loss of HK$23,856,000 was recognized for the year ended 30 June 2020 as follows:

	HK$'000
Cost of investments in associates	55,720
Share of post-acquisition results and other comprehensive income, net of dividend received	1,223
Impairment loss recognized for the year	(23,856)
Exchange differences	(925)
Carrying amount at 30 June 2020	32,162

The responsibilities of the auditors included obtaining sufficient and appropriate audit evidence to assess the reasonableness of the assumptions used by the management of the Company and the feasibility of the business plans of the cash flow projection for the impairment assessment of the investment in the associate.

The auditors requested the Company to provide detailed supporting information in respect of the income and expenditure recognized by Yidao Network, such as:

(i) Customer orders of Yidao Network;

(ii) Approval from the customers of Yidao Network to execute the customer orders to launch advertisement;

(iii) Regular performance reports in relation to advertisement placed through Yidao Network;

(iv) Records in relation to the consumptions of prepayments within the relevant media platforms of Yidao Network.

As a minority shareholder of the associate, the Group was provided by the associate with its management accounts and other basic financial data on a regular basis. At the beginning of the audit, the associate was still cooperative in helping the Group's audit. However, the management of the associate was not experienced in dealing with the Hong Kong auditors. During the audit, the associate indicated that too much audit data was required to be provided within such a short time. The management of the Company has used its best endeavours to procure the associate to provide the relevant documents as required by the auditors, but as the process continued the associate became less and less responsive or cooperative in providing all the documents and data which the auditor requested in this process.

The Group has no control over the associate. Therefore, the Group encountered difficulty in requesting the associate to provide all relevant supporting information and documents relating to the associate as requested by the auditors. Therefore, as of the date of the audit report, the Company came to the view that it was not feasible or possible to procure the associate to provide all the documents and data requested by the auditors.

As such, the auditors of the Company are of the opinion that the auditors are unable to determine whether all assets and liabilities relating to Yidao Network have been identified as the provided information and documents relating to the associate are limited, and the auditors are also unable to satisfy themselves with the management's assumptions on Yidao Network during the course of the purchase price allocation when calculating the goodwill arising from the acquisition of Yidao Network. Therefore, the auditors issued Disclaimer of Opinion on the Group's associates in the consolidated financial statements.

Actions to remove the Disclaimer of Opinion about the investment in associate

As previously mentioned, due to the lack of data and documents because of the associate's refusal to continuously and comprehensively provide all the data and documents requested by the auditors, the auditors are of the opinion that the available information is insufficient to ascertain the reasonableness of the key assumptions made by the management and the feasibility of the business plan applied to the cash flow projection of Yidao Network. Having discussed and communicated with the auditors and in order to provide the audit evidence required by the auditors, the management shall formulate and implement the following action plans to address the auditor's concerns in order to remove the Disclaimer of Opinion:

(i) Actively communicate with auditors and update them on the latest business developments and operation of the associate;

(ii) Establish appropriate reporting procedures with the associate so that the associate needs to report financial information and other related documents to the Company in a timely and proper manner, especially the data and documents specifically requested by the auditors for the purpose of impairment assessment with regards to the associate;

(iii) Closely monitor the operation of the associate to ensure the implementation of the business plan.

The Company has discussed and agreed with its auditors that the audit qualification in relation to the investment in associate would be removed from the financial statements as of 30 June 2021 if they are able to obtain sufficient information and data relating to the Group's investment in associate.

As mentioned previously, the management of the associate was not experienced in dealing with the Hong Kong auditors and too much audit data was required to be provided within such a time period. As a result, the Company believes that early communication with its associate and the experience learned in last audit are helpful in getting the associate ready for the audit for the year ended 30 June 2021. In addition, the Company has written to express concern and requested the associate to cooperate with the auditors of the Company in the future. Otherwise, the Company may consider disposing its interest in the associate.

In addition, after discussion and communication between the management and the auditors, it is understood that the Disclaimer of Opinion is arising from the limitation of scope in relation to the investment in associate. If the Company disposes of it on or before 30 June 2021, the investment in associate will be derecognized on the consolidated statement of financial position as at 30 June 2021 and the Company will no longer need to perform impairment assessment on the carrying amount of the investment in associate as at 30 June 2021. As agreed with the auditors, the Disclaimer of Opinion in relation to the investment in associate will be removed upon such disposals. As such, the management may consider alternative proposals to realise the investment in the associate, including, but not limited to, disposal of the associate (if applicable) if a suitable acquirer can be identified.

