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NOVA Group Holdings Limited

諾發集團控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1360)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL REPORT FOR THE YEAR ENDED 30 JUNE 2022

Reference is made to the annual report of Nova Group Holdings Limited (the “**Company**”) for the year ended 30 June 2022 (the “**Reporting Year**”) published by the Company on 20 October 2022 (the “**Annual Report**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Annual Report.

The Company hereby provides the following supplemental information regarding the (i) impairment on goodwill, and (ii) financing business of the Company for the Reporting Year.

(i) Impairment on goodwill

During the Reporting Year, the financial performance of Fortune Selection CGU and Cheer Sino CGU were unable to achieve the forecast prepared in last year. As a result, the management of the Group revised the carrying amounts of Fortune Selection CGU and Cheer Sino CGU downwards based on their respective cash flow forecasts, and hence recognised an impairment loss on goodwill. Management determined budgeted gross margins based on past performance, existing sales contracts, and expectations for market development. The discount rates used are post-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. The terminal growth rate used is made with reference to the long-term average growth rates and expected market development.

The management of the Company revised the forecast projection in the coming three financial years in accordance with the historical performance of the CGUs and taking into consideration higher degree of estimation uncertainties due to how the COVID-19 pandemic may progress and evolve and its negative effect on many of the customers in the cultural and entertainment segment.

The Group has engaged an independent professional valuer, Peak Vision Appraisals Limited (the “**Valuer**”), to conduct a valuation (the “**Valuation**”) to support the calculation of impairment loss on goodwill. The Company, the auditor of the Company and the Valuer had been in active discussion on the valuation for impairment testing.

The below table summarised the significant inputs of the Valuation on Fortune Selection CGU and Cheer Sino CGU:

	Fortune Selection		Cheer Sino	
	2022	2021	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Average of three-year period:				
– Revenue	2,204	5,791	22,559	28,083
Other inputs:				
– Discount rate	13.06%	13.33%	13.06%	13.33%
– Terminal growth rate	2.00%	3.00%	2.00%	3.00%

The inputs and assumptions used in the Valuation as at 30 June 2022 had a significant change in cashflow forecast from those previously adopted. The major change in circumstance that led to the revision of the cashflow forecast is attributable to the COVID-19 preventive measures having been adopted in various cities in the PRC since 2021 which greatly affected customers in the cultural and entertainment segment and the time required for the customers to resume normal operations. Many of the customers were forced to close temporarily since commercial activities such as bars and restaurants operations needed to be suspended in various districts with identified COVID-19 cases.

Many existing customers did not renew their contracts or memberships with the Group as their operations were temporarily suspended, which resulted in a significant decrease in the number of customers and hence the Group's actual revenue and also the forecast revenue for the Fortune Selection Group and the Cheer Sino Group from the financial years ending 2023 to the financial years ending 2025 and the period beyond the three financial years ending 2025. Besides, the cash flows for both the Fortune Selection CGU and the Cheer Sino CGU beyond the three financial years ending 2025 were extrapolated using the estimated terminal growth rate of 2% as at 30 June 2022 and 3% in the previous valuation as at 30 June 2021 with reference to the long-term inflation rate of the PRC. The management of the Company considers that the assumptions applied were fair and reasonable due to the current market situation and its uncertainties as to how the COVID-19 pandemic may progress and evolve.

The valuation method of discounted cash flow was adopted for the calculation of the value-in-use (the "VIU") using the income approach. Such income approach is an appropriate valuation method that can reflect the value of cash flow generated by continuous operation of the assets, which is consistent with the requirements under HKAS 36 in determining the VIU of cash generating units.

Under the aforesaid valuation method, the following elements shall be reflected in the calculation of the relevant CGU's VIU: (1) an estimate of the future cash flows the entity expects to derive from the CGU; (2) expectations of possible variations in the amount or timing of those future cash flows; and (3) the time value of money. The recoverable amount of the CGU should be the higher of (i) the fair value less costs of disposal, and (ii) the VIU. After assessing both the VIU and the fair value, the valuation opted for the VIU being the higher between the two figures.

(ii) Financing business

As at 30 June 2022, the Group had 16 credit factoring customers, three finance leasing customers and two money lending customers, among which 19 of them were corporate customers and the remaining two were individual customers. Its customers in financing business are mainly engaged in catering services, construction, equipment leasing, finance leasing, trading of metal, petroleum, chemical, timber, and motor vehicles industries. Revenue from credit factoring, finance leasing and money lending represented approximately 43.06%, 4.85% and 1.42% of the total revenue of the Company, respectively. Revenue from credit factoring, finance leasing and money lending represented approximately 87.29%, 9.83% and 2.88% of the total revenue of the Company generated from financing business, respectively. The relevant loan arrangements with those credit factoring customers and finance leasing customers were secured by collaterals of (i) accounts receivables due from their respective debtor(s) and (ii) leased assets, respectively, while those with money lending customers were not secured by any collateral. As at 30 June 2022, out of the Group's loan balance of approximately HK\$450.5 million, approximately HK\$12.2 million or approximately 2.7% of the total loans were not secured by collaterals. After due assessment of the credit risks of the Group's personal loan clients, the management of the Company believes that comparable market interest rates were applied.

As at 30 June 2022, the concentration of loans on the Group's major customers in financing business is as follows:

Clients	% the total loan book
Top 1	9.8%
Top 3	27.8%
Top 5	44.6%
Top 10	81.5%

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

By Order of the Board
NOVA Group Holdings Limited
Deng Zhonglin
Chairman and Chief Executive Officer

Hong Kong, 6 December 2022

As at the date of this announcement, the Board comprises Mr. Deng Zhonglin and Mr. Wong Yuk Lun Alan as executive Directors; Ms. Huang Chian Sandy as non-executive Director; and Mr. Choi Hung Fai, Mr. Tsang Wing Ki and Dr. Wong Kong Tin, JP as independent non-executive Directors.