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## MASON GROUP HOLDINGS LIMITED

茂宸集團控股有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 273)**

### SUPPLEMENTAL ANNOUNCEMENT DISCLOSABLE TRANSACTION SUPPLEMENTAL AGREEMENT FOR DISPOSAL OF 100% OF THE ISSUED SHARES IN GL FOOD HOLDINGS PTE. LTD. AND SUBSCRIPTION OF PROMISSORY NOTE

Reference is made to the announcement of Mason Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 14 November 2019 in relation to the disposal of 100% of the issued shares in GL Food Holdings Pte. Ltd. and subscription of promissory note (the “**Announcement**”); and the announcement of the Company dated 31 December 2019 in relation to the extension of the Sunset Date of the SPA (the “**Extension Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meaning as those defined in the Announcement and the Extension Announcement.

On 10 January 2020 (after trading hours), the Company, Mason Dairy, WHAI and WHA entered into a supplemental agreement to amend the SPA with the following principal amendments:

- the deposit (the “**Revised Deposit**”) is increased to US\$8,500,000 (approximately HK\$66,300,000), comprised of the Cash Deposit of US\$1,000,000 (approximately HK\$7,800,000) and the deposit debt component of US\$7,500,000 (approximately HK\$58,500,000) (the “**Revised Deposit Debt Component**”);
- the Consideration shall be payable by (i) US\$10,000,000 (approximately HK\$78,000,000) in cash (including US\$1,000,000 (approximately HK\$7,800,000) cash deposit); (ii) US\$15,000,000 (approximately HK\$117,000,000) of ordinary shares issued by WHA at an issue price of A\$0.40 per share (the “**Consideration Shares**”); and (iii) US\$30,000,000 (approximately HK\$234,000,000) of promissory note issued by WHA and WHAI to Mason Resources (the “**Revised Promissory Note**”);
- the Sunset Date is extended to 29 February 2020;

- Consideration Shares shall be subject to 12 to 24 months of lock up period;
- Mason Dairy has the right to nominate personnel of several positions in WHA, CBDG and Blend and Pack; and
- Change in conditions precedent.

Reference is made to the announcement of Mason Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 14 November 2019 in relation to the disposal of 100% of the issued shares in GL Food Holdings Pte. Ltd. and subscription of promissory note (the “**Announcement**”); and the announcement of the Company dated 31 December 2019 in relation to the extension of the Sunset Date of the SPA (the “**Extension Announcement**”). Unless otherwise defined, capitalised terms used herein shall have the same meaning as those defined in the Announcement and the Extension Announcement.

## **BACKGROUND**

### **Termination of agreements and deeds and entering into the SPA**

The completion date of the Disposal was extended as stated in the Announcements due to several factors, including delay in fulfilment of several conditions precedent (including WHA holding an extraordinary general meeting and obtaining the relevant shareholders’ approval for the Disposal, and obtaining third party consents for the change of control of Blend and Pack required under certain agreements and contracts), and WHA negotiating with its debt financing provider to amend the terms and conditions of the debt financing to increase the total amount of funding to acquire 93.5% interest in Blend and Pack from the Target Company and other minority shareholders of Blend and Pack. The prolonged delay in completing the Disposal affected the original debt financing arranged by WHA and WHA had to seek alternate funding sources including rights issue to continue the transaction.

One of the conditions precedent of the terminated agreements and deeds for obtaining third party consent for the change of control of Blend and Pack was still not fulfilled by 30 September 2019. The Company and WHAI did not reach an agreement to further extend the completion date of the Disposal beyond 30 September 2019, and all agreements and deeds entered into in relation to the Disposal were terminated. With these developments, the Company and WHA have re-negotiated the terms of the transaction and entered into the SPA for the Disposal on 14 November 2019.

Under the SPA, the target company is changed from Blend and Pack to the Target Company. By acquiring the Target Company, WHAI can succeed the shareholder’s rights of the Target Company under the current shareholders’ agreement of Blend and Pack.

## SUPPLEMENTAL SPA

On 10 January 2020 (after trading hours), the Company, Mason Dairy, WHAI and WHA entered into a supplemental agreement to amend the SPA (the “**Supplemental SPA**”). The followings provide the principal amendments under the Supplemental SPA and further information about the Supplemental SPA and the background of the Transaction.