Upon disposing the interest in the associate, corresponding balance of HK$32,162,000 recognised on the consolidated statement of financial position as of 30 June 2020 will be derecognised. The consideration received and receivable will be recognised as an asset on the consolidated statement of financial position for the year ending 30 June 2021.

Further details regarding the investment in associate

Changes in the value of inputs or assumptions or valuation methodology

The parameters, assumptions or valuation methods which have changed from those adopted in the previous valuations are as follows:

(i) The discount rate used to evaluate the interest in associate

As of 30 June 2020, the pre-tax discount rates used by International Valuation Limited in the impairment assessment of the investment in associate was approximately 22%. However, the discount rate used in the valuation of investment in associate at the time of acquisition was approximately 15%.

(ii) The average estimated annual net cash inflow used to evaluate the interest in associate

As of 30 June 2020, average estimated annual net cash inflow used in the impairment assessment of the investment in associate was approximately RMB15 million. However, the average estimated annual net cash inflow used in the valuation of investment in associate at the time of acquisition was approximately RMB15.5 million.

Reasons for change in value of inputs or assumptions or valuation methodology from those previously adopted

Due to such interest in associate, and since the parties to the transactions are located in China, reference was made to the valuation performed by a PRC valuer when the consideration of the transactions for these assets was determined. As the Company was preparing the consolidated financial statements of the Group as of 30 June 2020 and was conducting impairment assessment of these assets in accordance with applicable accounting standards (i.e., Hong Kong Accounting Standards), it has appointed a Hong Kong-based valuer to evaluate the recoverable amount of the assets in accordance with relevant valuation standards. Therefore, the aforesaid differences in the parameters, assumptions or valuation methods may occur as compared with those adopted in the previous valuations.

In addition, discount rates are the key inputs applied in the discounted cash flow approach used in the valuation. Discount rate is a rate of return that an investor would require on an investment in the business. This rate of return should reflect macroeconomic, industry, and company-specific factors that translate into the degree of perceived risk to achieve the projected results. The CAPM, which considers several inputs of data, was applied in estimating such discount rates. To the best knowledge of the management, the effect of the outbreak of the COVID-19 is considered through the specific risk premium applied in the CAPM, which in turn has an increasing impact to the discount rates used in the discounted cash flow approach and the valuation of the investment in associate as of 30 June 2020.

The Board's consideration of the acquisition of interest in Yidao Network

The directors of the Company initially started considering acquiring Yidao Network based on the fact that as it was one of Tencent's advertising service providers and had other major customers besides Tencent, coupled with the rapid growth of its advertising revenue, the Company's acquisition of Yidao Network would enable the Company to indirectly secure business from Tencent, and even to directly obtain the promotion and advertising business for Tencent's games in the future. The directors of the Company considered acquiring intangible assets based on the promotion of such games and applications in the future, from which the Company would not only receive advertising and promotion revenue, but also secure share of revenue from games, thereby expanding the business scale of the Group.

The directors and substantial shareholders of the Company did not have any conflicts of interest in such transactions, and the relevant subsidiaries have been approved to conduct the aforesaid acquisitions. While the Company was preparing to develop the acquired intangible assets business, the COVID-19 pandemic broke out in China, which hindered its original development plan. This said, the Company expects that the development process will be completed in the first half of 2021 if the COVID-19 pandemic situation is put under control.

AUDIT COMMITTEE'S VIEWS REGARDING THE DISCLAIMER OF OPINION

On 29 October 2020, the audit committee of the Company held a meeting, at which the audit conclusions drawn by the auditors were discussed. The audit committee reviewed the valuation report of intangible assets and investment in associate as well as the key operating assumptions applied therein, such as the discount rate and growth rate. Ms. Tian Yuan was invited to present to the audit committee in the meeting as a management representative and answered questions from the audit committee.

After the discussion, the audit committee agreed the key assumptions and valuation results adopted in the valuation report on intangible assets. In addition, the audit committee also understood that the auditors issued Disclaimer of Opinion in relation to the intangible assets due to the lack of historical operating data.

Furthermore, as to the valuation of the investment in Yidao Network, the scope of the audit was limited because Yidao Network did not fully cooperate in providing all the information requested by the auditors. The audit committee indicated that given Yidao Network's reluctance in fully cooperating and the ensuing lack of information in this respect, it was unable to verify or confirm the key assumptions involved in the future development plan provided by Yidao Network, such as sales growth rate and sales gross profit margin, and that it understood that the auditors issued the Disclaimer of Opinion in relation to the investment in associate due to limited scope of the audit. The audit committee agreed with the management's position and requested the Company's management to exercise its rights towards Yidao Network in accordance with the Company Law of the People's Republic of

China 中華人民共和國公司法 ("**the Company Law of the PRC**") which allows shareholders of a company to review its books and records, and continued to request the company to cooperate with the Group in future audit requirements.

