Asia Pioneer Entertainment Holdings Limited
亞洲先鋒娛樂控股有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8400)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2021

Reference is made to the annual results announcement of Asia Pioneer Entertainment Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2021 (the "**Annual Results Announcement**") dated 25 March 2022. Capitalised terms used herein shall have the same respective meanings as defined in the Annual Results Announcement unless the context requires otherwise.

The Company would like to provide further information in relation to the details of and reason for impairments and their amount, and the prospects of the Electric Gaming Equipment ("**EGE**") Business.

The Group's EGE Business is carried out by the Macau subsidiary, Asia Pioneer Entertainment Limited ("**APE**"). Since the EGE Business incurred a significant loss for each of the years ended 31 December 2021 ("**FY2021**") and 2020 ("**FY2020**") and operating cash outflows for FY2021, which were indicators of impairment, the Company performed the impairment review as at 31 December 2021 and 2020, respectively. The cashflow forecast of APE, which represented the cash generating unit ("**CGU**") of the EGE Business, was prepared to determine the recoverable amount of the EGE Business as at 31 December 2021 and 2020, respectively.

For the impairment review as at 31 December 2021, the cashflow forecast has taken into consideration of the higher degree of estimation uncertainties on how the Omicron variant of the COVID-19 pandemic may progress and evolve and the volatility resulting from the potential disruption of the EGE Business. Since the Omicron variant has spread widely for FY2021 but not FY2020, this has been reflected in the actual deterioration of EGE Business for FY2021 compared to FY2020 (FY2021's actual revenue of HK$7.5 million compared to FY2020's actual revenue of HK$40.5 million; FY2021's actual operating cash outflows of HK$14.0 million compared to FY2020's actual operating cash inflows of HK$0.8 million). The CGU's recoverable amount was compared to its carrying amount to determine the amount of impairment, if any. As at 31 December 2021, the recoverable amount was negative whilst the carrying amounts of property and equipment ("**PPE**") and right-of-use assets ("**ROU assets**") were HK$408,775 and HK$1,666,542 respectively as at 31 December 2021. In view of the aforementioned reasons, the PPE and ROU assets were fully impaired as at 31 December 2021.

For impairment review, the recoverable amount of CGU of the EGE Business are determined using valuation method of income approach of discounted cash flows for the value-in-use calculation. Details and information about the impairment review as at 31 December 2021 are as follows:

Impairment review as at 31 December 2021

		Present value As at 31 Dec 2021 *HK$*	**Forecast FY2022** *HK$*	**Forecast FY2023** *HK$*
Operating cash outflows			(7,083,952)	(475,658)
Discount rate	16.1%			
Present value for FY2022 and FY2023		(6,454,730)	(6,101,821)	(352,909)
Present value beyond FY2023 (long-term growth)		(4,161,495)		
Recoverable amount	**(A)**	**(10,616,225)**		
Carrying amount				
— Property and equipment		408,775		
— Right-of-use assets		1,666,542		
Total carrying amount	**(B)**	**2,075,317**		
Impairment amount		2,075,317		

The forecast for the year ending 31 December 2022 ("**FY2022**") was based on the Group's actual revenue of EGE Business of HK$7.5 million for FY2021, and on the assumptions that the COVID-19 pandemic would not subside in the near future, and as a consequence the Group's EGE sales would not rebound in FY2022. The forecast for FY2022 has also taken into consideration of the higher degree of estimation uncertainties on how the Omicron variant of the COVID-19 pandemic may progress and evolve and the volatility resulting from the potential disruption of the EGE Business. The forecast for the year ending 31 December 2023 ("**FY2023**") is expected to be a slight improvement over the forecast for FY2022, and the basis and assumption is that the Group believes the EGE Business will slowly recover as the effects of the Omicron variant of the COVID-19 pandemic subsides and travel restrictions are eased. However, since it is unlikely that the EGE Business will be able to recover to pre-COVID-19 pandemic-levels for FY2023, the assumption is that there will be slow recovery for FY2023.

The operating cash inflow is primarily derived from technical sales and distribution of EGE and its spare parts, consulting and technical services and repair services, whereas our operating cash outflow mainly includes payment for staff costs, consultancy and technical services expenses, purchase of EGE and spare parts as well as other working capital needs.

