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茂宸集團
MASON GROUP

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 TO THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

Reference is made to the annual report of Mason Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") for the year ended 31 December 2019 (the "**2019 Annual Report**") and the announcement of the annual results of the Group for the year ended 31 December 2019 dated 9 April 2020 (the "**Results Announcement**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2019 Annual Report and the Results Announcement.

PROFIT GUARANTEE AND REPURCHASE

Reference is also made to the circular of the Company dated 22 December 2017 in relation to the major transaction of the acquisition of Harris Fraser Group Limited, a wholly-owned subsidiary of the Group, and its subsidiaries ("**HFG Group**"). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the said circular.

Based on the audited financial statements for the year ended 31 March 2019, the aggregate net profit of HFG Group (including Harris Fraser Group Limited and Harris Fraser (Hong Kong) Limited), adjusted by the expenses borne by HFG Group on behalf of the Company, was HK$10.8 million (the "**Aggregate Net Profit**"), therefore the Guaranteed Profit was achieved.

As the Aggregate Net Profit exceeded HK$9 million but less than HK$11.25 million, the Group shall pay to the vendor a cash payment equivalent to 40% of such part of the Aggregate Net Profit in excess of HK$9 million. Subsequent to the year ended 31 December 2019, the Group made a cash payment of approximately HK$0.72 million as a compensation to the vendor of the acquisition.

FURTHER INFORMATION ON FINANCIAL ASSETS IMPAIRMENTS

In the consolidated statement of comprehensive income of the 2019 Annual Report, the Company recognised impairment loss on financial assets for expected credit loss of HK$165.54 million (the "**Financial Assets Impairments**").

The Financial Assets Impairments were made according to Hong Kong Financial Reporting Standard ("**HKFRS**") 9 and they are mainly related to three loans made by the Company's wholly-owned subsidiary which is a licensed money lender in Hong Kong.

The impairment loss of approximately HK$28 million from one loan receivable was mainly attributed to the credit deterioration as the borrower has delayed repayments of principal and/or interests of the loan. Up to the date of this announcement, subsequent settlement of approximately HK$14 million was noted in respect of this loan.

Impairment losses of approximately HK$50 million and HK$65 million respectively from two loan receivables were mainly attributed to increase in credit risk as the credit strengths of the two borrowers were relatively weak and both were becoming less co-operative towards loan repayments, but market values of the collaterals received from the two borrowers were insufficient to fully cover the respective credit exposures involved. Up to the date of this announcement, subsequent settlements of approximately HK$34 million and HK$40 million were noted in respect of these loans.

FURTHER INFORMATION ON OTHER IMPAIRMENTS

The Company engaged an independent professional valuer, Avista Valuation Advisory Limited ("**Avista**") to perform the valuation for the following business segments as at 31 December 2019 under the requirements of HKFRS. The valuation methodology adopted by Avista was consistent with those adopted in prior years. However, due to the deterioration of business performance, the projected 5-year cash flows and certain assumptions such as discount rates used in the valuations have been updated to reflect the changes in actual performance of the business.

The income approach was adopted in valuation of the goodwill, interests in associates and intangible assets of the Company. The key assumptions adopted for the valuation of goodwill were disclosed in note 18 to the financial statements of 2019 Annual Reports. The key assumptions adopted for the valuation of the interests in associates and intangible assets, based on the past performance and the expectation of market development, are as follows:

	Interests in associates:			**Intangible assets:**	
	franchisor and retail of mother-infant-child products	**provision of medical consultation services**	**provision of laboratory services**	**manufacture of infant formula and nutritional products**	**provision of financial brokerage services**
For the year ended 31 December 2019:					
Gross profit margin	13.30%	51.30%	52.70%	48.50%	N/A
Average growth rate	11.54%	9.64%	12.60%	17.12%	3.62%
Long-term growth rate	3.00%	3.00%	3.00%	2.50%	3.00%
Discount rate	15.00%	16.75%	12.50%	14.50%	15.40%
For the year ended 31 December 2018:					
Gross profit margin	15.70%	53.55%	52.40%	42.00%	N/A
Average growth rate	11.30%	19.86%	20.66%	42.70%	13.44%
Long-term growth rate	3.00%	3.00%	3.00%	2.50%	3.00%
Discount rate	15.00%	17.15%	12.80%	15.50%	15.90%

