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 RELATION TO CONTINUING CONNECTED TRANSACTION

Reference is made to the announcement ("**Announcement**") of StarGlory Holdings Company Limited dated 13 July 2020 in relation to, among others, the entering into the Operational Service Agreement. Unless otherwise specified, capitalised terms used herein shall have the same meaning ascribed to them in the Announcement. The Directors would like to provide supplemental information in relation to the Operational Service Agreement.

SUPPLEMENTAL INFORMATION IN RELATION TO THE OPERATIONAL SERVICE AGREEMENT

Further details of the Products

The Products primarily include skincare related products, and other products in the healthcare industry as well as medical products.

Pricing policy of the Service Fee

As disclosed in the Announcement, the Group has considered (i) the scope and cost of the Services to be provided under the Operational Service Agreement and (ii) the prevailing market price for similar or comparable services which StarGlory Enterprise Management would provide to Independent Third Parties in determining the calculation formula of the Service Fee. In respect of these two factors, the Company would like to further elaborate as follows:

(i) the Service Fee is determined upon the basis of the principle of "cost-plus" which is based on the expected cost arising from the provision of the Services by StarGlory Enterprise Management plus a margin as agreed after arm's length negotiations between the parties:

   (a) in determining the expected costs, the Company has taken into account the estimated costs of human resources, professional knowledge, rental and other operational and administrative affairs in respect of providing both the Management Services and the Sales Services;

   (b) in determining the margin, the Company has considered the current and expected scope and type of the Products available to be provided by the Company under the Operational Service Agreement and the range of unit price that is generally accepted by the market;

(ii) the rate of the Service Fee was no more favourable to Huayin Biotechnology than those which would be provided to Independent Third Parties by StarGlory Enterprise Management in respect of comparable services.

The parties also took into account the following factors in determining the calculation formula of the Service Fee:

(i) the pricing mechanism of other market comparable in the provision of services similar to the Management Services and the Sales Services. The Group has made reference to the pricing formula adopted by certain companies operating in similar industry in providing similar or comparable services, which is obtained either from public source or through personal network of the management of the Company; and

(ii) the complexity of providing the Management Services and the Sales Services by StarGlory Enterprise Management, as well as the value and benefit of the foresaid services.

BASIS OF THE PROPOSED ANNUAL CAPS

The Annual Caps for the Operational Service Agreement are reasonable estimates by the Board after taking into account the following factors:

(i) professional and dedicated sales teams will be established for sales and distribution of the Products. Please refer to the paragraphs headed "Board's View in relation to the Operational Service Agreement – Development Plans for the Medical and Healthcare Business" in this announcement for details;

(ii) the estimated increase in future market demands of the Products driven by the steady growth and development trend in the domestic healthcare sector;

(iii) the gradual expansion of the sales network and channels during the term of the Operational Service Agreement. Please refer to the paragraphs headed "Board's View in relation to the Operational Service Agreement – Development Plans for the Medical and Healthcare Business" in this announcement for details;

(iv) the expected increase in brand recognition of the Products and improvement in customer relationship resulting from the provision of the Management Service under the Operational Service Agreement; and

(v) an additional buffer on top to provide for operational flexibility, which will accommodate (a) unexpected increase in the unit price of the Products; and (b) other unforeseeable circumstances (including but not limited to future price inflation increase).

INTERNAL CONTROL MEASURES

The Company would like to supplement the following information in relation to the section headed "Internal Control Measures" in the Announcement:

The Company has established the following internal control measures in order to ensure that the transactions contemplated under the Operational Service Agreement will be conducted in accordance with the terms thereof and the transaction amount under the Operational Service Agreement will be carefully monitored so that the Company would not rely heavily on Mr. Li, if any:

(i) the operation department of StarGlory Enterprise Management is responsible for collecting data and statistics of all the transactions conducted under the Operational Service Agreement to monitor the transaction amounts and will report to the finance department of the Company (the "**Finance Department**") on a monthly basis;

(ii) the Finance Department will conduct monthly review on such transactions based on the data and statistics reported from StarGlory Enterprise Management and compare them with the performance of the food and beverage business (the "**F&B Business**") in that particular month. The Finance Department will submit the above information for the management's review on a quarterly basis. However, whenever it is aware that the accumulated monthly revenue derived from the Operational Services Agreement reaches 30% of the accumulated total revenue of the Group, the Finance Department will notify the management of the Company immediately. The Board (including independent non-executive Directors) will then assess the situation and consider if there is a need to adjust the development strategies in light of the current operating environment and customer sentiment of the F&B Business and the business as contemplated under the Operational Service Agreement (the "**Medical and Healthcare Business**"); and

(iii) in order to closely monitor the development trend of the Medical and Healthcare Business versus the F&B Business, the Finance Department will compile a list containing the monthly transaction records of the Medical and Healthcare Business throughout the 3-year term of the Operational Services Agreement. In the event that there is any sign showing that there has been or will be a rapid increasing trend from the revenue derived from the Operational Service Agreement compared with those derived from the F&B Business, the Finance Department will notify the management and evaluate if there is any need to summon a Board meeting to assess if there is any reliance on Mr. Li.

In addition to the aforementioned internal control measures which are tailor-made to ensure that transaction amounts under the Operational Service Agreement will be within a prescribed percentage of the Company's revenue, the following internal control measures are also adopted to ensure that the continuing connected transactions contemplated thereunder will be conducted on fair and reasonable terms:

(i) the external auditors of the Company will conduct annual review on the pricing mechanism and Annual Caps of the transactions conducted under the Operational Service Agreement pursuant to the Listing Rules and report to the Board;

(ii) the independent non-executive Directors will conduct annual review with respect to the transactions contemplated under the Operational Service Agreement;

(iii) the Group will duly disclose in the annual reports and accounts regarding the transactions contemplated under the Operational Service Agreement for the year ending 31 March 2021 and 31 March 2022, together with the conclusions drawn by the independent non-executive Directors as to whether the transactions are conducted in the Company's ordinary and usual course of business, on normal commercial terms or better, fair and reasonable, and in the interests of the Company and its Shareholders as a whole; and

(iv) those internal control measures as disclosed in the Announcement.