### Consideration

#### *Basis of the Consideration*

The Consideration under the Supplemental SPA remains at US\$55,000,000 (approximately HK\$429,000,000). The Consideration was determined after arm’s length negotiations between Mason Dairy and WHAI, and by reference to (i) the valuation of the equity of the Target Company by the independent valuer, AVISTA Valuation Advisory Limited (the “**Independent Valuer**”); and (ii) historical performance and business outlook of the Target Company and Blend and Pack. In particular, the Independent Valuer has assessed the fair value of the Promissory Note based on the credibility of the WHA and WHAI. Given that WHAI is an investment holding company and a subsidiary of WHA, the assessment has been performed mainly based on the financial position of WHA.

#### *Deposit*

Under the Supplemental SPA, the Revised Deposit is amended to the amount equal to US\$8,500,000 (approximately HK\$66,300,000), comprised of the Cash Deposit of US\$1,000,000 (approximately HK\$7,800,000) and the Revised Deposit Debt Component of US\$7,500,000 (approximately HK\$58,500,000) in accordance with the terms of the Revised Deposit Promissory Note. In the event that the Supplemental SPA is terminated before Completion, the Cash Deposit will be forfeited to Mason Dairy, and WHA will issue Deposit Shares to pay for the Revised Deposit Debt Component to Mason Dairy.

The consideration of the Deposit Shares is determined at an amount of US\$7,500,000 and the number of Deposit Shares that will be issued by WHA if they terminate the transaction is subject to a cap. The issue price of Deposit Shares will be determined as equivalent to the last 5 trading days prior to the date of termination of the Supplemental SPA. WHA is permitted to issue Deposit Shares to the Company for not more than 15% of capital of WHA generally without the approval of the holders of its ordinary securities in accordance to ASX Listing Rule 7.1, and pay the remaining balance of the Revised Deposit Debt Component (if any) in cash.

As none of the applicable percentage ratios under Chapter 14 of the Listing Rules for the possible subscription of the Deposit Shares by the Company exceeds 5%, the possible subscription of the Deposit Shares by the Company will not constitute a notifiable transaction of the Company under the Listing Rules.

### *Payment method*

The payment of the Consideration of US\$55,000,000 (approximately HK\$429,000,000) has been amended and shall be payable by WHAI to Mason Dairy as follows:

- (i) the cash component of the Revised Deposit of US\$1,000,000 (approximately HK\$7,800,000) which has been paid;
- (ii) Upon Completion, the remaining balance of the Consideration shall be payable by:
  - (a) cash payment of US\$9,000,000 (approximately HK\$70,200,000);
  - (b) issue of Consideration Shares at a total value of US\$15,000,000 (approximately HK\$117,000,000) calculated at an issue price of A\$0.40 per ordinary share; and
  - (c) subscription of US\$30,000,000 (approximately HK\$234,000,000) of the Revised Promissory Note issued by WHA and WHAI to Mason Resources.

### **Consideration Shares**

Mason Dairy agrees that US\$5,000,000 of the Consideration Shares shall be restricted from trading for a period of 12 months from the date of issue, and the remaining US\$10,000,000 of the Consideration Shares shall be restricted from trading for a period of 24 months from the date of issue.

As at the date of this supplemental announcement, WHA currently has issued 194,503,140 shares. The Company holds 355,001 shares of WHA, represents 0.18% of issued shares of WHA. Based on the proposed rights issue (the “**Proposed Rights Issue**”) of WHA with one rights share for every two existing shares at A\$0.40 per share raising a minimum of A\$25,000,000 and up to approximately A\$39,000,000, a range of 62,500,000 to 97,251,570 rights shares will be issued under the Proposed Rights Issue. According to the Supplemental SPA, WHA will issue Consideration Shares of US\$15,000,000 at A\$0.40 per share, representing a total of 53,625,000 new shares, to Mason Dairy for the settlement of part of the Consideration. Assuming none of the existing option of WHA is exercised, after the completion of the Proposed Rights Issue and the issue of Consideration Shares, the shareholding interest held by the Company in WHA will be between approximately 15.63% to 17.38%. The Company will become the largest shareholder of WHA after the Proposed Rights issue and Completion.

