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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 TO
THE ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED
31 DECEMBER 2020**

Reference is made to the annual report (the “**2020 Annual Report**”) of Mason Group Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) for the year ended 31 December 2020 (the “**Year**”) and the announcement of the annual results of the Group for the Year dated 25 March 2021 (the “**Results Announcement**”). Unless otherwise defined, terms used herein shall bear the same meanings as defined in the 2020 Annual Report and the Results Announcement.

FURTHER INFORMATION ON FINANCIAL ASSETS IMPAIRMENTS

The Company recognised impairments loss on financial assets for expected credit loss of approximately HK\$67.2 million (the “**Financial Assets Impairments**”) for the Year, which impairments were made in due accordance with the Hong Kong Financial Reporting Standard 9 *Financial Instruments*, as had been adopted by the Company all along when assessing impairments. For clarity, the Financial Assets Impairments mainly relate to credit deterioration of the overall business environment and increasing credit risks of certain debtors and/or clients, whose repayment of principal and/or interest were delayed.

The three loan receivables, as highlighted in the below chart and referenced as “Project D”, “Project E” and “Project O”, represent approximately 93% of the Financial Assets Impairments for the Year, and they are all due to a wholly owned subsidiary of the Company, which is a Hong Kong licensed money lender. Regarding the remaining approximately 7% amounts of Financial Assets Impairments, they represent impairment losses on other financial assets (including trade and other receivables, other loan receivables, intercompany receivables, corporate guarantees, bank balances etc.), which individually does not exceed 1% of the Financial Assets Impairments for the Year.

	“Project D”	“Project E”	“Project O”
Date of signing loan agreement with client	30 June 2017	1 September 2017	4 November 2016
Maturity date	3 July 2020	4 September 2020	7 November 2022 (extended on 22 December 2020)
Outstanding principal as at 31 December 2020	Approx. HK\$112.21 million	Approx. HK\$104.18 million	Approx. HK\$175.88 million
Outstanding loan interest as at 31 December 2020	Approx. HK\$19.49 million	Approx. HK\$16.13 million	Approx. HK\$1.82 million
Interest rate	10% per annum	10% per annum	15.125% or 10.125% per annum on top of the Prime Rate quoted by HSBC (whichever is higher)
Collateral (if any) and its fair value as at 31 December 2020	Personal guarantee, listed/unlisted securities, approx. HK\$35.28 million	Personal guarantee, listed securities, approx. HK\$20.05 million	Corporate/personal guarantee, listed/unlisted securities, properties, approx. HK\$198.88 million
Impairment losses/(reversal of impairment losses) recognised during the Year	Approx. HK\$44.81 million	Approx. HK\$34.39 million	A reversal of approx. HK\$16.51 million
Accumulated impairment losses recognised as at 31 December 2020	Approx. HK\$96.42 million	Approx. HK\$100.26 million	Approx. HK\$11.91 million

The Company became aware of the increasing credit risks for “Project D” and “Project E” during the first half of the Year and made relevant impairments accordingly, the same of which were duly disclosed in the Company’s interim report for the six months ended 30 June 2020. During the second half of the Year, outstanding loan balances for “Project D” and “Project E” still failed upon maturity, resulting in the Company recognising a further impairment losses, to the extent that the carrying amounts of the two loan receivables were recognised to be equal to their collaterals’ market values as of 31 December 2020. As for “Project O”, the Company recognised a reversal of its previously recognised impairment loss, as the Company entered into an extension agreement with the debtor, which details were duly set out in its related announcement dated 22 December 2020.

In order to recover the loans from “Project D” and “Project E”, the Board has engaged in continuous negotiations to press for loan repayment, provisions of further collaterals and guarantees and etc. so as to reduce credit risks, yet despite certain partial repayments (with top-up collaterals/guarantees) have resulted, full repayment of these loans have still failed upon maturity. With further negotiations fruitless, the Board has no other option but to engage external legal counsels to institute legal proceedings with the view to fully recover these loans. As of the date of this announcement, no final judgments have been received so as to fully recover the loans from “Project D” and “Project E” and the Board will continue to follow up with external legal counsels with the view to fully recover these loans.

