StarGlory Holdings Company Limited
榮暉控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8213)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 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 StarGlory Holdings Company 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.

RESULTS

The board of directors (the "Board") of the Company hereby announces the audited consolidated results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 March 2020 (the "Reporting Period"), together with the comparative audited consolidated figures for the corresponding year, as follows

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2020

	Note	**2020**	2019
		HK$'000	*HK$'000*
Revenue	*2*	**188,125**	251,792
Cost of sales		**(71,862)**	(87,249)
Gross profit		**116,263**	164,543
Other income	*3*	**5,510**	3,788
Impairment loss on goodwill	*7*	**–**	(55,095)
Impairment loss on plant and equipment, other intangible assets and right-of-use assets	*7*	**(10,000)**	(79)
Gain on modification of convertible bonds		**–**	1,390
Operating expenses		**(128,677)**	(183,220)
Operating loss		**(16,904)**	(68,673)
Finance costs	*4(a)*	**(5,582)**	(6,689)
Loss before income tax	*4*	**(22,486)**	(75,362)
Income tax expense	*5(a)*	**(667)**	(1,363)
Loss for the year		**(23,153)**	(76,725)
Loss for the year attributable to:–			
Owners of the Company		**(22,967)**	(75,916)
Non-controlling interests		**(186)**	(809)
		(23,153)	(76,725)
Loss per share *(HK cents)*	*6*		
– Basic		**(0.55)**	(1.82)
– Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2020

	2020	2019
	HK$'000	*HK$'000*
Loss for the year	**(23,153)**	(76,725)
Other comprehensive income:–		
Item that may be subsequently reclassified to profit or loss:–		
Exchange gain arising from translation of financial statements of foreign operations	**31**	591
Recognition to profit or loss on deregistration of subsidiaries	**336**	–
Other comprehensive income for the year, net of tax	**367**	591
Total comprehensive loss for the year	**(22,786)**	(76,134)
Total comprehensive loss for the year attributable to:–		
Owners of the Company	**(22,647)**	(75,281)
Non-controlling interests	**(139)**	(853)
	(22,786)	(76,134)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2020

	Note	**2020** **HK$'000**	2019 HK$'000
NON-CURRENT ASSETS			
Plant and equipment		**5,555**	6,273
Goodwill on consolidation		**–**	–
Other intangible assets		**8,743**	11,905
Right-of-use assets	*8*	**32,534**	–
Deposits paid for plant and equipment		**579**	628
Deferred tax assets		**331**	915
		47,742	19,721
CURRENT ASSETS			
Inventories		**2,413**	2,693
Debtors, deposits and prepayments	*9*	**19,486**	24,744
Income tax recoverable		**76**	76
Cash and cash equivalents	*10*	**82,552**	122,249
		104,527	149,762
DEDUCT:–			
CURRENT LIABILITIES			
Creditors and accruals	*11*	**158,772**	161,246
Contract liabilities		**770**	823
Lease liabilities	*12*	**21,851**	–
Income tax payable		**1,058**	1,227
		182,451	163,296
NET CURRENT LIABILITIES		**(77,924)**	(13,534)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 March 2020

	Note	**2020** **HK$'000**	2019 HK$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**(30,182)**	6,187
NON-CURRENT LIABILITIES			
Creditors and accruals	*11*	**944**	2,617
Lease liabilities	*12*	**17,662**	–
Loan from the ultimate holding company	*13*	**–**	30,000
Convertible bonds		**39,387**	38,959
		57,993	71,576
NET LIABILITIES		**(88,175)**	(65,389)
REPRESENTING:–			
EQUITY ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Share capital		**41,662**	41,662
Reserves		**(129,507)**	(103,780)
		(87,845)	(62,118)
NON-CONTROLLING INTERESTS		**(330)**	(3,271)
TOTAL EQUITY		**(88,175)**	(65,389)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2020

	Attributable to owners of the Company									
	Share capital HK$'000	Accumulated losses HK$'000	Share premium HK$'000	Special reserve HK$'000	Exchange reserve HK$'000	Convertible bonds equity reserve HK$'000	Other reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1.4.2018	41,662	(291,033)	258,889	3,801	(1,403)	1,390	(143)	13,163	(2,418)	10,745
Comprehensive loss										
Loss for the year	–	(75,916)	–	–	–	–	–	(75,916)	(809)	(76,725)
Other comprehensive loss:–										
Exchange gain/(loss) arising from translation of financial statements of foreign operations	–	–	–	–	635	–	–	635	(44)	591
Total comprehensive loss for the year	–	(75,916)	–	–	635	–	–	(75,281)	(853)	(76,134)
At 31.3.2019 and 1.4.2019	41,662	(366,949)	258,889	3,801	(768)	1,390	(143)	(62,118)	(3,271)	(65,389)
Acquisition of non-controlling interests	–	(3,080)	–	–	–	–	–	(3,080)	3,080	–
Comprehensive loss										
Loss for the year	–	(22,967)	–	–	–	–	–	(22,967)	(186)	(23,153)
Other comprehensive loss:–										
Exchange gain/(loss) arising from translation of financial statements of foreign operations	–	–	–	–	54	–	–	54	(23)	31
Recognition to profit or loss on deregistration of subsidiaries	–	–	–	–	266	–	–	266	70	336
Total comprehensive loss for the year	–	(22,967)	–	–	320	–	–	(22,647)	(139)	(22,786)
At 31.3.2020	**41,662**	**(392,996)**	**258,889**	**3,801**	**(448)**	**1,390**	**(143)**	**(87,845)**	**(330)**	**(88,175)**

Notes:

1. BASIS OF PREPARATION

StarGlory Holdings Company Limited (the "Company") was incorporated in the Cayman Islands on 13 November 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The principal place of its business is 6/F., Southland Building, 48 Connaught Road Central, Central, Hong Kong. The Company and its subsidiaries (collectively referred to as the "Group") are engaged in the provision of food and beverage services. The ultimate controlling party of the Group was Ms. Huang Li ("Ms. Huang" or the "Controlling Shareholder") as at 31 March 2020.

The Company is listed on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

(a) Compliance with Hong Kong Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKASs") and Interpretations ("HK(IFRIC) – Int") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules").

(b) Initial application of HKFRSs

In the current year, the Group initially applied the following new and revised HKFRSs:–

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs (2015–2017)	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

The Group had to change its accounting policies following the adoption of HKFRS 16. For details, please refer to note 1(d). The other amendments listed above did not have material impact on the Group's consolidated financial statements for the current or prior years.

(c) HKFRSs in issue but not yet effective

The following HKFRSs in issue at 31 March 2020 have not been applied in the preparation of the consolidated financial statements since they were not yet effective for the annual period beginning on 1 April 2019:–

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of Business[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]

[1] *Effective for the Group's annual periods beginning on or after 1 April 2020*
[2] *Effective for the Group's annual periods beginning on or after 1 April 2021*
[3] *Effective for the annual periods beginning on or after a date to be determined*

The Group is in the process of making an assessment of what the impact of these HKFRSs is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

(d) Changes in accounting policies

This note explains the impact of the adoption of HKFRS 16 on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 April 2019, where they are different to those applied in prior periods.

