NOVA Group Holdings Limited

諾發集團控股有限公司

(formerly known as Mega Expo Holdings Limited)

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 1360)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT OF THE COMPANY FOR THE YEAR ENDED 30 JUNE 2019

Reference is made to the announcement of NOVA Group Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") dated 27 September 2019 in relation to the annual results of the Group for the financial year ended 30 June 2019 (the "**Announcement**") and the annual report of the Group for the financial year ended 30 June 2019 (the "**Annual Report**"). Terms used herein shall have the same meanings as those defined in the Announcement and the Annual Report unless the context requires otherwise.

QUALIFIED OPINION

(i) ACQUISITION OF A SUBSIDIARY

In the section headed "**1. Acquisition of a subsidiary**" of the Announcement and the Annual Report, the auditor of the Company (the "**Auditor**") set out two major concerns.

First of all, pursuant to the SPA for the acquisition of Shanghai Mijia Hemao (the "**Acquisition**"), many possible intangible assets, including business contracts and customer network from the vendors, customer database, the 5-year exhibition holding right agreement and year 2019 exhibition contracts were transferred to the Group. The management of the Company initially considered each of the possible intangible assets to be immaterial and trivial in nature. Thus the Company at that time considered that all the possible intangible assets were goodwill without disaggregating them into separate categories of intangible assets.

For the preparation of the consolidated financial statements of the Group, the Company engaged an independent professional valuer, Peak Vision Appraisals Limited ("**Peak Vision**"), to carry out the valuation of the Acquisition as a whole as at the completion date of the Acquisition (the "**Completion Date**") and 30 June 2019 and was later requested by the Auditor to identify to respective values of all the possible intangible assets arising from the Acquisition. The Company then requested Peak Vision to carry out the valuation of all the possible intangible assets arising from the Acquisition as at the Completion Date and 30 June 2019 but was informed that the valuation work would take substantial time because of the workload involved.

Due to the time constraint, the management of the Company recognised all the possible intangible assets as goodwill in the consolidated statement of financial position as at 30 June 2019 and considered that it is solely a matter of reclassification with no material financial impact on the overall financial position of the Group.

To address the qualified opinion, the Company has engaged Peak Vision in October 2019 to carry out the valuations of the intangible assets arising from the Acquisition as at the Completion Date and 30 June 2019. Based on the valuation reports, the fair values of the intangible asset as at the Completion Date and 30 June 2019 were RMB15,253,000 (approximately HK$17,875,000) and RMB14,671,000 (approximately HK$17,193,000) respectively.

The fair values of the intangible asset, i.e. the exhibition holding right, were determined using the income approach – excess earnings method based on a 5-year budget plan provided by the management of the Group.

The key assumptions used in the 5-year budget plan and the valuations are:

(i) the estimated economic life of the intangible asset is 5 years and there is no residual value at the end of the useful life;

(ii) the after-tax discount rates as at the Completion Date and 30 June 2019 are 17.02% and 16.81% respectively;

(iii) the average growth rate adopted in the 5-year budget plan is 5.50%;

(iv) the average operating profit margin is 38.30%; and

(v) the discount for lack of marketability is 20.00%.

The foregoing key assumptions were determined based on past performance and the management's expectations for the market's development. The discount rate used is after-tax and reflects a similar risk relating to the relevant business.

Accordingly, the Company would put through a prior year adjustment to reclassify such amount from goodwill to intangible asset with the amortisation charge amounting to RMB1,096,000 (approximately HK$1,285,000) for the financial year ended 30 June 2019. After reviewing the basis and assumption of the valuation reports, the Auditor has approved and agreed with the content of the valuation reports and the Company's corresponding adjustment.