FURTHER INFORMATION ON OTHER IMPAIRMENTS

The Company recognised (i) impairment loss on goodwill of HK\$22.8 million, (ii) impairment loss on interests in associates of HK\$191.3 million; and (iii) impairment loss on intangible assets of HK\$76.8 million (together, the “**Other Impairments**”). Other Impairments are mainly due to the significant global social and economic disruption resulted from the COVID-19 pandemic, travel restrictions in many countries have also increase the difficulties in managing overseas business. As a result, the business performance of our subsidiaries/associates drastically deteriorated and led to significant impairments. Since the outbreak of the COVID-19 in 2020, social distancing measures, inclusive of travel restrictions and quarantine arrangements, directly reduced the number of customers from Mainland China and overseas who patronise the Group’s the healthcare services which are entirely contributed by associated companies of the Group, The Women’s Clinic Group Limited and its subsidiaries (“**TWCGL**”) and Pangenja Inc and its subsidiaries (“**Pangenja**”). As a result, revenue of TWCGL and Pangenja decreased by 12% and 13% respectively in 2020 when comparing to 2019.

The COVID-19 pandemic increased global financial market’s fragility. In response to the pandemic, many countries including countries in the European Union (“**EU**”) adopted large-scale quantitative easing policies, pushing interest rates further into the negative territory. The continuous negative interest rate policy negatively impacted on the performance of Mason Privatbank Liechtenstein AG (“**MPL**”) which engaged in the provision of private banking services and external asset management services. Furthermore, as Liechtenstein is a country with a relative small population, the bank relies heavily on customers from other nearby countries, the travel restriction has also hindered the bank in seeking new customers located in other European countries and overseas. Consequently, the operating income of MPL decreased by 37% in 2020 when comparing to 2019.

FURTHER INFORMATION ON VOLUNTARY LIQUIDATION OF MPL

As stated in the Results Announcement and the Company’s announcement of 12 March 2021, the Company has resolved for the voluntary liquidation (the “**Voluntary Liquidation**”) of MPL on 12 March 2021 because of, among others, its continuously sustained loss since 2019 with no reasonable means or prospect of improvement for the foreseeable future.

For clarity, the Company acquired MPL in March 2018 and below are the key financial figures of MPL for the period from March 2018 to the end of the Year and its relative contribution to the Group

	2018			2019			2020		
	MPL HK\$'000	The Company HK\$'000	% to the Group	MPL HK\$'000	The Company HK\$'000	% to the Group	MPL HK\$'000	The Company HK\$'000	% to the Group
Operating Income	51,516	3,506,994	1%	76,584	1,651,972	5%	48,208	528,955	9%
Net Profit/(Loss)	9,694	176,012	6%	(125,294)	(1,172,197)	11%	(141,978)	(189,857)	75%
Total assets	3,621,423	11,376,554	32%	2,245,316	7,791,129	29%	1,541,388	6,926,057	22%
Net Assets	605,302	6,801,632	9%	392,873	5,269,682	7%	285,280	5,400,882	5%

As shown above, MPL's performance has significantly deteriorated since its acquisition and such deterioration has impacted on the Group's overall performance and which deterioration is mainly contributed by the following factors: (i) frequent local management personnel changes; (ii) failure of execution of MPL's business model; and (iii) change of the regulatory and business environment in Liechtenstein.

The above factors led to significant decrease in customers, assets under management, and operating income, which hugely decreased MPL's overall profitability, especially when its operating costs kept increasing. The unsatisfactory result over the years also triggered MPL's impairment of goodwill and intangible assets, thereby deepening MPL's negative impact on the Group's overall performance.

Local Management Personnel Changes within MPL

Upon completion of the Company's acquisition of MPL, MPL was managed by its inherited local management. However, MPL's management structure significantly changed in 2019 and 2020, respectively. Moreover, MPL's front desk employees resigned one by one since early 2019, leaving behind a front desk which lacked experienced employees by mid-2019. Although MPL hired new management personnel and front desk employees to restore its management and operations, large-scale withdrawal and reduction of clients' assets resulted given these changes, where the lack of orderly personnel hand-over processes did not help the situation.

As a high-level recap, MPL's local management members (including the roles of chief executive officer, chief operating officer, chief financial officer and chief marketing officer) encountered 8 incidences of personnel change from February 2019 to end of the Year. These frequent personnel changes within MPL's local management in Liechtenstein, where terminations and voluntary resignations were involved per the Company's best records, contributed negatively to MPL's performance.

Per the Company's best records, the Company was not aware of the underlying reasons for these local management personnel changes at the time of the Company's acquisition of MPL nor at the time when the Board was performing due diligence procedures prior to the Company's acquisition of MPL.