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC)–Int 4, Determining whether an arrangement contains a lease, HK(SIC)–Int 15, Operating leases — incentives, and HK(SIC)–Int 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 on 1 April 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balances of right-of-use assets and lease liabilities at 1 April 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 April 2019. For contracts entered into before 1 April 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalize all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalized leases are primarily in relation to right-of-use assets as disclosed in note 8.

At the date of transition to HKFRS 16 (i.e. 1 April 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 April 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 3.72%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(1) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 March 2020; and

(2) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments to the opening balance for lease liabilities recognized as at 1 April 2019:–

	HK$'000
Operating lease commitments at 31 March 2019	38,012
Less: commitments relating to leases exempt from capitalization:	
– short-term leases and other leases with remaining lease term ending on or before 31 March 2020	(13,887)
	24,125
Less: total future interest expenses	(685)
Total lease liabilities recognized at 1 April 2019	23,440

The right-of-use assets in relation to leases previously classified as operating leases have been recognized at an amount equal to the amount recognized for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the consolidated statement of financial position at 31 March 2019.

The following table summarizes the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	At 31 March 2019 *HK$'000*	**Capitalization of lease contracts** *HK$'000*	**At 1 April 2019** *HK$'000*
Non-current assets			
Right-of-use assets	–	23,440	23,440
Current liabilities			
Lease liabilities	–	(12,516)	(12,516)
Non-current liabilities			
Lease liabilities	–	(10,924)	(10,924)

(e) Adoption of the going concern basis

When preparing the consolidated financial statements, the Group's ability to continue as a going concern has been assessed. The consolidated financial statements have been prepared by the Directors on a going concern basis notwithstanding that the Group incurred a loss of HK$23,153,000 for the year ended 31 March 2020 and as of that date, the Group had net current liabilities and net liabilities of HK$77,924,000 and HK$88,175,000 respectively as the Directors considered that:–

(1) Ms. Huang, being the sole beneficial owner and director of the ultimate holding company, will provide continuing financial support to the Group; and

(2) On 16 June 2020, the lender of the other loans signed a memorandum of loans with a subsidiary of the Company (the "Borrower"), pursuant to which the repayment date of the outstanding other loans balance of approximately HK$123,387,000 as at 16 June 2020 was extended from 22 June 2020 to 22 June 2021.

After taking into consideration of above factors and funds expected to be generated internally based on the Directors' estimation on the future cash flow of the Group, the Directors are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future and consider that it is appropriate for the consolidated financial statements to be prepared on a going concern basis since there are no material uncertainties related to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

2. REVENUE

Revenue represents invoiced value recognized in respect of provision of food and beverage services, net of discounts and value-added tax, during the year. An analysis of the revenue recorded for the year is set out below:–

	2020	2019
	HK$'000	*HK$'000*
Revenue from customers and recognized at a point in time		
– Provision of food and beverage services and others	**188,125**	251,792

3. OTHER INCOME

	2020	2019
	HK$'000	*HK$'000*
Government grants – *Note 3(a)*	**1,520**	–
Interest income	**1,150**	1,411
Service fee income	**1,266**	1,282
Franchise fee income	**1,170**	1,020
Miscellaneous items	**404**	75
	5,510	3,788

Note:–

(a) Government grants represent the subsidies received from the Anti-epidemic Fund of the Hong Kong Special Administrative Region Government.

4. LOSS BEFORE INCOME TAX

	2020	2019
	HK$'000	*HK$'000*
Loss before income tax is arrived at after charging/(crediting):–		
(a) Finance costs:–		
Interest expenses on secured bank loans, repayable within five years	**–**	91
Interest expense on other loans	**1,464**	1,398
Interest expense on convertible bonds	**798**	799
Interest expense on loan from the ultimate holding company	**205**	1,416
Imputed interest expense on convertible bonds	**428**	544
Interest expenses on lease liabilities	**1,165**	–
Other bank charges	**1,522**	2,441
	5,582	6,689
(b) Other items:–		
Amortization of other intangible assets	**818**	1,004
Depreciation of plant and equipment	**3,924**	8,560
Depreciation of right-of-use assets	**18,112**	–
Auditor's remuneration	**754**	854
Exchange gain	**(31)**	(205)
Minimum lease payments for lease previously classified as operating lease under HKAS 17	**–**	59,339
Variable lease payment not included in the measurement of lease liabilities	**3,154**	–
Short-term lease expenses	**15,031**	–
Directors' remuneration	**1,020**	1,020
Other staff salaries and benefits	**55,448**	73,559
Retirement scheme contributions	**1,977**	2,977
Other staff costs	**57,425**	76,536
Cost of inventories sold	**71,862**	87,249
Loss on disposal of plant and equipment	**21**	1,122
Loss on deregistration of subsidiaries	**336**	–

5. INCOME TAX EXPENSE

(a) Taxation in the profit or loss represents:–

	2020	2019
	HK$'000	*HK$'000*
Current tax	**91**	632
Deferred tax	**576**	731
Income tax expense	**667**	1,363

(i) Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands ("BVI"), the Group is not subject to any income tax in the Cayman Islands and BVI.

(ii) The Company's subsidiaries incorporated/established in Hong Kong, the People's Republic of China ("PRC") and Taiwan are subject to Hong Kong Profits Tax, PRC Enterprise Income Tax and Taiwan Profit-Seeking-Enterprise Income Tax at the rates of 16.5%, 25% and 20% respectively (2019: Hong Kong – 16.5%, PRC – 25% and Taiwan – 20% respectively).

(b) The income tax for the year can be reconciled to the loss before income tax per consolidated statement of profit or loss for the year as follows:–

	2020	2019
	HK$'000	*HK$'000*
Loss before income tax	**(22,486)**	(75,362)
Tax effect at the Hong Kong profits tax rate of 16.5% (2019: 16.5%)	**(3,710)**	(12,435)
Tax rates differential	**277**	318
Tax effect of income that is not taxable	**(490)**	(515)
Tax effect of expenses that are not deductible	**4,239**	9,615
Tax effect of unused tax losses not recognized	**351**	4,400
Tax refund	**–**	(20)
Income tax expense	**667**	1,363

(c) The components of unrecognized deductible temporary differences in certain subsidiaries of the Company were as follows:–

(i) The unutilized tax losses accumulated in the Hong Kong subsidiaries of the Company amounted to approximately HK$64,571,000 (2019: approximately HK$63,667,000) can be carried forward indefinitely. The unutilized tax losses accumulated in PRC subsidiaries amounted to approximately HK$62,391,000 (2019: approximately HK$61,585,000) can be carried forward for five years. The unutilized tax losses accumulated in Taiwan subsidiary amounted to approximately HK$Nil (2019: approximately HK$8,912,000) can be carried forward for ten years. Deductible temporary differences have not been recognized owing to the absence of objective evidence in respect of the availability of sufficient taxable profits that are expected to arise to offset against the deductible temporary differences.