In the consolidated statement of comprehensive income of the 2019 Annual Report, the Company recognised (i) impairment loss on goodwill of HK$424.08 million, (ii) impairment loss on interests in associates of HK$487.14 million; and (iii) impairment loss on intangible assets of HK$120.91 million (together, the "**Other Impairments**") on the investments in below business segments:

(i) provision of wealth and asset management, financial brokerage and related services

The ever-increasing competition among the brokerage service companies and other financial institutions due to the increasing number of market players especially the internet brokers such as Futu Securities, Valuable Capital Limited and Tiger Brokers and the fierce price competition from them, led to the drop of revenue and net profit of the financial brokerage business of the Group. As a result, an impairment loss on goodwill and intangible assets of approximately HK$16.59 million and HK$16.20 million were recognised for Mason Securities Limited.

The political turmoil in Hong Kong has reduced the desire of customers from Mainland China to come to Hong Kong for wealth and asset management service. Coupled with the slowdown of the global economy, the actual revenue and the net profit of the wealth and asset management segment of the Group recorded a significant decline compared to the forecasted financial performance. Furthermore, for the private banking sector, the expected synergies by offering European private banking solutions to the Group's clients in Asia have yet to be realised as it took longer time than expected to integrate the culture, strategy and management objectives within the private banking sector. Hence, impairment losses on goodwill of approximately HK$16.38 million and HK$95.34 million were recognised for HFG Group and MPL respectively.

(ii) provision of medical consultation and laboratory services

The unrest due to the social movements in Hong Kong in the second half year of 2019 adversely affected the number of mainland customers to Hong Kong for medical treatment. Revenue from mainland customers declined rapidly for the year ended 31 December 2019. As a consequence, impairment losses on interests in associates of approximately HK$31.00 million and HK$45.12 million were recognised for Mason Supreme and WCG Group respectively.

Due to the increasing competition in the laboratory services and the decrease in number of customers from mainland as aforesaid, the number of tests performed by the laboratory business of the Group declined during the year ended 31 December 2019. An impairment loss on interests in associates of approximately HK$88.07 million was thus recognised for Pangenia.

(iii) franchisor and retail of mother-infant-child products

New policy launched by China's top body in 2019 to increase domestically produced baby formula's share of the overall market to 60 per cent without giving a timeframe (the "**Chinese 2019 Policy**"), directly caused a drop in sales revenue of the franchisor and retailer chain invested by the Company, whose product matrix was more on foreign products. In addition, the mother-infant-child products business segment is facing greater challenges from fierce competition. Comparing to those major market leaders such as Babemax and Kidswants, our resources are relatively weaker as the segment mainly relies on bank loan financing, which brings certain pressure on the growth in future operations and the expansion of sales channel. As a result, an impairment loss on interests in associates of approximately HK$322.95 million was recognised for AYD Group.

(iv) manufacture of infant formula and nutritional products

The Chinese 2019 Policy hits foreign producers by squeezing their market shares in China. Business outlook of foreign milk powder producers has been overshadowed. In particular, the stagnant, if not deteriorated relationship between China and Australia adds difficulty to the export of Australian baby formula products into China. Against this background, sales revenue of the Australian manufacturer of baby formula invested by the Company was slashed. Consequently, impairment losses on goodwill and intangible assets of approximately HK$295.77 million and HK$104.71 million respectively were recognised for B&P.

FURTHER INFORMATION ON THE FUND

In the "Management Discussion and Analysis" section of the 2019 Annual Report, the Company recognised a loss of approximately HK$144.18 million in a fund which mainly invested in a portfolio of securities listed on the Stock Exchange of Hong Kong (the "**Fund**").

