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# MADISON

— G R O U P —

**Madison Holdings Group Limited**

**麥迪森控股集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8057)**

## **SUPPLEMENTAL ANNOUNCEMENT TO THE ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2019**

References are made to the annual report of Madison Holdings Group Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 21 June 2019 (the “**Annual Report**”) and the circular of the Company dated 13 July 2018 (the “**Circular**”) in relation to the acquisition of 51% of the entire issued share capital of Diginex HPC (the “**Diginex Acquisition**”). Capitalised terms used herein shall have the same meanings as those defined in the Annual Report unless otherwise specified.

In addition to the information provided in the Annual Report, the Board wishes to provide further information in relation to the Diginex Acquisition, the acquisition of HPC Nordic, and the impairment loss on goodwill and plant and equipment in relation to the cryptocurrency mining operations (the “**Impairment**”).

### **THE ACQUISITION OF DIGINEX HPC AND HPC NORDIC**

By the sale and purchase agreement dated 26 April 2018 (the “**Diginex Acquisition Agreement Date**”), the Company completed the Diginex Acquisition on 31 July 2018 (the “**Diginex Completion Date**”). Prior to the Diginex Completion Date, pursuant to the unconditional share transfer agreement dated 25 May 2018 (the “**Nordic Acquisition Agreement**”), Mr. Andrew Spence, who is an independent third party not connected to the Company and its connected persons, as vendor agreed to sell, and Diginex HPC as purchaser agreed to acquire 500 shares, being the entire issued share capital, of HPC Nordic at the consideration of US\$1.75 million (the “**Nordic Acquisition**”).

HPC Nordic is a company incorporated in Sweden in October 2017 and is principally engaged in the cryptocurrency mining business through its data center located in Sweden since January 2018. The consideration of US\$1.75 million was determined having regard to the price-to-book ratio of 1.41, which was lower than the other comparable companies.

As disclosed in the Circular, Diginex HPC planned to deploy 5,000 rigs in its data centre located at Sweden. At the time of the entering into of the Nordic Acquisition Agreement, HPC Nordic has operated for 5 months in cryptocurrency mining in Sweden, which was in line with and indeed was the same as that of Diginex HPC. As at the material time, HPC Nordic was in possession of 460 rigs, and therefore the Nordic Acquisition was part of Diginex HPC's expansion plan for its number of rigs to be deployed. In light of the short operation history, the small number of rigs (which represented less than 10% of the total number of rigs of Diginex HPC) and the consideration payable for the Nordic Acquisition (which was less than 3% of the total consideration payable for the Diginex Acquisition) were all immaterial, the Directors were of the view that save for the increase in the number of rigs, the Nordic Acquisition has caused no change in the business model and the cryptocurrency mining business that Diginex HPC was engaged in. Given that the Circular has provided comprehensive information to enable the Shareholders to make informative decision, the Directors considered that additional disclosure on the Nordic Acquisition, which has immaterial impact on the Diginex Acquisition, was overlapping and not particularly helpful to be included in the Circular.

The Nordic Acquisition was completed on 30 August 2018 (the “**Nordic Completion Date**”). Both Diginex HPC and HPC Nordic (collectively the “**CGUs**”) are principally engaged in cryptocurrency mining. Diginex HPC is also engaged in the provision of HPC services to customers.

## **DECREASE OF THE MARKET PRICE OF ETHEREUM**

The market price of Ethereum has been volatile, which has decreased from approximately US\$631 as at the Diginex Acquisition Agreement Date, to approximately US\$432 as at the Diginex Completion Date, to approximately US\$284 as at the Nordic Completion Date, and to approximately US\$141 as at 31 March 2019.

Given the high operating cost in the operation site of Diginex HPC in the PRC (the “**PRC site**”), the decrease in revenue has caused Diginex HPC to suffer from an operating loss in its PRC site since September 2018. To minimise the loss to Diginex HPC, in January 2019, the directors of Diginex HPC decided to suspend the operation of the PRC site.

Further, due to the increase in the cost of acquiring new rigs and coupled with the decrease in the market price of Ethereum and the revenue, the schedule of procurement of additional or replacement rigs is delayed to April 2020, after the rigs were fully depreciated.

### **Impact on the financial results of Diginex HPC**

As a result of the decrease of the market price of Ethereum, the income generated from cryptocurrency mining activities has decreased significantly, which resulted in (i) decrease in the forecasted revenue; (ii) decrease in the value of the block reward in USD/MHS/day; (iii) suspension of the PRC site since January 2019; (iv) the decrease in the number of rigs actually purchased in 2018; and (v) delay in the schedule of procurement of additional and replacement rigs to 2020.