(ii) Pursuant to the Corporate Income Tax Law of the PRC and its implementation rules, the gross amount of dividends received by the Company's subsidiary incorporated in Hong Kong from its PRC subsidiaries in respect of their profits generated since 1 January 2008 is subject to withholding tax at a rate of 5%. Under the Caishui (2008) No. 1, the undistributed profits of the PRC subsidiaries as at 31 December 2007 determined based on the relevant PRC tax rules and regulations are exempted from withholding tax. Since the Group can control the quantum and timing of distribution of profits of the Group's subsidiaries in the PRC, no deferred tax liability was provided as no profit is expected to be distributed by the PRC subsidiaries in the foreseeable future. As at 31 March 2020, the undistributed profits of the PRC subsidiaries amounted to approximately HK$3,134,000 (2019: approximately HK$3,835,000). The corresponding unrecognized deferred tax liabilities were amounted to approximately HK$156,700 (2019: approximately HK$191,800).

6. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to owners of the Company of HK$22,967,000 (2019: HK$75,916,000) and the weighted average number of ordinary shares of 4,166,175,000 (2019: 4,166,175,000 ordinary shares) in issue during the year ended 31 March 2020.

Diluted loss per share has not been disclosed as no dilutive potential equity shares in existence as at 31 March 2020 and 2019.

7. IMPAIRMENT ASSESSMENT

The non-financial assets subject to the impairment loss for the years ended 31 March 2020 and 2019 was in relation to Mark Limited (together with its subsidiaries, the "Mark Group"), which is a subsidiary of the Company and is primarily engaged in the operation of restaurants, café and cake shops in Hong Kong.

During the year ended 31 March 2020, the impairment loss was mainly attributable to the uncertainties of global and local economy as well as the unfavorable industry environment, which posed a negative impact on the Group's restaurant operations. These uncertainties also led to sluggish local investment and consumption sentiments in Hong Kong. The management of the Company concluded there was indication of impairment and conducted impairment assessment on recoverable amounts of certain plant and equipment, other intangible assets and right-of-use assets associated to the Mark Group, with carrying amounts (before impairment) of HK$4,608,000, HK$10,163,000 and HK$27,929,000 respectively.

The recoverable amount of Mark Group has been determined based on a discount cash flow approach to estimate the value-in-use. For the year ended 31 March 2020, the forecast period is from the year ending 31 March 2021 to the year ending 31 March 2030 (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 2021 to the year ending 31 March 2025 while the cash flow forecast for the remaining of the Forecast Period (i.e. the year ending 31 March 2026 to the year ending 31 March 2030) is extrapolated using a long-term growth rate of 0%.

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 2020 and 2019 are as follows:–

Key assumptions	**Impairment review for the year ended 31 March 2020 (the "2020 Forecast")**	**Impairment review for the year ended 31 March 2019 (the "2019 Forecast")**
Budgeted gross margin	61%	62%
Budgeted operating costs to turnover ratio	59% – 60%	58.5%
Annual growth rates in turnover	Café operation: –4.4% Cake shops operation: 2.4%	Café operation: –2.8% Cake shops operation: 1.7%
Long-term growth rates	0%	2%
Discount rates	16.71%	16.86%

Budgeted gross margin

The budgeted gross margin used in the 2020 Forecast and the 2019 Forecast was the actual gross margins in the previous year. Having considered the slight decrease in the gross margin of Mark Group from the year ended 31 March 2016 to the year ended 31 March 2020 and for the sake of prudence, the budgeted gross margin in the 2020 Forecast is assumed to be 61%, which is the actual figure of gross margin for the year ended 31 March 2020.

Budgeted operating cost to turnover ratio

Budgeted operating costs of Mark Group for the 2020 Forecast included operating costs (including lease payments) and management service fee. Even though Mark Group implemented tight operating cost control and maintained the operating costs to turnover ratio at a stable level of approximately 58% during the years ended 31 March 2019 and 2020, the Directors consider that the budgeted operating costs to turnover ratio ranging from 59% to 60% is reasonable and appropriate considering tremendous pressures arising from high costs of rental, labour, materials and utilities in the Forecast Period.

Discount rate

An independent valuer was engaged for the estimation of the appropriate discount rate. The pre-tax discount rates of 16.71% and 16.86% for the 2020 Forecast and the 2019 Forecast was adopted respectively with reference to the weighted-average cost of capital arrived by the independent valuer.

The management of the Company believes that any adverse change in the assumptions used in the calculations of recoverable amounts would result in further impairment losses on plant and equipment, other intangible assets and right-of-use assets associated to the Mark Group.

Based on the result of the assessment, the management of the Company determined that the recoverable amount of Mark Group is lower than the carrying amount. For the year ended 31 March 2020, the impairment amount has been allocated to each category of plant and equipment, other intangible assets and right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value-in-use calculation and the allocation, an impairment loss of HK$1,079,000, HK$2,380,000 and HK$6,541,000 were recognized against the carrying amounts of plant and equipment, other intangible assets and right-of-use assets, respectively. For the year ended 31 March 2019, impairment loss on goodwill of approximately HK$55,095,000 was recognized.

During the year ended 31 March 2019, in respect of other cash-generating unit, an impairment loss of HK$79,000 was recognized against the carrying amount of plant and equipment as the operation result was worse than expected.

8. RIGHT-OF-USE ASSETS

	Leasehold properties *HK$'000*
Cost:–	
At 1.4.2019	23,440
Additions	34,466
Lease modification	(284)
Exchange adjustment	(469)
At 31.3.2020	57,153
Aggregate depreciation:–	
At 1.4.2019	–
Charge for the year	18,112
Exchange adjustment	(34)
At 31.3.2020	18,078
Impairment loss:–	
At 1.4.2019	–
Charge for the year	6,541
At 31.3.2020	6,541
Net book value:–	
At 31.3.2020	32,534

On 1 April 2019, the Group recognized right-of-use assets of HK$23,440,000 newly capitalized under HKFRS 16.

The Group has entered into lease agreements to obtain the right to use properties as its office premises, restaurants, café and cake shops and as a result incurred lease liabilities (note 12). The leases typically run for an initial period of 1 to 4 years.

Details of impairment assessment are disclosed in note 7.

Variable lease payments

Leases of restaurants, café and cake shops are either with only fixed lease payments or contain variable lease payment that are based on 10% to 25% of sales and minimum annual lease payment that are fixed over the lease term. The payment terms are common in restaurants, café and cake shops in the locations where the Group operates. The amounts of fixed and variable lease payments paid/payable to relevant lessors for the year ended 31 March 2020 include:

	Number of leases	**Fixed payments** *HK'000*	**Variable payments** *HK'000*	**Total payments** *HK'000*
Office premises, warehouse and staff quarters without variable lease payments	7	3,548	–	3,548
Restaurants without variable lease payments	4	5,449	–	5,449
Restaurants with variable lease payments	32	24,761	3,154	27,915
Total	43	33,758	3,154	36,912

The overall financial effect of using variable payment terms is that higher rental costs are incurred by restaurants with higher sales. Variable rent expenses are expected to continue to represent a similar proportion of restaurants sales in future years.