For FY2022, we estimated loss before income tax of approximately of HK$7.6 million and net cash used in operating activities of approximately HK$7.1 million, which were mainly due to the decrease in inventories and trade and other payables and the increase in trade and other receivables. We considered that it was primarily due to the temporary effect owing to the timing of receipts from our customers as well as the timing of payment to our suppliers. The decrease in inventories is due to there will be no much finished goods purchased for FY2022. As mentioned above, it is based on the assumption that the COVID-19 pandemic would not subside in the near future.

For FY2023, we estimated loss before income tax of approximately of HK$6.6 million and net cash used in operating activities of approximately HK$0.5 million, which were mainly due to the decrease in trade and other receivables. We considered that we will improve our net operating cash outflow position by putting more efforts for following up with the receipts from our customers and we believe that the EGE Business will slowly improve for FY2023.

The most significant inputs are the forecast revenue, gross profit margin and discount rate. To consider the current situation affected by COVID-19 pandemic, the revenue was forecasted by reference to the signed quotations and purchases orders. The gross profit margin is 25%. The long-term growth rate of 3% per annum was by reference to the forecast inflation rate of Macau for the years from 2024 to 2026. The discount rate of 16.1% was derived from the weighted average cost of capital ("**WACC**") of comparable companies in FY2021 and 8% was derived from the cost of equity of comparable companies in FY2020. It is more comprehensive to use WACC to reflect the cost of capital as a whole as this considered the expected return on a portfolio of the debt and equity sources used to finance the activities.

	2020	**2021**	**Method of determination**
Long term growth rate	3%	3%	Forecast inflation rate of Macau for the years from 2024 to 2026
Discount rate	8%	16.1%	8% was derived from the cost of equity of comparable companies in FY2020 and 16.1% was derived from WACC of comparable companies in FY2021
Gross profit margin	25%	25%	Based on our selling price and the cost we expected to recover

When the Company performed the impairment review as at 31 December 2020, the forecast undiscounted operating cashflows were positive operating cash inflows of HK$5,145,000 for forecast FY2021 and FY2022, which were far exceeded the carrying amounts of PPE and ROU assets of HK$3,350,000 as at 31 December 2020. Therefore the Company has performed an internal assessment of discount rate to be applied by reference to the cost of equity of comparable companies in FY2020. However, when the Company performed the impairment review as at 31 December 2021, there was actual deterioration of EGE Business for FY2021 compared to FY2020. In this circumstance, the Company was assisted by an external valuer for the internal assessment of discount rate to be applied and the discount rate was derived from the WACC of comparable companies in FY2021.

The Company has performed a sensitivity analysis that even if a discount rate of 16.1% were to be applied to the impairment review as at 31 December 2020, the resulted recoverable amount would be HK$3,560,000 which still exceeded the carrying amounts of PPE and ROU assets of HK$3,350,000 as at 31 December 2020.

For the change in the value of inputs or assumptions, there are no significant changes in the adopted discount rate and long-term growth rate in the comparison with those adopted previously. These changes did not have significant impact on the overall result. The forecasted cashflows prepared reflect the continuing impact brought by the unexpected Omicron variant of the COVID-19 pandemic of the aforementioned reasons.

For the impairment review as at 31 December 2021, the major change in the valuation of the inputs was the forecasted cashflows as at 31 December 2021 and 2020, which have taken into consideration of the aforementioned reasons. Save for the above, there have been

(i) no significant changes in the valuation of the inputs and assumptions from those previously adopted, and (ii) no changes or subsequent changes in the valuation method of income approach of discounted cash flows for the value-in-use calculation.

The Company has not engaged any independent valuer to perform the valuation of the relevant assets.

The Board confirmed that the above additional information does not affect other information contained in the Annual Results Announcement.

For and on behalf of
Asia Pioneer Entertainment Holdings Limited
Huie, Allen Tat Yan
Chairman and Executive Director

Hong Kong, 1 August 2022

*As at the date of this announcement, the executive directors of the Company (the "**Directors**") are Mr. HUIE, Allen Tat Yan (Chairman), Mr. NG Man Ho Herman (Chief Executive Officer) and Mr. CHAN Chi Lun (Chief Financial Officer); and the independent non-executive Directors are Mr. CHOI Kwok Wai, Mr. MA Chi Seng and Mr. HO Kevin King Lun.*

*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 (the "**GEM**") 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 "Latest Listed Company Information" page of the GEM website at www.hkgem.com for at least 7 days from the date of its publication. This announcement will also be published on the website of the Company at www.apemacau.com.