Secondly, under the SPA, the vendors have undertaken certain profit guarantees in relation to the net profits of Shanghai Mijia Hemao for the three years ending 31 December 2019, 2020 and 2021. During the preparation of the consolidated financial statements, the management of the Company has performed an impairment assessment on the CGU to which the goodwill belongs and prepared the profit and cashflow forecast for the three years ending 31 December 2019, 2020 and 2021 of Shanghai Mijia Hemao based on (1) the sales contracts available at that time, (2) the sales contracts which were being negotiated and (3) the expected profit growth, to evaluate the fair value of goodwill, profit guarantee and contingent consideration payable. The Auditor considered that the evidence relating to the data used in estimating the recoverable amount of the CGU and the supporting documents of the said profit and cashflow forecast are insufficient. In addition, up to the date of the Announcement on 27 September 2019, the net profit of Shanghai Mijia Hemao had yet reached the guaranteed profit under the profit guarantee for the year ended 31 December 2019 (the "**Profit Guarantee**"). For this reason, at that time, the Auditor had concerns over the satisfaction of the Profit Guarantee and the recoverable amount of the CGU.

However, based on the latest management accounts of Shanghai Mijia Hemao for the year ended 31 December 2019, but subject to the audit by the auditor, the Profit Guarantee has been met. The directors of the Company concluded that the CGU demonstrates sufficient cash flows that justify the net carrying amount of the intangible assets and hence no impairment is considered necessary as at 30 June 2019.

The Company is currently negotiating with the Auditor on the removal of the above qualified opinion for the annual results of the Group for the financial year ending 30 June 2020.

In light of the above, subject to the view of the Auditor, the Company expects that the above qualified opinion would be removed for the annual results of the Group for the financial year ending 30 June 2020.

(ii) INVESTMENT IN AN UNLISTED PRIVATE FUND

The Auditor requested the Company to provide the basis and assumptions involved in the Company's estimation of the fair value of the Private Fund as at 30 June 2019. Any adjustments in the fair value of the Private Fund may affect the Group's net assets as at 30 June 2019 and the Group's income for that financial year.

The Company wishes to clarify that the fund statements mentioned in the section headed "**2. Investment in an unlisted private fund**" of the Announcement and the Annual Report were provided by a director (the "**Fund Director**") of both the Private Fund and its fund manager. The fund statements include (i) the financial information of the Private Fund including the balance sheet of the Private Fund as at 30 June 2019 and the profit or loss statement and cash movement for the six months ended 30 June 2019, (ii) securities cost as at 30 June 2019, and (iii) bond accruals as at 30 June 2019.

As the Private Fund is unlisted in nature, minority investors can only have limited access to its information. For the preparation of the consolidated financial statements of the Group, the management of the Company had made reasonable enquiries with the Fund Director regarding the financial performance of the companies involved in the Private Fund's investment. The Fund Director at that time represented to the management of the Company that the bonds involved were generating positive cashflow for their latest financial year without any default and the relevant company involved was recording profit for the latest financial year. Having considered (1) the limited access to information of the Private Fund by the Company and (2) the Fund Director's representations after the reasonable enquiries made by the management of the Company, the Company is of the view that its reliance on the fund statements provided by and the representation made by the Fund Director is reasonable and sufficient.

Despite the Company's view, the Auditor is not satisfied with the sufficiency of appropriate audit evidence to assess the reasonableness of the value of the Private Fund.

To address the qualified opinion, the Company has requested the Fund Director to engage an independent valuer to carry out the valuation of the Private Fund. According to the valuation report provided by the Fund Director, which was prepared by an independent valuer at the Company's request, the fair value of the Private fund as at 30 June 2019 was HK$30,167,000. Pursuant to a sale and purchase agreement dated 6 December 2019 entered into between the Group and an independent third party, the Group has agreed to dispose of the Company's investment in the Private Fund for HK$30,000,000. The Company expects the disposal to be completed by 29 February 2020.

The Company is currently negotiating with the Auditor on the removal of the above qualified opinion for the annual results of the Group for the financial year ending 30 June 2020.