9. DEBTORS, DEPOSITS AND PREPAYMENTS

Debtors, deposits and prepayments comprise:–

	2020 ***HK$'000***	2019 *HK$'000*
Trade debtors	**3,336**	3,975
Less: loss allowance	**(478)**	(478)
	2,858	3,497
Rental and utility deposits	**14,234**	18,201
Prepayments	**1,347**	1,688
Other debtors	**1,047**	1,358
	19,486	24,744

(a) Loss allowance

Loss allowance in respect of trade debtors is recorded using loss allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the loss allowance is written off against trade debtors.

Movements of loss allowance for trade debtors are as follows:–

	2020	2019
	HK$'000	*HK$'000*
At the beginning and end of the year	**478**	478

(b) Aging analysis

The trading terms with the Group's customers are mainly on cash and credit card settlements, except for well established corporate customers who are granted credit term of 30-60 days. For credit card settlements, the banks normally settle the balances within 2-3 days. The following was an aging analysis of trade debtors, which included outstanding balances for credit card settlements based on the invoice date (net of loss allowance), at the end of reporting period:–

	2020	2019
	HK$'000	*HK$'000*
0 – 30 days	**2,845**	3,452
31 – 60 days	**9**	7
61 – 90 days	**3**	1
91 – 180 days	**1**	37
	2,858	3,497

(c) Trade debtors that are not impaired

The aging analysis of trade debtors that are not considered to be impaired was as follow:–

	2020	2019
	HK$'000	*HK$'000*
Neither past due nor impaired	**2,845**	3,401
Past due but not impaired:–		
1 – 30 days	**9**	58
31 – 60 days	**2**	1
61 – 90 days	**2**	37
	13	96
	2,858	3,497

Trade debtors that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Trade debtors that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no loss allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade debtors. To measure the expected credit losses, these debtors have been grouped based on shared credit risk characteristics and the aging from billing.

10. CASH AND CASH EQUIVALENTS

	2020	2019
	HK$'000	*HK$'000*
Cash and bank balances	**82,552**	122,249

As at 31 March 2020, the cash and cash equivalents of the Group denominated in RMB amounted to approximately HK$4,850,000 (2019: approximately HK$3,558,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

11. CREDITORS AND ACCRUALS

Creditors and accruals comprise:–

	2020 HK$'000	2019 HK$'000
Trade creditors	**9,820**	12,976
Accruals and provisions	**14,276**	15,869
Other creditors	**11,593**	13,018
Other loans – *Note 11(a)*	**124,027**	122,000
	159,716	163,863
Less: classified in non-current liabilities	**(944)**	(2,617)
Classified in current liabilities	**158,772**	161,246

Notes:–

(a) Other loans of approximately HK$121,479,000 (2019: approximately HK$119,267,000) as at 31 March 2020 were unsecured, carried interest rate at 0.1% per month and repayable on 22 June 2020. The remaining amounts are interest-free and unsecured. On 16 June 2020, the lender of other loans signed a memorandum of loans with the Borrower, pursuant to which repayment date of the outstanding other loans balance of approximately HK$123,387,000 as at 16 June 2020 was extended from 22 June 2020 to 22 June 2021.

Interest payable to the lender of approximately HK$3,201,000 (2019: approximately HK$1,737,000) is included in other creditors.

(b) The following was an aging analysis, based on invoice date, of trade creditors:–

	2020 HK$'000	2019 HK$'000
0 – 30 days	**4,623**	5,296
31 – 60 days	**3,064**	5,703
61 – 90 days	**1,017**	357
91 – 180 days	**679**	327
Over 180 days	**437**	1,293
	9,820	12,976

12. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16:–

	Present value of minimum lease payments		**Minimum lease payments**	
	31 March 2020	1 April 2019	**31 March 2020**	1 April 2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:–				
Within one year	**21,851**	12,516	**21,857**	12,946
In the second to fifth year	**17,662**	10,924	**19,334**	11,179
	39,513	23,440	**41,191**	24,125
Less: Future finance charges			**(1,678)**	(685)
Present value of lease obligation			**39,513**	23,440

The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 April 2019 to recognize lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

13. LOAN FROM THE ULTIMATE HOLDING COMPANY

The loan from the ultimate holding company was unsecured two-year term loan and interest-bearing at the best lending rate as published by the Hongkong and Shanghai Banking Corporation Limited from time to time. The loan was fully and early settled on 12 June 2019.

14. RELATED PARTY AND CONNECTED TRANSACTIONS

Except for loan from the ultimate holding company as disclosed in note 13, the Group had the following material transactions with its related parties as defined in HKAS 24 during the year:–

	2020	2019
	HK$'000	*HK$'000*
Interest expense on loan from the ultimate holding company* – note	**205**	1,416

The Group had the following material transactions with its connected person as defined in the GEM Listing Rules during the year:–

	2020	2019
	HK$'000	*HK$'000*
Interest expenses on loan from the ultimate holding company*– note	**205**	1,416

* The ultimate holding company is wholly-owned by Ms. Huang.

Note:–

The interest rate was determined at the best lending rate as published by the Hongkong and Shanghai Banking Corporation Limited from time to time.

The Directors (including the independent non-executive Directors) of the Company have reviewed the above related party and connected transactions and are of the opinion and confirm that these transactions were effected: (i) on normal commercial terms (or better to the Group); (ii) in the ordinary and usual course of the business of the Group; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Key management compensation	**2020**	2019
	HK$'000	*HK$'000*
Fees for key management personnel	**1,020**	1,020
Salaries, allowances and other benefits in kind	**3,488**	3,365
Retirement scheme contributions	**54**	54
	4,562	4,439

15. SEGMENT AND ENTITY-WIDE INFORMATION

HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly review by the chief operating decision maker (the Directors) in order to allocation resources to the segment and to assess its performance.

(a) The Group operates in one business unit, and has one reportable and operating segment: food and beverage. Accordingly, the Group does not have any identifiable segment or any discrete information for segment reporting purpose.

(b) Geographical information

	PRC		Hong Kong/overseas		Consolidated	
	2020	2019	**2020**	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Revenue	**33,837**	49,352	**154,288**	202,440	**188,125**	251,792
Other income	**1,019**	1,058	**4,491**	2,730	**5,510**	3,788
Total revenue	**34,856**	50,410	**158,779**	205,170	**193,635**	255,580
Non-current assets	**8,258**	2,593	**39,153**	16,213	**47,411**	18,806

The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the non-current assets (excluding deferred tax assets) is based on (i) the physical location of the assets, in the case of plant and equipment (ii) the location of the operation to which they are allocated, in the case of intangible assets, right-of-use assets and goodwill, and (iii) the location of operation to which they are incurred, in the case of deposits paid.

(c) Major customers

The Group's customer base is diversified and no revenues from transactions with a single external customer amount to 10% or more of the Group's revenue for the years ended 31 March 2020 and 2019.

16 MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The Board would like to draw the users' attention that the Company's external auditor, without qualifying their opinion, has included the "Material Uncertainty Related to Going Concern" paragraph in the independent auditor's report in the consolidated financial statements of the Group for the year ended 31 March 2020.

