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 2022 ANNUAL REPORT

Reference is made to the annual report of Million Stars Holdings Limited ("**Company**" and together with its subsidiaries, "**Group**") for the year ended 30 June 2022 ("**2022 Annual Report**"). Unless otherwise defined herein, capitalised terms herein shall have the same meanings as those defined in the 2022 Annual Report. Unless the context requires otherwise, capitalised terms used herein shall bear the same meanings as defined in the 2022 Annual Report.

The Company wishes to provide additional information regarding i) impairment losses recognized for the year (the "**Impairments**") and ii) Material variance to its shareholders and potential investors as supplemental information to the 2022 Annual Report, as follows:

IMPAIRMENT

In the financial year ended 30 June 2022 (the "**FY2022**"), the Company recognised impairment losses amounted to approximately HK$78.6 million, comprising impairment losses on property, plant and equipment of approximately HK$9.4 million and impairment loss on trade and other receivable, net reversal of impairment loss recognised on amount due from an associate of HK$69.2 million and details of which are set out below:

Impairment on property, plant, and equipment

During the current year, the management has recognised impairment loss on property, plant and equipment amounting to approximately HK$9.4 million. Because of the restrictions of cryptocurrency mining operations imposed by the PRC local government, the recoverable amount of machineries and equipment determined based on fair value less cost of disposals has been lower than carrying amount. The management has kept ongoing discussions and agreed with B.I. Appraisals Limited, the valuer of the Company (the "**Valuer**"), about provision of the impairment loss on property, plant and equipment of the Group's cryptocurrency mining business.

Plant and Equipment Valuation

The fixed assets that were subject to the valuation comprise mainly machineries, equipment and the ancillary facilities and appliances located in Kazakhstan in connection with the Group's cryptocurrency mining operation (the "**Mining Machines**").

In preparing the valuation, the Valuer considered the three generally accepted approaches to value, namely, the Income Approach, the Cost Approach and the Market Approach.

The Income Approach is a technique in which the estimated stream of future benefits may be enjoyed by reason of ownership, usually the anticipated or projected earnings, is processed to indicate the amount measured through capitalization of net income or application of multiples derived from financial analysis of similar industries.

The Cost Approach considers the cost to reproduce or replace in new condition the assets valued in accordance with the current market prices for similar assets, with allowance for accrued depreciation arising from the conditions, utility, age, wear and tear, or obsolescence present (physical, functional or economic), taking into consideration past and present maintenance policy and rebuilding history.

The Market Approach considers prices recently paid for similar assets, with adjustments made to the indicated market prices to reflect condition and utility of the appraised assets relative to the market comparative. Assets for which there is established market comparable maybe appraised by this approach.

In the process of valuing the Mining Machines, the Valuer has taken into account the nature of the machines and equipment concerned, the operation and financial information of the business involved and conducted discussions with the Management to understand the status and prospect of the industry it is participating. Also, the Valuer has considered the accessibility to available data and relevant market transactions in choosing among the valuation approaches.

The Income Approach was not adopted as it is extremely difficult, if not completely impossible, to segregate an earning and expenses attributable only to specific piece of asset. The two approaches deemed appropriate in valuing the Mining Machines that were considered were the Cost Approach and the Market Approach as one or the other approaches may be applicable to value the subject assets and in some situation, elements of both approaches may be combined to reach an opinion of value.

Key Assumptions and Inputs Adopted in the Plant and Equipment Valuation

(A) Key assumptions and considerations:

1) The Mining Machines remain in use in their working place. The opinion of market value in use in their working place is not necessarily intended to represent the amount that might be realized from piecemeal disposition of the P&M or from some other alternate use.

2) The Mining Machines will be used in their present existing states with the benefit of continuity of the tenure of the land and buildings where they are situated into the foreseeable future.

3) The lifetime of cryptocurrency mining equipment is comparatively short (according to Digiconomist, Bitcoin mining equipment has an average lifetime of 1.5 years).

4) The price/value of cryptocurrency mining equipment, to a certain extent, affected by the volatility of the cryptocurrency price trend.