COMMUNICATIONS WITH THE AUDITORS

As described in the unaudited annual results announcement of the Company published on the website of the Hong Kong Stock Exchange on 30 September 2020, due to the outbreak of the COVID-19 pandemic, the Company's plan for audit has been delayed, and the auditors also failed to complete the relevant audit work. Therefore, the Board was unable to conclude whether the auditors were likely to issue the Disclaimer of Opinion.

The Company understood in around mid-October that the auditors were likely to issue the Disclaimer of Opinion on the consolidated financial statements as of 30 June 2020. The Company immediately communicated with the auditors to develop an understanding of the reasons for such possibility and to seek a solution. However, at the end of October, the auditors resolved to maintain the Disclaimer of Opinion after discussion with the Company. Therefore, the Company published the audited annual results announcement for the year ended 30 June 2020 on 30 October 2020, disclosing the details of the matters involved in the non-standard report to meet the disclosure requirements under GEM Listing Rule 18.50(8).

WHEN THE COMPANY BECAME AWARE OF THE IMPAIRMENTS ON INTANGIBLE ASSETS AND INTEREST IN YIDAO NETWORK

Before acquiring intangible assets and the associate, the Company appointed Beijing Lixin Runde Asset Appraisal Firm (北京立信潤德資產評估事務所) to evaluate the intangible assets and Yidao Network to be acquired. The purchase price was determined based on the valuation results.

Based on the due diligence and assessment conducted by the Company at the time of the acquisition, and the further discussions and considerations of the directors, the Company did not anticipate any circumstances or events which would result in impairment. The Company was only aware of the impairment for the intangible assets and the investment in associate when the valuer prepared the draft valuation report for the Company in mid-October 2020.

IMPACTS OF THE COVID-19 PANDEMIC

The following audit procedures were not completed by 30 September 2020:

1. Confirmations from some customers, suppliers and banks have not been received;

2. Interview procedures with some customers have not been completed; and

3. The reviews of the impairment assessment on the intangible assets and investments in associates have not been completed.

The Group has major operations in Beijing, Nanjing and Xinjiang in the PRC. Certain customers and suppliers are also located in the PRC. Meanwhile, the core audit team members, who were responsible for conducting the audit procedures in relation to the audit of the financial statements for the year ended 30 June 2020, were in Hong Kong.

Due to the spread of the COVID-19 pandemic and the travel restriction implemented by the government, it is not feasible for the auditors to obtain certain confirmations in person. Instead, the Company and its auditors could only follow up with the return of the confirmations through emails and phone calls, which was less efficient than attending in person to obtain responses from certain customers, suppliers, and banks of the Group. Also, due to rebound of the pandemic in Xinjiang, all couriers and delivery services were suspended during July and August 2020. As a result, completion of the relevant audit procedures was delayed.

In addition, due to the social distancing practice to encounter the COVID-19 outbreak, certain customers requested to defer certain interview procedures.

Similarly, COVID-19 also impacted the working condition of the staff of the Group and its associate, i.e. some staff adopted a "work-from-home" practice, which impacted the efficiency in preparing information for the valuation for the impairment assessments of the intangible assets and investments in associates. As a result, the preparation and finalization of the impairment assessments were also delayed.

As a result, the auditors were delayed in performing the above related audit procedures and the Company was unable to complete the annual audit by 30 September 2020, and therefore had to delay the publish of the audited annual report.

Recently, the fourth wave of the COVID-19 had severe impacts to China, Hong Kong and some overseas countries. Meanwhile, the Group is mainly operating in the mainland China where the pandemic is more under control. Even if the pandemic continues to worsen, it may slightly delay the business plan of the Group for a few weeks such that the intangible assets would be launched in the early second quarter of 2021. If there is no other unforeseeable and uncontrollable event that may delay the business plan of the Group, the Company is confident in implementing the business plans as planned such that the Disclaimer of Opinion could be removed in the coming year.

By Order of the Board
Million Stars Holdings Limited
Zhu Yongjun
Chairman and Chief Executive Officer

Hong Kong, 22 January 2021

As at the date hereof, the Board comprises Mr. Zhu Yongjun and Ms. Tian Yuan as executive Directors; and Mr. Chen Ce, Ms. Zhu Minli and Ms. Jiang Ying as independent non-executive Directors.

This announcement will remain on the GEM website at http://www.hkgem.com on the "Latest Company Announcements" page for at least 7 days from the day of its publication and on the website of the Company at http://www.millionstars.hk.