Attention to note 1(e) above has been drawn by the Company's external auditor which indicates that the Group incurred a net loss of HK$23,153,000 for the year ended 31 March 2020 and as of that date, the Group had net current liabilities and net liabilities of HK$77,924,000 and HK$88,175,000 respectively. As stated in note 1(e), these conditions, along with other matters as set forth in note 1(e) above indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Their opinion is not modified in respect of this matter.

17. DIVIDEND

No dividend has been paid or declared by the Company for the years ended 31 March 2020 and 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's audited revenue for the year ended 31 March 2020 amounted to approximately HK$188.1 million (2019: approximately HK$251.8 million), representing a decrease of approximately 25.3% compared with the last financial year. Net loss attributable to owners of the Company decreased by approximately HK$52.9 million to approximately HK$23.0 million compared with the last financial year. The substantial decrease in net loss was mainly attributable to (i) the Group reviewed the performance of restaurants and consolidated under-performing restaurants to further enhance the structure and reduce unnecessary expenses during the third and fourth quarter period from 1 October 2019 to 31 March 2020 (the "Third and Fourth Quarter Period"); (ii) as to Hong Kong market, our business was not as severely affected by the social movement as compared with our peers during the Third and Fourth Quarter Period; (iii) there is a decrease in depreciation of plant and equipment of approximately HK$4.6 million as a result of the full depreciation of certain plant and equipment and hence no more depreciation was charged during the Reporting Period; and (iv) there is a substantial decrease in impairment loss recognized for the Reporting Period as compared to that of the corresponding period in 2019, given an impairment loss on non-financial assets under the cash-generating unit of restaurant, café and cake shops in an amount of approximately HK$10.0 million were recognized for the Reporting Period while an impairment loss on goodwill of approximately HK$55.1 million was recognized for the year ended 31 March 2019.

INDUSTRY OVERVIEW

During the Reporting Period, global economic growth slowed to its weakest pace since the global financial crisis a decade ago. Although the first phase of the trade agreement between China and the US was signed in January 2020 and the central banks conducted quantitative easing, rising of protectionism and emergence of trade wars posed a major challenge to the global economy. Moreover, since the beginning of 2020, the novel coronavirus ("COVID-19") epidemic dealt a further blow to the already sluggish demand and hit hard on the manufacturing activity and global trade, hampering market performance and investor sentiment.

In regard to domestic market, China's economy showed a generally steady growth, with the gross domestic product ("GDP") expanding by 6.1% year-on-year to approximately RMB100 trillion in 2019. The national per capita disposable income for the year increased by 5.8% year-on-year to RMB30,733. Meanwhile, the national consumption expenditure per capita reached approximately RMB21,559, representing a year-on-year increase of 5.5%. According to the National Bureau of Statistics, the revenue of the catering industry for the year of 2019 surged by 9.4% year-on-year, demonstrating the resilience of the industry amidst global economic instability. However, ravaged by the outbreak of COVID-19, the market and consumer sentiments were significantly affected by the disease-control measures like nationwide lockdown and production shutdown. The GDP of the first quarter of 2020 was approximately RMB20,650 billion, a decrease of 6.8% year-on-year. According to China Cuisine Association, 78% of the catering enterprises sustained an operating loss of over 100% during the Chinese New Year. Most catering brands chose to suspend business or focused on online-to-offline takeaway service to reduce losses.

The economy of Hong Kong witnessed severe headwinds and was negatively impacted by volatile external environment and social unrest during the year of 2019. The value of total receipts of the restaurant sector was provisionally estimated at HK$113 billion in 2019, representing a decrease of approximately 5.9% year-on-year. The provisional estimate of the value of total purchases of restaurants also decreased by approximately 5.1% to approximately HK$36 billion. According to the data released by the Census and Statistics Department, Hong Kong's GDP in the first quarter of 2020 shrank by 8.9% year-on-year, which is the largest single-quarter decline on record, indicating that the city is mired in deep recession. Sharp plunge in tourist arrivals and gathering ban exacerbated the subdued market condition of the catering, retail, consumption and tourism-related industries. The challenging business environment undoubtedly dragged the market performance, while the small and medium-sized enterprises, which have lower capital strength, faced overwhelming operating pressures.

Regarding the e-cigarette sector, after banning the sale of e-cigarettes to minors in 2018, the Chinese government further tightened regulations on e-cigarette industry in November 2019 amid rising health concerns. Pursuant to which, stakeholders in the industry are not allowed to sell and advertise e-cigarette products online, bringing negative impacts on the e-cigarette sector. Meanwhile, margins were squeezed by increased production costs, while demand on e-cigarette products decreased, hindering the sector's performance. According to the trade association's estimation, unemployment rate in China's e-cigarette sector obviously surged in late 2019.

BUSINESS REVIEW

We have experienced two extreme social sentiments during this financial year, one is a demonstration dynamic caused by the social movement and the other one is a stagnant silence caused by the novel coronavirus (or COVID-19) epidemic, silence is surprisingly more fearful than dynamic to the food and beverage industry. The persistence of high operating costs (namely, rental, labor, materials and utilities) could not perish your operation if your products and services are irresistible to customers, but COVID-19 could put an end to your operation in silence. Amid this critical business environment during this financial year, we could only strive for survival, and growth is inevitably struck out from our agenda.

During the Reporting Period, the Group's food and beverage businesses are a collection of Japanese related concepts in Hong Kong and the mainland China, including the restaurants, café and cake shops under the Japanese brand of Italian Tomato, the Japanese tonkatsu under the brand of Ginza Bairin, the Japanese curry specialty stores under the brand of Shirokuma Curry and the Japanese izakaya under the brand of Enmaru.

Italian Tomato, our major brand of restaurants, café and cake shops, is still a big contributor to the Group's revenue. Through years of effort on product innovation, menu re-engineering and customer relationships, Italian Tomato has already been a well-recognized brand in Hong Kong. After years of establishment and presence in Hong Kong, lessons and experience have been accumulated while weaknesses and strengths have been identified, the management planned to reposition the brand thoroughly, however the current social instability and the novel coronavirus epidemic slowdown the development speed. Nevertheless, the management has confidence to ride on the tide when the opportunities come. As at 31 March 2020, there are 7 cafés and 20 cake shops in Hong Kong.

Ginza Bairin, the Japanese tonkatsu, has no presence in the PRC market as at 31 March 2020, because the last direct shop was closed in the fourth quarter of this financial year due to the expiry of tenancy, and the last franchisee surrendered the location to the landlord during this financial year. In Hong Kong, there was only 1 shop as at 31 March 2020.

Shirokuma Curry has been serving its unique taste of curry for a period of time, and the management noted that Shirokuma's unique curry is quite welcomed in the Shanghai market though with a big competition. After a series of branding program, the development of Shirokuma Curry is expecting to ride on the right track and its products will become attractive to Shanghai customers, more resources and efforts are certainly needed to invest in Shirokuma Curry for expanding its network and achieving a good result. As at 31 March 2020, Shirokuma Curry has 6 self-operated shops and 1 licensed shop in the PRC. The management believes that the franchise network has considerable room for expansion and 2 more locations in the PRC has been identified for the opening of franchise shop after year end. Meanwhile, the management needs more concentration on its quality control and system advancement.