### **The Revised Promissory Notes**

Upon Completion, Mason Resources will enter into an agreement with WHAI and WHA to subscribe for the Revised Promissory Note. The subscription of Revised Promissory Note is secured by the collateral pursuant to the terms of the General Security Deed. The collateral of the Revised Promissory Note includes but not limited to anything that each grantor has at any time a sufficient right, interest or power to grant a security interest and all present and after-acquired shares (including but not limit to 80% interest in Blend and Pack and equity and debt interest in CBDG held by the grantors).

The carrying amount of the Revised Promissory Note is determined by the Independent Valuer based on the credibility of the promisors, i.e. WHA and WHAI. Discounted cash flow method has been adopted to derive the carrying amount of the Revised Promissory Note at inception.

To derive the discount rate for the calculation of the carrying amount of the Revised Promissory Note, the proxy credit rating of WHA has been assessed based on the latest available historical financials of WHA (given that the Promissory Note is secured by the property of the grantor) with reference to “Aggregate Metrics by Rating Category” published by Moody’s Investors Service in September 2017, provided that no published credit rating available for WHA nor WHAI. Based on the above analysis, the proxy credit rating of WHA was determined to be within the range of B to Caa.

The discount rate is derived based on yields of comparable bonds with similar credit ratings applicable to WHA (i.e. issuers with credit rating range of B to Caa) and similar time to maturity as the Revised Promissory Note. Further adjustment has been included to reflect the illiquidity risk of the Revised Promissory Note. Based on the assessment of the Independent Valuer, a discount rate of 8.92% has been adopted to derive the carrying amount of the Revised Promissory Note based on the terms of the financial instrument.

Given that WHAI is an investment holding company and a subsidiary of WHA, the assessment has been performed mainly based on the financial position of WHA. Collateral is defined as all of that grantor’s present and after-acquired, and other future, property in the General Security Deed. It is therefore considered that the fair value of the Revised Promissory Note (derived with the applicable discount rate based on the proxy credit rating of WHA with its latest financial position) should have taken such collateral into consideration.

### **Sunset Date**

Pursuant to the Supplemental SPA, the Sunset Date is extended to 29 February 2020.

### **Conditions Precedent**

Under the Supplemental SPA, the conditions precedent shall be amended and restated as follows:

- (i) either the ASX advising WHA that it does not, in respect of WHAI’s acquisition of the Sale Shares, the issue of Deposit Shares if required under the Deposit Promissory Note and the granting securities over the assets pursuant to the General Security Deed require the approval of WHA’s ordinary shareholders under ASX Listing Rule 11.1.2 or, if ASX does advise WHA that such shareholder approval is required, WHA obtains such approval pursuant to the ASX Listing Rules;
- (ii) the shareholders’ approval of WHA to issue Consideration Shares to Mason Dairy under ASX Listing Rule 7.1;
- (iii) WHAI providing to Mason Dairy a construction report (as defined in the General Security Deed) dated no later than 21 September 2019, and based on that report Mason Dairy, acting reasonably, is of the opinion that the construction of the CBDG Plant is

progressing in accordance with the construction schedule as set out in the construction contract (as defined in the General Security Deed) and the actually incurred capital expenditure is in line with the projection of those items in the CBDG budget (as defined in the General Security Deed), in each case measured against the report dated 21 September 2019;

- (iv) the consent from shareholders of CBDG to encumbrance being granted in favour of Mason Resources over the shares in CBDG held by the WHAI pursuant to the security granted in respect of the Revised Promissory Note;

As at the date of this supplemental announcement, none of the above condition has been fulfilled.

### **Seller Nominations**

Upon Completion, Mason Dairy has the right to nominate a director and a personnel with financial management duties of WHA, a joint company secretary and a director of CBDG and a joint company secretary and a director of Blend and Pack until the repayment of all the Revised Promissory Note or, in respect of the right to nominate a director of WHA, Mason Dairy (or its nominee or designee) ceases to have a relevant interest of 9.9% or more in WHA.

### **Loan Capitalization**

The mutual preference between the Company and WHAI is to capitalize the outstanding amount of Shareholder Loan at the Target Company such that the Target Company will not hold any loan due to Mason Dairy or the Company at Completion. The purpose of the Loan Capitalization is to capitalize the Shareholder Loan into equity of the Target Company prior to Completion.