Failure of Execution of MPL's Business Model

MPL planned to develop new private banking business across Asia and Europe by offering Asian financial products to European clients and providing European private banking services for clients in Asia Pacific including cross-border payment and digital assets management services. Given (i) the original business has declined due to loss of personnel and employees and (ii) new employees lack capabilities to execute new business plan, the unsustainable business model and operations of MPL led to the significant increase of MPL's cost-to-income ratio from approximately 88% for the year of 2018 to approximately 167% for the Year.

Change of Regulatory and Business Environment in Liechtenstein

Apart from the impact of the COVID-19 to the global economy, MPL encountered difficulties in dealing with local Liechtenstein regulators, this complicated and slowed-down regulatory communication and approval processes, thereby imposing further challenges on MPL. On top of that, changes in local regulatory environment in Liechtenstein continued and this included, inter alia, the roll out of a revised version of the Markets in Financial Instruments Directive in early 2018, which largely narrowed profit margins, where its impact to small-scale financial institutions is most significant. Besides, the large-scale quantitative easing policies adopted within EU during the past years also pushed interest rates further into the negative territory, rendering MPL's performance to decline. So, in light of the above and MPL's increased regulatory burden, the Company considered that the local regulatory environment has become more challenging to manage a bank in Liechtenstein.

To the best of the Board's awareness, the Directors were not aware of the circumstances at the time of the acquisition of MPL nor at the time when the Board was performing the due diligence procedures prior to the Company's acquisition of MPL. The Company has engaged external legal counsel to advise on the acquisition of MPL and the due diligence exercise performed against MPL was sufficient. The Board considered the Directors have fulfilled their fiduciary duties and duties of skill, care and diligence to act in good faith and in the interest of the Company and its shareholders as a whole under Rules 3.08 and 3.09 in respect of the acquisition of MPL.

Decision of Voluntary Liquidation

Having considered (i) the loss making situation of MPL since 2019; (ii) the unsustainable business model with continuous net outflow of clients; (iii) further capital injection or monetary support will be required for MPL's operation; (iii) the lack of ability of local management to turnaround MPL; and (iv) the regulatory and business environment is no longer favorable for the Company to operate a bank in Liechtenstein, the Board considered the continuing holding of MPL by the Company may not be advantageous to the Company.

MPL forms part of the Group's "Provision of wealth and asset management, financial brokerage and related services" operating segment. Upon the completion of Voluntary Liquidation, other business units within this segment will continue to provide these services in Hong Kong.

In terms of accounting treatment, since MPL will cease to be a subsidiary of the Company, the financial position and the results of MPL will therefore be deconsolidated from those of the Company.

Given MPL lacked synergy to the business of the Company, with its net asset value only representing approximately 5% of the Group's net assets as at 31 December 2020, the Board is of the view that, save as to any further losses resulting from the Voluntary Liquidation to be quantified, the Voluntary Liquidation shall have no material adverse impact on the financial performance and the operations of the Company.

Since the Voluntary Liquidation will enable the Company to cut losses in connection with MPL as well as to allocate more resources and management efforts to its profitable businesses, the Board considers that the Voluntary Liquidation is in the best interest of the Company and its shareholders as a whole.

FURTHER INFORMATION ON OTHER OPERATING EXPENSES

In addition to the information disclosed in the 2020 Annual Report, the Company would like to provide further information in relation to the breakdown of other operating expenses of the Group for the Year (with comparative figures as of the year ended 2019) as follows:

In the 2020 Annual Report, commission and brokerage expenses have been reclassified as a separate line item in the consolidated statement of comprehensive income, and therefore the comparative figures have been re-presented to conform with current year presentation.

	2020	2019
	<i>in HK\$'000</i>	<i>in HK\$'000</i>
Auditor's remuneration	4,379	10,101
Rent, rates and building management fee	11,010	18,780
Management fees	26,673	3,739
Information services expenses	20,936	18,693
Advertising, promotion, press announcement and media	1,985	16,915
Utilities and office expenses	9,050	18,957
Travelling, motor vehicle and entertainment	1,891	18,947
Repair, maintenance and consumables	3,149	3,557
Legal and professional fee	21,415	57,851
Bank charges and settlement charges	2,628	8,750
Registration, license, stamp duty and listing fee	7,211	7,822
Other office expenses	486	1,834
Insurance, training and recruitment fee	4,472	8,337
Other expenses	1,138	4,074
	<u>116,423</u>	<u>198,357</u>

The additional information set out herein does not affect the other information contained in the 2020 Annual Report.

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

Hong Kong, 26 May 2021

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