Enmaru, the Japanese izakaya, the management initially aimed to bring the most authentic Tokyo Enmaru experience to food lovers in Hong Kong and the PRC. The management however concluded that the past business plan and effort cannot achieve a good result for Enmaru. The last Enmaru shop was closed in the second quarter of this financial year, and currently there is no plan for re-opening.

In view of the Chinese government's strengthening supervision policies on e-cigarettes, the Group will continue monitoring the market condition prudently and reviewing investments in the industry, and may make necessary adjustments to resource allocation as appropriate, after taking into account all factors, including market environment and industry prospects, among others.

FUTURE PROSPECTS

StarGlory is principally engaged in food and beverage business. According to China Catering Report 2019, structural reform, supply-side digitisation, business model upgrade, intelligent business models, catering retail and refined operations become the future development trend of the industry. Consumers' demand for socialised catering services keeps growing, resulting in continuously increasing proportion of dining out. In addition, the growing per capita income has driven the upgrading of consumers' demand for food and beverage, whilst new types of business such as takeaway and group meals continue to inject new impetus into the catering market. The Group will continue to adopt lean management approach and strictly monitor the operation costs, while keeping abreast of market trends in hopes of grasping development opportunities arising from industry reform.

As a result of the COVID-19 pandemic, the global economy is projected to contract sharply by 3% in 2020, much worse than during the financial crisis a decade ago. Fortunately, market sentiment has been boosted by early signs of rebound in manufacturing sector, while global trade is bottoming out. The International Monetary Fund estimated that the pandemic fades in the second half of 2020 and containment efforts can be gradually unwound, the global economy is projected to grow by 5.8% in 2021 as economic activities normalise.

In regard to local market, since April 2020, COVID-19 social distancing measures namely gathering limit and 1.5-metre distancing rule between tables have curtailed consumer spending and led to a tough time for many businesses, especially those in the catering industry which has been struggling to come to grips. Fortunately, the Hong Kong government's policies such as wage subsidy scheme help local sectors tide over the pandemic. With the social distancing restrictions being gradually eased, the catering industry is expected to recover in near future. As accelerated industry consolidation and progressive elimination have been witnessed in the industry, a healthier market environment has been created, providing opportunities for strong players in the industry, including the Group, to thrive. Looking ahead, the Group will consistently deliver great quality food, heartfelt service and comfortable dining environment with a view of gaining customer support.

Looking forward, the Group will strive to diversify its development strategies to boost income and remain competitive. According to Frost & Sullivan, China's medical expenditure per capita is expected to increase from approximately RMB4,237 in 2018 to approximately RMB6,571 in 2023, with a compound annual growth rate of 9.2%, while medical expenditure per capita in Guangdong Province is estimated to reach approximately RMB8,384 in 2023. In view of the increasing healthcare awareness and growing demand for medical service in China, the Group incorporated a new wholly-owned subsidiary in the PRC in late January 2020 to explore new business opportunities in the medical and healthcare industries. The Group believes that it is high time to explore the business potentials in medical and healthcare industries, with the ultimate goal of enhancing the Group's core competitiveness, thus achieving better returns for its shareholders and investors.

FINANCIAL REVIEW

Consolidated results of operations

For the Reporting Period, the Group recorded a total revenue of approximately HK$188.1 million (2019: approximately HK$251.8 million), representing a decrease of approximately 25.3% compared with the previous year resulting from the closure of certain under-performing restaurants.

Net loss attributable to owners of the Company was approximately HK$23.0 million (2019: approximately HK$75.9 million).

Gross profit

The gross profit margin from the operations of the Group was approximately 62% (2019: approximately 65%). The decrease in ratio was mainly attributable to the increase in costs of food ingredients.

Other income

Other income of the Group for the Reporting Period increased by 45.5% to approximately HK$5.5 million (2019: approximately HK$3.8 million). The increase was mainly due to the receipt of one-off subsidy form the government for the Group's catering business activities carried in Hong Kong as affected by the COVID-19 epidemic.

Expenses

The Group strived to exercise stringent cost control and further enhance operational efficiency during the Reporting Period. As a result, total operating expenses for the operations decreased by approximately 29.8% to approximately HK$128.7 million (2019: approximately HK$183.2 million). The decrease was in line with the decrease in revenue resulted from reviewing the performance of restaurants and consolidated under-performing restaurants to further enhance the structure and reduce unnecessary expenses.

Impairment loss

The non-financial assets subject to the impairment loss for the years ended 31 March 2020 and 2019 was in relation to Mark Group, which is a subsidiary of the Company and is primarily engaged in the operation of restaurants, café and cake shops in Hong Kong.

During the Reporting Period, the impairment loss was mainly attributable to the uncertainties of global and local economy as well as the unfavorable industry environment, which posed a negative impact on the Group's restaurant operations. These uncertainties also leading to sluggish local investment and consumption sentiments in Hong Kong. The management of the Company concluded there was indication of impairment and conducted impairment assessment on recoverable amounts of certain non-financial assets associated to the Mark Group.

The methods, basis and key assumptions used in determining the amount of the impairment loss for the years ended 31 March 2020 and 2019 are set out in note 7.

Based on the result of the assessment, management of the Company determined that the recoverable amount of Mark Group is lower than the carrying amount. For the Reporting Period, the impairment amount has been allocated to each category of plant and equipment, other intangible assets and right-of-use assets such that the carrying amount of each category of asset is not reduced below the highest of its fair value less cost of disposal, its value in use and zero. Based on the value-in-use calculation and the allocation, an impairment loss of approximately HK$1.1 million, HK$2.4 million and HK$6.5 million were recognized against the carrying amount of plant and equipment, other intangible assets and right-of-use assets, respectively. For the year ended 31 March 2019, impairment loss on goodwill of approximately HK$55.1 million was recognized.

During the year ended 31 March 2019, in respect of other cash-generating unit, an impairment loss of approximately HK$0.08 million was recognized against the carrying amount of plant and equipment as the operation result was worse than expected.

Financial resources and liquidity

During the Reporting Period, the Group generally relied on internal funds; loans from the sole beneficial owner of the convertible bonds issued by the Company (who is also a former executive director of the Company); fund raised from rights issue to finance its operation and loan from the ultimate holding company.

As at 31 March 2020, the Group's current assets amounted to approximately HK$104.5 million (2019: approximately HK$149.8 million) of which approximately HK$82.6 million (2019: approximately HK$122.2 million) was cash and bank deposits, approximately HK$19.5 million (2019: approximately HK$24.7 million) was debtors, deposits and prepayments. The Group's current liabilities amounted to approximately HK$182.5 million (2019: approximately HK$163.3 million), including creditors and accruals in the amount of approximately HK$158.8 million (2019: approximately HK$161.2 million).