As of the date of this supplemental announcement, the Company and WHAI have had discussions to the effect that Mason Dairy will capitalize the Shareholder Loan into equity of the Target Company prior to Completion. Prior to Completion, Mason Dairy will subscribe to ordinary shares in the Target Company at par value of S\$1 per share (“**Additional Shares**”) and the outstanding amount of Shareholder Loan due to Mason Dairy will be applied as payment of such share subscription. It is expected the amount of Sale Shares to be transferred to WHAI upon Completion will increase to a sum of HK\$480,925,788.92 standing in the books of the Target Company as owing to Mason Dairy will be capitalised and that such capitalised sum be utilised in payment of the consideration payable for 83,552,967 ordinary shares in the capital of the Company which are allotted and issued to Mason Dairy, credited as fully paid-up. The amount of the Sale Shares of HK\$480,925,788.92 represented an increase of approximately HK\$3,000 to the amount of the Shareholder Loan of HK\$480,922,438 as stated in the announcement of the Company dated 14 November 2019 due to an accounting service fee payment borne by Mason Dairy in November 2019, offset by the remaining bank balance of the Target Company.

## **Non Competition**

The Company intends to focus in healthcare services and financial services only and does not have any plan to involve in dairy and nutritional formula related business after disposing the Target Company. The Company will not control in any dairy and nutritional formula related business in Australia same as that of Blend and Pack after Completion.

The non-competition undertaking excludes the Company's associated company, AYD Group Limited and its associates, which may or may not involve in the relevant industry as that of Blend and Pack.

The Board considers that the non-competition undertaking is in line with the market practice for transaction involving acquisition of controlling interest in a business, and does not have any impact to the Company's future business plan, and thus is fair and reasonable and in the interest of the Company and its shareholders as a whole.

## **FINANCIAL EFFECT TO THE DISPOSAL AND THE TRANSACTION**

In accordance with the financial reporting standard, the Company classified the group of assets in relation to the Disposal as "assets and liabilities associated with disposal group classified as held-for-sale" and presented in the Company's 2019 interim report. Upon the classification, the Company recognized an impairment loss amounted to approximately HK\$27,877,000 by reference to the purchase price compared to the net asset value as at 30 June 2019 and it is not allowed to be reversed in subsequent period in accordance with clause 124 of HKAS 36 Impairment of Assets. Due to the postponement of the Disposal, the Company recalculated the impairment loss which amounted to approximately HK\$19,701,000 by reference to the purchase price compared to the net asset value as at 30 November 2019. The difference of impairment loss of HK\$8,176,000 (the difference of HK\$27,877,000 and HK\$19,701,000) cannot be reversed and should be recorded as gain on disposal at Completion.

After the Completion and exercising the right to nominate the director to WHA, WHA will become an associate of the Group and will be accounted for using the equity accounting method. If Mason did not exercise its right to appoint director to WHA from the Company, the carrying amount of the Consideration Shares will be recorded at the issue price at Completion and marked to market according to the shares price of Wattle subsequently after Completion. At the inception of the Promissory Note, in accordance with relevant accounting standard, the Company is required to account for the Promissory Note at amortised cost, by applying effective interest method. The Company preliminarily determines that the carrying amount of the Promissory Note at inception will be approximately US\$24,251,000 (approximately HK\$189,157,800) and expects to record a fair value loss of approximately US\$5,749,000 (approximately HK\$44,842,200). The Company expects the Promissory Note will generate interest income each year, from the first anniversary to fifth anniversary from the date of Completion.

The Company had a preliminary discussion with the auditors of the Group and the auditors of the Group has agreed on the accounting standard on recognizing the reversal of impairment loss as gain on Disposal. The actual gain or loss as a result of the Disposal and the accounting treatment to be recorded by the Company and the actual fair value

adjustments of the Revised Promissory Note to be recorded by the Company is subject to further review and will be assessed after Completion. The Company currently does not expect any material change in the fair value of the Revised Promissory Note.

## **REASONS FOR AND BENEFITS OF THE TRANSACTION**

The Transaction aligns with the strategy of the Group to reallocate its resources to focus on “Health + Wealth” businesses. The Deposit Shares mechanism is a compensation to Mason Dairy resulted from arm’s length negotiation with the Buyer if the Transaction is terminated by the Buyer at its fault before Completion. The Board considered that it can maximize the interest to the shareholder of the Group under the Transaction. In the event that the Supplemental SPA is terminated before Completion and the Deposit Shares are issued to Mason Dairy, the Group will not hold the Deposit Shares for long term purposes.