By implementing the internal control measure mentioned above, the Directors believe that the transactions contemplated under the Operational Service Agreement will be conducted on fair and reasonable terms so as to ensure that they serve the interests of the Company and its Shareholders as a whole.

FURTHER INFORMATION ON HUAYIN BIOTECHNOLOGY

The Company would like to supplement that, Huayin Biotechnology was owned as to 60% by Ms. Huang Min（黃敏）, 30% by Mr. Li and 10% by Ms. Li Yuan（李瑗）as at the date of the Operational Service Agreement, and is owned as to 70% by Ms. Lai Yingying（賴瑩瑩）and 30% by Mr. Li as at the date of this announcement. To the best knowledge of the Directors, each of Ms. Huang Min, Ms. Li Yuan and Ms. Lai Yingying is an Independent Third Party.

BOARD'S VIEW IN RELATION TO THE OPERATIONAL SERVICE AGREEMENT

Development plans for the Medical and Healthcare Business

As stated under the section headed "Reasons for Entering Into the Operational Service Agreement" in the Announcement, in view of the rising uncertainties of the food and beverage market brought by the social movements since June 2019 and the outbreak of the novel coronavirus epidemic, StarGlory Enterprise Management was incorporated in January 2020 and entered into the Operational Service Agreement in July 2020 in order to diversify the development strategies, expand the business portfolio and broaden the revenue base of the Group. The Group believes that entering into the Operational Service Agreement is in line with the Group's expansion strategy and would be beneficial to broaden its revenue base and strengthen its long-term competitiveness and development potentials under the current challenging operating environment.

The preliminary plans for implementing the Operational Service Agreement are set out below:

(i) distributing the Products to beauty salons at the initial stage through a professional and dedicated sales team to guarantee the revenue income and build up the brand image of the Products in the initial stage. As at the date of this announcement, StarGlory Enterprise Management has already recruited several sales personnel who have extensive experiences, expertise and resources in terms of distribution of the Products in beauty salon, and is still negotiating with several other potential business groups which are professional and active in the beauty salon sales channel;

(ii) distributing the Products to hospitals and pharmacies in subsequent stages. Upon founding the sales basis and establishing the brand identity in the domestic healthcare market, the Products will be further sold and distributed to hospitals and pharmacies in the second and third year to broaden the revenue income; and

(iii) expansion of the types of the Products. Please refer to the paragraph headed "Further Information in relation to the Operational Service Agreement – Further details of the Products" in this announcement for details.

Impacts on the Group's Business Portfolio

Despite the above, the Board would like to clarify that, considering that the Group has accumulated extensive industry experiences and earned its reputation in the F&B Business after years of establishment and presence in Hong Kong and Mainland China, the Group remains a strong market player in the food and beverage sector and it is the plan of the Board to maintain the F&B Business as the Group's principal business despite confronting with immense social and economic challenges in the catering industry.

In order to maintain the profitability and competitiveness of the F&B Business under the new challenging operating environment, the Company intends to implement, inter alia, the following development strategies:

(i) **Investment in the F&B Business for strategical expansion:** the Company intends to further expand the F&D Business by investing the unutilised funds from the Rights Issue (as defined in the announcement of the Company dated 27 April 2017) which have been allocated to the F&B Business. Please refer to the annual report of the Company for the year ended 31 March 2020 for details in relation to the use of proceeds of the Rights Issue. Such expansion plans include (a) opening new stores and restaurants; (b) strategically utilising franchising arrangement; (c) introducing new brands; and (d) acquisition;

(ii) **Implementation of new sales modes:** the Company has adjusted its products supply modes in the F&B Business upon assessing the new market conditions and changes in target consumers' behaviour. Such measures mainly include developing and strengthening business relationship with food delivery service providers and offering discounts on takeaway meals. The Company intends to further implement such measures and will closely monitor the consumers' behaviour to adjust the sales mode in a timely manner in order to cater to the consumers' demands;

(iii) **Optimisation of the business operations and branch structure:** the Group has strategically reviewed and adjusted its business operations in Mainland China and Hong Kong by closing down some under-performing cafés and/or restaurants during the third and fourth quarter period from 1 October 2019 to 31 March 2020 which resulted in substantial decrease in loss for the nine months ended 31 December 2019 and for the year ended 31 March 2020 and turnaround from loss to profit during the three months ended 30 June 2020 as compared to the corresponding periods in the previous year. In view of the achievements, the Company will continue to closely monitor the market conditions and operational performance of each café and restaurant and will adjust and optimise the branch structure of the F&B Business by closing down or selling certain under-performing cafés and/or restaurants and reduce unnecessary expenses; and

(iv) **Other development strategies:** including (a) enriching the products offerings by introducing new items in the menu and (b) conducting diversified marketing strategies to promote the sales, such as giving out cash coupons to target customers, holding promotional events, or raising brand awareness by using various social media.

Based on the above, the Board considers that the F&B Business will remain to be the major constituent of the Group's business portfolio and the Company will not rely heavily on Mr. Li by engaging in the Medical and Healthcare Business.

* *for identification purpose only*

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

Hong Kong, 18 August 2020

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.

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 GEM website at www.hkgem.com on the "Latest Listed Company Information" page for at least 7 days from the date of its posting and the website of the Company at www.stargloryhcl.com.