As at 31 March 2020, convertible bonds issued by the Company amounted to approximately HK$39.4 million (2019: approximately HK$39.0 million). On 15 August 2018, the Company entered into the supplemental deed with the bondholder pursuant to which the Company and bondholder agreed to extend the maturity date of the convertible bonds for 36 months from the date falling on the sixth anniversary to the ninth anniversary of the date of issue of the convertible bonds. Save and except the amendment to the maturity date pursuant to the supplemental deed, all the terms and conditions of the convertible bonds remain unchanged, valid and in full force. More details regarding the extension of the maturity date of the convertible bond are set out in the announcement of the Company dated 15 August 2018. As a result, a gain on modification of convertible bonds amounted to approximately HK$1.4 million was recorded for the year ended 31 March 2019 and it was treated as non-current liabilities as at 31 March 2020 and 31 March 2019. On 25 April 2018, the Company entered into a loan agreement with its ultimate holding company, Oceanic Fortress Holdings Limited ("Oceanic Fortress"), in respect of the provision of an unsecured two-year term loan to the Company in the amount of HK$30,000,000 for the purpose of working capital. The loan was fully and early settled on 12 June 2019 and classified as non-current liabilities as at 31 March 2019.

The current ratio and quick assets ratio of the Group as at 31 March 2020 were 0.57 and 0.56 respectively (2019: 0.92 and 0.90 respectively). As the Group incurred net liabilities as at 31 March 2020 and 31 March 2019, there is no debt-to-equity ratio, which is expressed as a ratio of total debts less cash and bank balances to total equity, to be calculated. The gearing ratio of the Group, is calculated as total liabilities (being non-current liabilities and current liabilities) over total assets (being non-current assets and current assets) as at the end of the year and multiplied by 100% was 158% (2019: 139%).

Foreign exchange

During the years ended 31 March 2020 and 31 March 2019, the Group conducted commercial transactions in the PRC denominated in Renminbi. Fluctuations in exchange rates of Renminbi against Hong Kong Dollar could affect the Group's results of operations.

During the year ended 31 March 2020, no hedging transactions or other exchange rate arrangements were made (2019: Nil).

Charges on the Group's assets

No Group's assets which had been pledged or charged as at 31 March 2020 (2019: Nil).

Acquisition, disposal and significant investment held

During the Reporting Period, the Group did not make any material acquisition, disposal nor significant investment (2019: Nil).

Capital commitments

As at 31 March 2020, the Group's outstanding capital commitments were approximately HK$3,221,000 (2019: approximately HK$4,280,000).

Contingent liabilities

As at 31 March 2020, the Group did not have material contingent liabilities (2019: Nil).

Employees and remuneration policies

As at 31 March 2020, the Group had 275 employees in Hong Kong and the PRC (2019: 304 employees in Hong Kong and the PRC). The remuneration of employees of the Group is determined by reference to market terms and in accordance with the performance, qualification and experience of each individual employee. Discretionary bonuses, based on each individual's performance, are paid to employees as recognition and in reward of their contributions. Other fringe benefits such as medical subsidies, medical insurance, education/training subsidies and pension fund plans are offered to most employees. In prior years, share options were granted at the discretion of the Board under the terms and conditions of the new share option scheme adopted on 20 July 2012 as well as the previous share option scheme adopted on 26 February 2003. No share option was granted during two years ended 31 March 2020 and 31 March 2019 and as at that dates, there was no outstanding share option.

USE OF PROCEEDS FROM THE RIGHTS ISSUE

On 27 April 2017, the Company announced that it proposed to raise approximately HK$100 million, before expenses, by way of allotting and issuing 1,388,725,000 rights shares (the "Rights Shares") by way of rights issue (the "Rights Issue") at the subscription price of HK$0.072 per Rights Shares, on the basis of one (1) Rights Shares for every two (2) existing Shares held on 19 May 2017. Completion of the Rights Issue took place on 14 June 2017.

Among the net proceeds (the "Net Proceeds") of the Rights Issue approximately HK$99 million, as at 31 March 2020, approximately HK$9.0 million, HK$18.9 million and HK$2.9 million have been used as operation and expansion of the existing food and beverage business, the Company's corporate expenses and investment in e-cigarette business in the PRC, respectively according to intentions previously disclosed. As at 31 March 2020, approximately HK$68.2 million of the Net Proceeds remained unutilized and this remaining balance was kept in the Group's bank account. Set out below is the breakdown of the use of the Net Proceeds up to, and the balance thereof as at 31 March 2018, 31 March 2019 and 31 March 2020:

Summary of use of the Net Proceeds

	Original allocation of the Net Proceeds *HK$ million*	Actual amount utilized up to 31 March 2018 *HK$ million*	Unutilized balance as at 31 March 2018 *HK$ million*	Re-allocation of the unutilized amount as disclosed in the Company's announcement dated 6 November 2018 *HK$ million*	Actual amount utilized up to 31 March 2019 *HK$ million*	Unutilized balance as at 31 March 2019 *HK$ million*	Actual amount utilized up to 31 March 2020 *HK$ million*	Unutilized balance as at 31 March 2020 *HK$ million*
Operation and expansion of the existing food and beverage business	29.0	–	29.0	–	(5.0)	24.0	(9.0)	20.0
Company's corporate expenses	20.0	(8.2)	11.8	–	(13.4)	6.6	(18.9)	1.1
Repayment of bank loans	15.0	–	15.0	(15.0)	–	–	–	–
Potential investment opportunities	35.0	–	35.0	–	–	35.0	–	35.0
Investment in, research and development, sales and marketing of e-cigarette in the PRC and overseas countries	–	–	–	15.0	(1.7)	13.3	(2.9)	12.1
	99.0	(8.2)	90.8	–	(20.1)	78.9	(30.8)	68.2

As disclosed in the Company's announcement dated 6 November 2018, the Company aims to extend its presence in the PRC market. As e-cigarette has become a global trend over the past few years and given the massive population in the PRC, the Company was optimistic about the continuous growth of the e-cigarette market in the PRC and the business opportunities arising therefrom to the Company. Accordingly, the Company has changed the original allocation of the Net Proceeds by reallocating HK$15.0 million of the Net Proceeds originally planned to be applied for the repayment of bank loans to the intended investment in research and development, sales and marketing of e-cigarette in the PRC and overseas countries. In this connection, the Company plans to conduct research on the use of new ingredients for producing e-cigarette liquid and e-cigarette cartridge, purchase production lines for manufacturing e-cigarette, and market and sell such products through exploring and developing a sales network, building a new e-cigarette brand, participating into trade fairs and seeking cooperation with external parties.

During the Reporting Period, the Group pursued a prudent yet efficient network expansion strategy and up to 31 March 2020, Net Proceeds amounting to approximately HK$9.0 million had been utilized for operating and expanding existing food and beverage business and the unutilized balance of approximately HK$20.0 million allocated for this purpose is expected to be fully utilized by 31 July 2021.

As at 31 March 2020, approximately HK$18.9 million has been used as the Company's corporate expenses and the unutilized balance of approximately HK$1.1 million allocated for this purpose is expected to be fully utilized by 31 July 2020.