In light of the above, subject to the view of the Auditor, the Company expects that the above qualified opinion would also be removed for the annual results of the Group for the financial year ending 30 June 2020.

(iii) FACTORING BUSINESS AND POSSIBLE RELATIONSHIP WITH A CUSTOMER

The Auditor is concerned with (i) the reasonableness of concentrated loan granted to Customer A and the internal evaluation and risk assessment of granting factoring loan to Customer A; and (ii) the relationship, if any, between the Group and Customer A and between the Group and Individual A. This qualified opinion does not affect the Group's financial position.

After reviewing the results from the internal background check on Customer A, the directors of the Company confirmed that under Hong Kong Accounting Standards 24 Related Party Disclosures and Rule 14A.07 of the Listing Rules, neither Customer A nor Individual A is a related party or a connected person of the Company. As (i) the Group has duly performed credit review procedures and client acceptance process over Customer A; and (ii) neither Customer A nor Individual A is a related party or a connected person of the Company, the management of the Company considered that adequate disclosure of the related party balances and transactions have been provided in the consolidated financial statements for the financial year ended 30 June 2019.

To address the Auditor's concern, the Company will strengthen its internal control over the risk assessment in its financing business and improve the documentation procedures for conflict and relationship checks in order to provide sufficient audit trail to the Auditor hereafter. The Company will also request its internal auditor to assess and evaluate the effectiveness and implementation of internal control measures in the Group's financing business segment.

In relation to the reason for granting such large amount of factoring loans to Customer A, the Company considered that (1) the interest income involved (15% per annum) and the commercial return were high; (2) based on the result of the credit review assessment on Customer A and in light of the good reputation, business nature, financial background and recoverability of Customer A, the management of the Company considered that the credit and concentration risks are manageable for the Group; and (3) the factoring business can widen the revenue base of the Group.

The Auditor, having reviewed most of the supporting documents involved in the Group's client acceptance process and credit review for Customer A and considered the Company's explanation on providing factoring loans to Customer A, remained the concern over the concentration risk involved and the potential relationship between the Company and Customer A and between the Company and Individual A.

In response to the concentration risk issue, the Company will regularly review the credit portfolio and facility limits of its customers and has widened its customer base in its financing business. The Group also attempted to reduce the amount of factoring loans to Customer A upon maturity of the previous factoring loans. As at the date of this announcement, all the factoring loans granted to Customer A during the financial year ended 30 June 2019 have been repaid, thus the concentration and credit risks in relation to Customer A have been substantially mitigated.

The Company is currently negotiating with the Auditor on the removal of the above qualified opinion for the annual results of the Group for the financial year ending 30 June 2020.

In view of the above measures taken and to be taken by the Company, subject to the view of the Auditor, the Company is of the view that the above qualified opinion can be removed for the annual results of the Group for the financial year ending 30 June 2020.

AUDIT COMMITTEE'S VIEW ON THE QUALIFIED OPINION

In the course of approving the consolidated financial statements for the financial year ended 30 June 2019, the members of the audit committee of the Company (the "**Audit Committee**") have reviewed the information provided by the management of the Company and discussed with the Auditor in respect of details and reasons of arriving at the qualified opinions. The Audit Committee was in agreement with the management's position and basis.

The Board confirms that the above supplemental information does not affect other information contained in the Announcement and the Annual Report and the contents of the Announcement and the Annual Report remain unchanged.

For this announcement, translation of Renminbi into Hong Kong dollars is based on the exchange rate of HK$1.00 = RMB0.8533, and for illustrative purpose only.

By Order of the Board
NOVA Group Holdings Limited
Deng Zhonglin
Chairman

Hong Kong, 30 January 2020

As at the date of this announcement, the board of directors of the Company comprises Mr. Deng Zhonglin and Mr. Xu Feng as executive directors; and Mr. Choi Hung Fai, Mr. Tsang Wing Ki, Dr. Wong Kong Tin, JP and Mr. Qiu Peiyuan as independent non-executive directors.