Despite the settlement terms are being changed from receipt of cash to receipt of cash, Consideration Shares and Revised Promissory Note, the Directors considered the Disposal is fair and reasonable and in the interest to the Company and its shareholders as a whole for the following reasons and benefits:

- (i) the Consideration of US\$55 million is in line with the fair value of the Target Company valued by the Independent Valuer;
- (ii) the Target Company recorded net liabilities of approximately HK\$40 million as at 31 December 2018 and recorded a loss after taxation of approximately HK\$1.3 million and HK\$19.6 million for the year ended 31 December 2017 and 2018, respectively. The decline in financial performance of the Target Company for the year ended 31 December 2018 was primarily due to Blend and Pack still pending for obtaining regulatory approval from the State Administration for Market Regulation of China for the infant formulas of its customers for the Chinese market and the softened demand of the key customer of Blend and Pack;
- (iii) in view of the changing global economic environment, increasing trade barriers between countries and regulatory uncertainties, the Group expects that it is prudent and beneficial to reduce the Group’s exposure in businesses involving cross border trading and a full exit from the Target Company also allows the Group to free up more capital for the Group’s strategic investments in the “Health + Wealth” ecosystem;
- (iv) the subscription of Revised Promissory Note is secured by the collateral pursuant to the terms of the General Security Deed. The collateral of the Revised Promissory Note includes but not limited to anything in respect of which that each grantor has at any time a sufficient right, interest or power to grant a security interest and all present and after-acquired shares (including but not limit to 80% interest in Blend and Pack and equity and debt interest in CBDG held by the grantors, further details of collateral please refer to the section headed “The General Security Deed” in the Announcement. The value of 80% interest in Blend and Pack equals to approximately US\$58,700,000 (based on the value of US\$55,000,000 for 75% interest in Blend and Pack). The value of the Sale Shares is fully covered by the total value of the collateral; and



- (v) although the Company will become the largest shareholders of WHA after the Proposed Rights Issue and the issue of Consideration Shares, the Company consider its shareholding interest in WHA as an investment and the Company will consider to exit the investment at an appropriate price in the medium to long run. The Company will not involve in the daily management and operation of WHA but have the right to appoint a director and financial personnel in WHA and a director and joint company secretary in CBDG and Blend and Pack which allow the Company to monitor the development and protect the value of WHA and CBDG before its exit.

After taking consideration of such reasons and benefits, the Board, except Mr. Chang Tat Joel who is taking sick leave, considered it is appropriate to dispose of its interest in Blend and Pack with the Consideration of US\$55,000,000 which in line with the fair value of the Target Company valued by the Independent Valuer, and the terms of the Transaction Document which have been determined after arm's length negotiations between the parties, are fair and reasonable, on normal commercial terms, and in the interests of the Company and the Shareholders as a whole.

### **IMPLICATIONS UNDER THE LISTING RULES**

The Consideration under the Supplemental SPA remains at US\$55,000,000 (approximately HK\$429,000,000). Despite the change in the payment structure of the Consideration, as one or more of the applicable percentage ratios under Chapter 14 of the Listing Rules for the subscription of the Revised Promissory Note of US\$30,000,000 (approximately HK\$234,000,000) is more than 5% but less than 25%, the subscription constitutes a disclosable transaction for the Company subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

In this supplemental announcement, translations of US\$ into HK\$ is based on the exchange rate of US\$1 to HK\$7.8.

By Order of the Board  
**Mason Group Holdings Limited**  
**Cao Lu**  
*Executive Director*

Hong Kong, 11 January 2020

As at the date of this announcement, the Board comprises:

*Executive Directors:*

Mr. Ko Po Ming (*Chairman and Chief Executive Officer*)

Mr. Chang Tat Joel

Ms. Lui Choi Yiu, Angela

Ms. Fu Yau Ching, Shirley

Mr. Cao Lu

*Non-executive Director:*

Ms. Hui Mei Mei, Carol

*Independent Non-executive Directors:*

Mr. Tian Ren Can

Mr. Chen Wai Chung, Edmund

Mr. Wang Cong