The Company invested US$30 million in the Fund in early 2018. The Fund was operated by in-house fund management team and the investment decision was made by the investment manager employed by the Company. The investment objective of the Fund was to achieve superior risk adjusted capital appreciation over the medium to long term through an investment portfolio utilizing a broad range of investment strategies and leveraged investment. However, as disclosed in the Company's announcement dated 12 July 2019, the market values of some of listed securities held by the Fund dropped significantly below their investment costs since 8 July 2019, which led to the substantial loss of the Fund for the year ended 31 December 2019.

As at 31 December 2019, all the securities held by the Fund have been sold and the Company is in the process of liquidating the Fund. Up to the date of this announcement, the Company redeemed approximately US$3.8 million, US$8.4 million and US$40,000 from the Fund in September 2019, February 2020 and July 2020, respectively. Under the requirements of Cayman Islands Monetary Authority ("**CIMA**"), the Fund has to submit its latest audited accounts before it can be liquidated. As of the date of this announcement, the Fund has prepared and provided the audited accounts to CIMA and is in the further process of the liquidation. The liquidation of the Fund is expected to be completed in the third quarter of 2020.

CHANGE IN USE OF PROCEEDS FROM RIGHT ISSUE

As at 31 December 2019, the Group had unused proceeds of approximately HK$12.981 million towards IT upgrade of financial services (the "**Unused Proceeds**"). The Company originally expected to start the Phrase II upgrade of the securities trading system in the second half of 2019. However, due to the impact of the internal and external environment such as social turmoil in Hong Kong on the securities business in the second half of 2019 and followed by the outbreak of COVID-19 in 2020, the Board has resolved to change the use of proceeds to general working capital purpose (the "**Change in Use of Unused Proceeds**") to allocate its financial resources more effectively to support the daily business of the Group on 4 June 2020. Having considered that the existing IT system is still functional, the Board is of the view that the Change in Use of Unused Proceeds would not affect the operations or internal control system of the Company. Further details of the Change in Use of Unused Proceeds were set out in the announcement of the Company dated 4 June 2020. The Company expected the unutilized proceeds of the right issue would be applied by end of 31 December 2020.

OTHER OPERATING EXPENSES

In addition to the information disclosed in the 2019 Annual Report, the Company would like to provide further information in relation to the breakdown of other operating expenses of the Group for the years ended 31 December 2019 (with comparative figures of 2018) as follows:

	2019	**2018**
	HK$'000	*HK$'000*
Auditor's remuneration	10,101	7,727
Rent, rates and building management fee	18,780	44,771
Commission and brokerage expenses	181,346	97,803
Management fees	3,739	2,491
Information services expenses	18,693	11,889
Advertising, promotion, press announcement and media	16,915	19,480
Utilities and office expenses	18,957	17,570
Travelling, motor vehicle and entertainment	18,947	29,662
Repair, maintenance and consumables	3,557	6,734
Legal and professional fee	57,851	70,628
Bank charges and settlement charges	8,750	13,011
Registration, license, stamp duty and listing fee	7,822	5,436
Other office expenses	1,834	2,550
Insurance, training and recruitment fee	8,337	6,865
Other expenses	4,074	2,910
	379,703	339,527

The decrease in rent, rates and building management fee in 2019 is resulted from the adoption of HKFRS 16 that has become effective from 1 January 2019. The substantial increase in commission and brokerage expenses in 2019 as the amount included a full year results of subsidiaries which were acquired during the financial year 2018.

The additional information set out above does not affect the other information contained in the 2019 Annual Report.

By Order of the Board
Mason Group Holdings Limited
Han Ruixia
Executive Director and
Deputy Chief Executive Officer

Hong Kong, 17 August 2020

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

Executive Directors:
Ms. Han Ruixia
Mr. Zhang Zhenyi

Non-executive Director:
Ms. Hui Mei Mei, Carol

Independent Non-executive Directors:
Mr. Tian Ren Can
Mr. Wang Cong
Mr. Wu Xu'an
Mr. Ng Yu Yuet