During the material time and at about the completion of the Diginex Acquisition, Diginex HPC was in the course of discussions with a potential customer for the provision of HPC services by Diginex HPC to the potential customer. Diginex HPC and the potential customer subsequently entered into a memorandum of understanding (“MOU”) on 2 September 2018 in relation to the HPC services. During the discussions, Diginex HPC expected that it would rent out approximately 20,000 graphics processing units and should be able to receive the fixed fee income which would be higher than the income generated from the rigs for cryptocurrency mining in view of the then market price for Ethereum. If the MOU materialised, the fixed service income could have minimised the impact of the decrease in the market price of Ethereum for the period from 26 April 2018 to the Diginex Completion Date.

According to paragraph 32 of the HKFRS 3, as at the Diginex Completion Date, based on the consideration of approximately HK\$426.08 million and the fair value of the assets and liabilities of Diginex HPC which amounted to approximately HK\$4.38 million as at the Diginex Completion Date, the Company recognised the goodwill of HK\$423.84 million (excluding the non-controlling interest of approximately HK\$2.14 million) for the Diginex Acquisition. In contemplation that Diginex HPC would be able to generate fixed fee service income in return for rendering HPC services to the potential customer, no impairment was made to goodwill and plant and equipment as at the Diginex Completion Date. As at 30 September 2018, given that the parties to the MOU were still in discussion about the provision of the HPC services, in anticipation of receiving fixed fee service income when the MOU materialised, which could counteract the impact from the decrease in the revenue from mining and trading of Ethereum, no impairment was made to goodwill and plant and equipment of Diginex HPC.

The MOU did not materialise and Diginex HPC did not render HPC services to the potential customer. From the Diginex Completion Date and up to 31 March 2019, Diginex HPC could only secure one HPC service contract in January 2019 for renting 13,040 graphic processing units and received the fixed fee income of approximately US\$408,852, despite its discussions with two more potential clients for the provision of HPC services. Hence, the business development pace of HPC services was delayed and the fixed fee income was unable to fully counteract the impact of the decrease in the market price of Ethereum and leading to the Impairment.

### **Impact on the financial results of HPC Nordic**

According to paragraph 32 of the HKFRS 3, as at the Nordic Completion Date, based on the consideration of approximately HK\$13.74 million and the fair value of the assets and liabilities of HPC Nordic which amounted to approximately HK\$6.89 million, the Company recognised the goodwill of HK\$6.85 million for the Nordic Acquisition.

As HPC Nordic is principally engaged in cryptocurrency mining, its business prospect is affected by the decrease in the market price of Ethereum. As at the Nordic Completion Date, in view of the decrease of the market price of Ethereum, the Directors considered impairment of goodwill was necessary, which was reflected in the interim report of the Company dated 13 November 2018.

### **THE IMPAIRMENT AS AT 31 MARCH 2019**

In compliance with paragraph 9 of the HKAS 36, an independent valuation, using discount cash flow method, was obtained in respect of the CGUs as at the end of the reporting period (i.e. 31 March 2019) (the “**March Valuation**”) to ascertain their fair values and whether any impairment is required.

As a result of the decrease in the market price of Ethereum from the Diginex Completion Date and the Nordic Completion Date to 31 March 2019, the revenue generated from mining and trading of Ethereum by the CGUs were affected and lower than expected, which led to a significant decrease in the fair value of the CGUs as at 31 March 2019.

Based on the March Valuation, the Company recognised an impairment loss on goodwill and the plant and equipment of the CGUs of approximately HK\$173.3 million and approximately HK\$120.1 million respectively in accordance with HKAS 36.

## CLARIFICATION IN RESPECT OF THE ANNUAL REPORT

The Board wishes to clarify that, the first statement in the paragraph under Note 37(ii) on P.204 of the Annual Report should be read as follows with the changes duly underlined for easy reference, “prior to the completion of the Diginex Acquisition and becoming an indirect non-wholly owned subsidiary of the Company, Diginex HPC entered into the acquisition agreement on 25 May 2018 with Mr. Andrew Spence, an independent third party to the Group, for acquisition of 100% of the entire issued share capital in HPC Nordic for a total consideration of US\$1,750,000 (equivalent to approximately HK\$13,736,000) satisfied by cash.”

The additional information set out above does not affect other information contained in the Annual Report and the contents of the Annual Report remain unchanged.

By order of the Board  
**Madison Holdings Group Limited**  
**Ting Pang Wan Raymond**  
*Chairman and Executive Director*

Hong Kong, 11 September 2019

*As at the date of this announcement, the executive Directors are Mr. Ting Pang Wan Raymond, Mr. Zhu Qin, Mr. Zhou, Francis Bingrong and Ms. Kuo Kwan; the non-executive director is Mr. Ip Cho Yin J.P.; and the independent non-executive Directors are Ms. Fan Wei, Mr. Chu Kin Wang Peleus and Dr. Lau Reimer, Mary Jean.*

*This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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 in this announcement misleading.*

*This announcement will remain on the GEM website at <http://www.hkgem.com> on the “Latest Company Announcements” page for at least seven days from the date of its posting and the Company’s website at <http://www.madison-group.com.hk>.*