StarGlory Holdings Company Limited
榮暉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8213)

SUPPLEMENTAL ANNOUNCEMENT IN RESPECT OF THE ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2019

References are made to the announcement of StarGlory Holdings Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 25 June 2019 in relation to the annual results of the Company for the year ended 31 March 2019 (the "**Results Announcement**") and the annual report of the Company for the year ended 31 March 2019 (the "**Annual Report**"). Terms used herein shall have the same meanings as defined in the Results Announcement and the Annual Report unless the context requires otherwise.

The directors of the Company (the "**Directors**") would like to provide supplementary information in relation to the impairment loss on goodwill of approximately HK$55.1 million for the year ended 31 March 2019 (the "**Impairment Loss**") including, amongst others, (i) the reasons and circumstances leading to the Impairment Loss; and (ii) the methods, basis and key assumptions used in determining the amount of the Impairment Loss.

(i) REASONS AND CIRCUMSTANCES LEADING TO THE IMPAIRMENT LOSS

The goodwill subject to the Impairment Loss was in relation to the Company's acquisition of the entire equity interest in Mark Limited (together with its subsidiaries, the "**Mark Group**"), which is a subsidiary of the Company as at the date of this announcement and is primarily engaged in the operation of restaurants, café and cake shops in Hong Kong, on 20 August 2012.

The Impairment Loss was mainly attributable to the significant decrease in the turnover of café operation, which were in turn due to (i) the decrease in the weighted average number of café for the year ended 31 March 2019 mainly resulted from the expiry of tenancies; and (ii) the decrease in average annual sales per café for the year ended 31 March 2019 mainly resulted from the US-China trade negotiations and Brexit which affected the global economy, leading to sluggish local investment and consumption sentiments in Hong Kong.

(ii) METHODS, BASIS AND KEY ASSUMPTIONS USED IN DETERMINING THE AMOUNT OF THE IMPAIRMENT LOSS

The Company adopted the discount cash flow approach to estimate the value-in-use ("**VIU**") for Mark Group in the impairment assessment. The forecast period is from the year ending 31 March 2020 to the year ending 31 March 2029 (the "**Forecast Period**"), which was based on the financial budgets approved by the senior management of the Company covering a five-year period from the year ending 31 March 2020 to the year ending 31 March 2024 while the cashflow forecast for the remaining of the Forecast Period (i.e. the year ending 31 March 2025 to the year ending 31 March 2029) is extrapolated using a long-term growth rate of 2%.

Set out below is a comparison table showing the key assumptions used in determining the amount of the Impairment Loss and those adopted in the impairment review for the years ended 31 March 2019 and 2018:

Key assumptions		**Impairment review for the year ended 31 March 2019 (the "2019 Forecast")**	**Impairment review for the year ended 31 March 2018 (the "2018 Forecast")**
Budgeted gross margin	:	62%	63%
Budgeted operating costs to turnover ratio	:	58.5% per year	From 61% for the year ended 31 March 2019 to 52% for the year ending 31 March 2023
Annual growth rates in turnover	:	Café operation: –2.8% Cake shops operation: 1.7%	2% for both café and cake shops operation
Long-term growth rates	:	2%	2%
Discount rates *(Note)*	:	16.86%	14.16%

Note: As set out in the Annual Report, the pre-tax discount rates were applied in impairment assessment as required under the relevant accounting standards.

Budgeted gross margin

The budgeted gross margins used in the 2018 Forecast and the 2019 Forecast were the actual gross margins in the previous year and there was no significant change (63% in the 2018 Forecast and 62% in the 2019 Forecast). Having considered the slight decrease in the gross margin of Mark Group from the year ended 31 March 2015 to the year ended 31 March 2019 and for the sake of prudence, the budgeted gross margin in the 2019 Forecast is assumed to be 62%, which is the actual figure of gross margin for the year ended 31 March 2019.

Budgeted operating costs to turnover ratio

Budgeted operating costs of Mark Group included operating costs and management service fee. The 2018 Forecast assumed that tight operating cost control will continue and the percentage of operating expenses to turnover will decrease by three percentage points annually from the year ended 31 March 2019 to the year ending 31 March 2022 and will remain at 52% thereafter. In the 2019 Forecast, given (i) Mark Group implemented tight operating cost control and maintained the operating costs (excluding the management service fee) to turnover ratio at a stable level of 57% during the years ended 31 March 2018 and 2019 despite tremendous pressures arising from high costs of rental, labour, food and utilities; and (ii) the reduction of management service fee charged by a subsidiary of the Company to 1.5% as at the date of the Results Announcement and Annual Report, the Directors consider that the budgeted operating costs to turnover ratio of 58.5% (being the sum of operating costs (excluding the management service fee) to turnover ratio of 57% for the year ended 31 March 2019 and the management service fee to turnover ratio of 1.5% as at the date of the Results Announcement and Annual Report) is reasonable and appropriate.

Discount rates

An independent valuer was engaged for the estimation of the appropriate discount rate. The pre-tax discount rates of 14.16% and 16.86% for the 2018 Forecast and the 2019 Forecast were adopted respectively with reference to the weighted-average cost of capital arrived by the independent valuer. The difference in the discount rates was mainly due to the addition of a premium on cost of equity in the 2019 Forecast after taking into consideration the deteriorating operation of Mark Group.

Since impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates and the VIU arrived is less than the carrying amount of the cash-generating units (comprised Mark Group), an impairment loss is recognized according to the relevant accounting standards, resulting in the Impairment Loss.

By order of the Board
StarGlory Holdings Company Limited
Huang Chao
Chairman and Executive Director

Hong Kong, 29 July 2019

As at the date of this announcement, the executive Directors are Mr. Huang Chao and Mr. Wu Xiaowen; and the independent non-executive Directors are Mr. Chan Yee Ping Michael, Mr. Deng Guozhen and Mr. Zeng Shiquan.