5) The cost and benefit of the cryptocurrency mining operation is greatly affected by the price level of electricity supply.

6) The cryptocurrency mining operation has been suspended and the Mining Machines appeared to be idle and disconnected.

7) Additional cost will be needed for re-conditioning and maintenance services of the Mining Machines upon resuming the mining operation.

(B) Key Inputs in the valuation of the cryptocurrency mining machines comprising 500 sets of Ebang Ebit E9Pro ("**E9Pro**") and 1,100 sets of Ebang Ebit E10D ASIC ("**E10D**") owned by Jade King Investment Limited, a wholly owned subsidiary of Million Stars Holdings Limited (the "**Company**") in Kazakhstan are as follows:

1) Prices of comparable used machines in the market indicated a price range between HK$422 to HK$445 per set for E9Pro;

2) The unit rate of HK$258 per set after adjustments for working conditions and bulk sale discount was adopted for E9Pro;

3) Prices of comparable 2nd hand unused machines in the market indicated a price range between HK$2,367 to HK$2,481 per set for E10D; and

4) The unit rate of HK$864 per set after adjustments working conditions and bulk sale discount was adopted for E10D.

(C) Details of key inputs in the valuation of the fixed assets comprising containers (including containers and residential modular building OS), transformers, slotted blocks, electrical appliances (including router, banknote counter, air-conditioners, heaters, electric stove, etc.), furniture (including tables, chairs, stools, safe, cabinets, wardrobes and bunk beds), fire extinguishers and a motor vehicle owned by Anyz Limited, a wholly owned subsidiary of the Company in Kazakhstan are as follows:

1) The current replacement costs of the fixed assets were determined with reference to the Consumer Price Index ("**CPI**") for the period from October 2021 to June 2022 sourced from Agency of Statistics of the Republic of Kazakhtan, which were summarized below:

Year	**Month**	**CPI**
2021	October	910.7
2021	November	917.5
2021	December	923.2
2022	January	929.5
2022	February	937.0
2022	March	971.2
2022	April	990.5
2022	May	1,004.1
2022	June	1,020.2

2) The life spans of the fixed assets were determined to be ranged from 3 years to 10 years according to their nature.

3) The market values of the fixed assets were arrived at by allowing for accrued depreciation arising from the conditions, utility, age, wear and tear, or obsolescence present (physical, functional or economic), which ranged from 22.5% to 60.75%.

Impairment on trade and other receivables

During the second half of this year, the resurgence of COVID-19 epidemic in Shanghai caused a significant impact on our internet advertising service and also give much pressure to the cash flow of Group's clients and suppliers. Considering the uncertainty of financial position of certain clients and suppliers, the management has recognised impairment loss on trade and other receivable amounting to approximately HK$69.2 million for the year ended 30 June 2022.

ECL Assessment

According to HKFRS 9, simplified approach can be applied to estimate the ECL for trade receivables, contract assets and lease receivables, whilst general approach should be applied to estimate the ECL for other financial assets.

The ECL calculation can be calculated by the formula: ECL = EAD x PD x LGD x DF

where EAD = Exposure at Default:
PD = Probability of Default;
LGD = Loss Given Default; and
DF = Discount Factor.

Exposure at Default (EAD) The carrying amounts of trade, other and inter-companies receivables would be the EAD.

Probability of Default (PD) Depending on nature of receivables and availability of information, the PD is derived from various parameters. For collective assessments, whereas applicable, corporate default rate forecasts by industry, emerging market credit spread indices by industry and rating, aging record and historical payment or default records from the company are considered. PD for aged receivables are adjusted to reflect the condition probability with aging. The corporate default rate forecasts and emerging market credit spread indices are based on latest published data from major international credit rating agency or investment banks.