As at 31 March 2020, the Group was still under negotiations for acquiring a Chinese restaurant chain. While the Group had not entered into any agreements nor memorandum of understanding for any acquisitions, the Net Proceeds for potential investment opportunities purpose were still reserved and the unutilized balance of approximately HK$35.0 million allocated for this purpose is expected to be fully utilized by 31 July 2021. The actual timeline will be subject to availability of appropriate acquisition target, market condition and time required for performing due diligence work. As of the date of this report, the Board has not identified any suitable acquisition target.

To capture the flourishing opportunities in China's e-cigarette market, the Group strives to strengthen its core competence by establishing its own production line. After thorough consideration, up to 31 March 2020, the Group utilized approximately HK$2.9 million of the Net Proceeds from the Rights Issue to invest in the e-cigarette business in the PRC, including set up Huizhou office and purchase new equipment. With the newly added facilities, the Group is better equipped for future development of the e-cigarette business. The remaining unutilized Net Proceeds of approximately HK$12.1 million will be applied for investment in, research and development, sales and marketing of e-cigarette in the PRC and overseas countries and is expected to be fully utilized by 31 July 2021.

The Directors will constantly evaluate the Group's business objectives and may change or modify the plans against the changing market condition to suit the business growth of the Group. Further announcement(s), in respect of redeploying the allocation and use of Net Proceeds, if any, will be made in accordance with the requirements of the GEM Listing Rules as and when appropriate to update its shareholders and potential investors.

EVENTS AFTER THE REPORTING PERIOD

COVID-19 epidemic

In early 2020, the outbreak of COVID-19 has impacted the Group's business in Hong Kong and the PRC. The Group will closely monitor and actively react to the developments of COVID-19 to minimize its impacts on the Group's restaurants operations.

Memorandum of loans

On 16 June 2020, the lender of other loans, who is also the sole beneficial owner of the convertible bonds issued by the Company, signed a memorandum of loans with the Borrower, pursuant to which the outstanding other loans are unsecured, carried interest rate at 0.1% per month and the balance of approximately HK$123,387,000 as at 16 June 2020 will be repayable by the Borrower on 22 June 2021.

PERMITTED INDEMNITY PROVISION

Article 167(1) of the articles of association of the Company provides that every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, their or any of their heirs, executors or administrators, shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty, or supposed duty, in their respective offices or trusts. A Directors' Liability Insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

MAJOR CUSTOMERS AND SUPPLIERS

For the Reporting Period, the aggregate amounts of revenue and purchases attributable to the Group's five largest customers and suppliers were less than 30% (2019: less than 30%) of the Group's total revenue and purchases respectively.

None of the Directors, their close associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the number of issued shares of the Company) has any interest in the Group's five largest suppliers or customers during the Reporting Period.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of any business of the Group were entered into or existed during the year.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 March 2020, so far as the Directors were aware, none of the directors and the chief executives of the Company had any interest or short position in any Shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) which were required, pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2020, according to the register kept by the Company pursuant to section 336 of the SFO, so far as the Directors were aware, the following persons (other than the Directors whose interests are disclosed above) had, or were deemed or taken to have, an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Long positions in Shares

Name of shareholders	Capacity in which interests were held	Number of Shares held	Number of underlying shares held	Total number of Shares and underlying shares	Approximate percentage of interest in issued capital %
Oceanic Fortress *(Note 1)*	Beneficial owner	2,375,096,529	–	2,375,096,529	57.01
Ms. Huang Li *(Note 1)*	Interest of corporation controlled by Ms. Huang Li	2,375,096,529	–	2,375,096,529	57.01
Mr. Tang Sing Ming Sherman *(Note 2)*	Beneficial owner	–	571,428,571	571,428,571	13.72
Ms. Ho Ming Yee *(Note 3)*	Interest of a substantial shareholder's spouse	–	571,428,571	571,428,571	13.72

Notes:

(1) The ordinary Shares are held by Oceanic Fortress, the entire issued shares of which is owned by Ms. Huang Li.

(2) Mr. Tang Sing Ming Sherman holds the convertible bonds in respect of the outstanding principal amount of HK$40,000,000, under which a total of 571,428,571 ordinary Shares would be issued upon full exercise of the conversion rights attaching thereto. Upon full conversion of the convertible bonds, Mr. Tang Sing Ming Sherman would hold 571,428,571 ordinary Shares, representing approximately 13.72% of the issued share capital of the Company as at 31 March 2020.

(3) Ms. Ho Ming Yee is the spouse of Mr. Tang Sing Ming Sherman, and is therefore deemed to be interested in the same number of Shares held by Mr. Tang Sing Ming Sherman.

(4) Based on 4,166,175,000 ordinary Shares of the Company in issue as at 31 March 2020.

Save as disclosed above, as at 31 March 2020, so far as the Directors were aware, the Directors were not aware of any person (other than the Directors whose interests are disclosed above) who had an interest or a short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the issued voting shares of any other member of the Group or had any options in respect of such capital.

SHARE OPTIONS

No share option was granted during two years ended 31 March 2020 and 31 March 2019 and as at that dates, there was no outstanding share option.

COMPETING INTERESTS

As at 31 March 2020, none of the Directors, the controlling shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) had any interests in any business which competed with or might compete with the business of the Group or had any other conflicts of interests with the Group.

AUDIT COMMITTEE

The Company had established an Audit Committee with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules. The Audit Committee comprised of three independent non-executive Directors, namely Mr. Chan Yee Ping Michael, Mr. Deng Guozhen and Mr. Zeng Shiquan. Mr. Chan Yee Ping Michael currently serves as the chairman of the Audit Committee and he possess the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules. Mr. Chan Yee Ping Michael, being the independent non-executive Director, possesses the appropriate professional qualifications or accounting or related financial management expertise as required under Rule 5.05(2) of the GEM Listing Rules.

Up to the date of approval of the Group's unaudited results for the year ended 31 March 2020, the Audit Committee had held four meetings and had reviewed the draft report and accounts for the year ended 31 March 2020 prior to recommending such report and accounts to the Board for approval.

DIRECTORS' SECURITIES TRANSACTIONS

Throughout the financial year ended 31 March 2020, the Company adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, the Company confirms that all of the Company's Directors have complied with such required standard of dealings and its code of conduct regarding Directors' securities transactions.

CORPORATE GOVERNANCE

The Company is firmly committed to maintaining and ensuring a high level of corporate governance standards and will review and improve the corporate governance practices and standards constantly. The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 15 of the GEM Listing Rules throughout the year ended 31 March 2020.

SCOPE OF AUDITOR'S WORK ON ANNUAL RESULTS ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 March 2020 as set out in the preliminary annual results announcement have been agreed by the Company's auditor, PKF Hong Kong Limited, to the amounts set out in the Group's audited consolidated financial statements for the year ended 31 March 2020. The work performed by PKF Hong Kong Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PKF Hong Kong Limited on the preliminary annual results announcement.

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

Hong Kong, 23 June 2020

As at the date of this announcement, the Company's 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 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.