In this ECL assessment, the latest version of "Annual Default Study: Corporate Default and Recovery Rates" published by the Moody's Investors Services and Credit Suisse Emerging Market Corporate Bond indices extracted from Bloomberg database are adopted. The other receivables are categorized to stage 1,2 and 3 according to the management assessment on the indication of default and related information of the debtor when available. The probability of default adopted for other receivables categorized as stage 1 referenced to the annual one year default rate by industry group in Moody's Study. The probability of default adopted for other receivables categorized as stage 2 referenced to one year Ca-C rating average cumulative issuer-weighted global default rates and adjusted by difference of 2022 forecast default rate and 2021 actual default rate in Moody's Study. 100% probability of default rate is adopted for all other receivables categorized as stage 3 and all trade receivable due over one year.

In this ECL assessment, the latest version of "Annual Default Study: Corporate Default and Recovery Rates" published by the Moody's Investors Services and Credit Suisse Emerging Market Corporate Bond indices are adopted.

Loss Given Default (LGD): The LGD is determined by one minus recovery rate (RR). The RR is based on latest published RR data from major international credit rating agency. In this ECL assessment, the latest version of "Annual Default Study: Corporate Default and Recovery Rates" published by the Moody's Investors Services is adopted. Assuming all receivables, if not default, will be settled within one year, discount factor is adopted based on the corresponding risk-free rate.

Forward Looking Factor: The forward-looking factor is determined by the ratio of forecast default rate in 2022 over actual default rate in 2021 as extracted from the latest version of "Annual Default Study: Corporate Default and Recovery Rates" published by the Moody's Investors Services.

For account receivable, historical loss rate is adopted according to the aging grouping of the receivables.

Details of the key assumptions and inputs adopted in the provision assessment regarding ECL of account and other receivables are as follows:

(i) Exposure of default: The exposure of default is the difference between the market value of collaterals and the book value of the receivables. As at 30 June 2022, since the there is no collateral, the exposure of default of account receivables and other receivables is HKD26,569,000 and HKD152,265,000 respectively.

(ii) Probability of default rate:

Account Receivables: below are the provision matrix based on historical and forward-looking estimates of default rates and adjusted by aging.

Aging	**Less than 30 days**	**30–60 days**	**60–90 days**	**90–180 days**	**180–365 days**	**Over 1 year**
Probability of default	3.29%	3.59%	3.93%	5.20%	100.00%	100.00%

Other Receivables: Depending on nature of receivables and availability of information, the PD is derived from the latest version of "Annual Default Study: Corporate Default and Recovery Rates" published by the Moody's Investors Services and Credit Suisse Emerging Market Corporate Bond indices.

Stage	**1**	**2**	**3**
Probability of Default	4.96%	26.46%	100.00%

(iii) Loss Given Default rate:

The calculation of loss given default rate was (1-expected recovery rate). The expected recovery rate (0–38%) was extracted from the latest version of "Annual Default Study: Corporate Default and Recovery Rates" published by the Moody's Investors Services further adjusted with the staging of the receivables.

(iv) Discount Factor:

The discount factor 2.562% was extracted from Hong Kong Dollar Sovereign Curve Yield as extracted from Bloomberg database as of 30 June 2022.

MATERIAL VARIANCE

In the FY2022, the material variance are set out hereinbelow:—

(a) Variance on Cost of services by HK$624,000

The increase in cost of services was mainly due to the late adjustment on the packaging charge from other receivables incurred during the year.

(b) Variance on Other income, gains and losses, net by HK$56,477,000

The decrease in other income, gains and losses was mainly due to net impairment loss recognized on other receivables amounted to HK$61,022,000 as a result of expected credit loss assessment, additional impairment loss of HK$1,715,000 made on property, plant and equipment and adjustment of HK$6,190,000 on loss on disposal of property, plant and equipment after the announcement of the Unaudited Result for the year ended 30 June 2022 (the "**Unaudited Results Announcement**").

Impairment loss recognized on other receivables

Impairment loss recognized on other receivables of HK$61,022,000 was recognised in the Audited Results Announcement for the year ended 30 June 2022 (the "**Audited Results Announcement**") was mainly related to the late adjustment resulting in the assessment of expected credit loss on deposits, prepayments and other receivables. Valuation was finalized subsequent to the Unaudited Result Announcement. The persistent COVID-19 pandemic control quarantine measures and certain restrictions on travel in the PRC caused the delay in the auditing process of the financial statements of the Group for the year ended 30 June 2022 and the assessment of updated information which were made available to the auditors subsequent to the date of the Unaudited Results Announcement.

At that material time, the Company expected the business in the PRC would resume in the third quarter of 2022. However, the advertising business has yet been commenced until December 2022. In view of the uncertainty of the utilization of advance payment to the suppliers and the recoverability of other receivables, late adjustment of impairment loss on deposits, prepayments and other receivables was made to reflect the situation.

Impairment loss recognized on property, plant and equipment (increased by HK$1,715,000)

Further impairment loss of HK$1,715,000 was recognized on property, plant and equipment in the Audited Results Announcement was mainly related to the late adjustment resulting in the assessment on the recoverable amounts of machineries and equipment.

Loss on disposal of property, plant and equipment

The decrease in loss on disposal of property, plant and equipment by HK$6,190,000 was mainly due to the late adjustment on the net book value of disposed machineries and equipment after the Unaudited Result Announcement.

(c) Variance on Administrative expenses by HK$5,596,000

Increase in administrative expenses was mainly due to late adjustment made on the depreciation charge of HK$5,987,000 charge to loss on disposal of property, plant and equipment for disposed assets and HK$391,000 reversal of depreciation charge for the year subsequent to the Unaudited Result Announcement.

(d) Variance on Property, plant and equipment by HK$416,000

The increase in property, plant and equipment mainly related to the further impairment loss made on machineries and equipment of HK$1,715,000 and the late adjustment made on the reversal of depreciation charge of HK$391,000 for the year as well as HK$2,522,000 made on the net book value of disposed machineries in the Audited Results Announcement.

(e) Variance on Trade receivables by HK$4,783,000

The decrease in trade receivables is mainly due to (i) reclassification of consideration receivable of HK$3,312,000 from disposal of machineries and equipment, which were included in other receivables; and (ii) expenses charged to cost of services and reversal of revenue in the Audited Result Announcement.

(f) Variance on Deposits, prepayments and other receivables by HK$43,551,000

The variance on deposits, prepayments and other receivables was mainly related to (i) reclassification of consideration receivables of HK$3,312,000 from disposal of machineries and equipment; (ii) impairment loss recognized on prepayments and other receivables amounted approximately to HK$71,580,000 and reversal of impairment loss recognized of HK$10,558,000 as a result of expected credit loss assessment completed subsequent to the Unaudited Result Announcement; (iii) expenses charged to profit or loss of HK$904,000; and (iv) reclassification to other payables, in the amount of approximately HK$14,159,000, which was included in credit balances in other receivables.

(g) Variance on Trade payables by HK$6,572,000

The variance on trade payables was mainly related to reclassification from other payables, which was originally included in other payables in Unaudited Result Announcement.

(h) Variance on Accruals and other payables by HK$5,051,000

The variance of accruals and other payables was mainly related to reclassification to trade payables, in the amount of approximately HK$6,572,000; reclassification of credit balances in other receivables amounted to HK$14,159,000 to other payables; and reclassification of payables in borrowings nature repayable after one year, in the amount of HK$13,768,000, to non-current other borrowings which was originally included in other payables in the Unaudited Result Announcement.

(i) Variance on Borrowings by HK13,768,000

The variance of borrowings in the Audited Result Announcement was mainly related to the reclassification of payables in borrowings nature which was repayable after one year, in the amount of HK$13,768,000, to non-current other borrowings, which was originally included in other payables in the Unaudited Result Announcement.

The information contained in this supplemental announcement does not affect other information contained in the 2022 Annual Report. Save as disclosed above, all other information in the 2022 Annual Report remains unchanged.

By order of the Board
Million Stars Holdings Limited
Gan Xiaohua Tian Yuan
Co-chairman

Hong Kong, 17 April 2023

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

This announcement, for which the Directors 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 of Hong Kong Limited 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.

This announcement will remain on the Stock Exchange website at http://www.hkexnews.hk on the "Latest Listed 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.