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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 IN RELATION TO THE ACQUISITION OF 67.2% INTEREST IN BITOCEAN CO., LTD.

INTRODUCTION

References are made to the announcements of the Company dated 27 September 2018, 20 November 2018, 9 December 2018, 8 January 2019 and 11 January 2019 (the “**Announcements**”) in relation to the acquisition of 67.2% interest in the Target Company. Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

The Board wishes to provide further information in relation to the Acquisition as set out below.

BASIS OF CONSIDERATION FOR THE ACQUISITION

As disclosed in the Announcements, the Consideration of the Acquisition of JPY1,680,000,000 (equivalent to approximately HK\$115,852,800) was determined after arm’s length negotiation between the Purchaser and the Vendors on normal commercial terms having regard to: (i) the limited number of virtual currency exchange service providers currently registered with the FSA (“**Registered Virtual Currency Exchange Service Providers**”); (ii) the future business prospects of the Target Company; and (iii) the reasons for and benefits of the Acquisition as set out in the section headed “Reasons for and Benefits of the Acquisition” of the announcement of the Company dated 9 December 2018 in relation to the Acquisition. The Board hereby provides further details of the basis of and the factors to consider when determining the Consideration.

(a) Selecting the relevant comparables

In determining the Consideration, the Board has noted that virtual currency exchange service is a newly developed industry, and many of the virtual currency service providers are still at their early stage of development and have yet to have established lines of business or generated profit. Nor does the virtual currency service providers require significant assets for operation generally. Therefore, the Directors are of the view that (i) traditional valuation methodologies, such as price-to-earnings (for more mature business with profitability), price-to-book-value multiples (for business with significant assets) and discounted cashflow (for business with an established trading record), are not relevant to the valuation of virtual currency exchange service provider, such as the Target Company; and (ii) historical comparable transactions are more suitable to be used as a reference to determine the consideration of the Acquisition.

Among the historical comparable transactions which the Group had researched at the material time before the entering into of the SPA, the Company considered that the acquisition of the entire issued share capital of BitTrade Co., Ltd. (“**BITTrade**”) was the latest and most relevant comparable to the Acquisition and thus used it as a reference point in the negotiation of the consideration with the Vendors.

The Board considered that the acquisition of the entire issued share capital of BITTrade by an individual investor (“**BITTrade Acquisition**”) was the latest and most relevant comparable to the Acquisition based on the fact that (i) BITTrade was the most recently completed transaction at the time of negotiation for the Acquisition; (ii) BITTrade and the Target Company are Registered Virtual Currency Exchange Service Providers; and (iii) both BITTrade and the Target Company are considered as at their early stage of development and are of similar scale of operation.

The table below sets out the comparison between BITTrade and the Target Company based on publicly available information and information provided by the Vendors:

	BITTrade	Target Company
Scope of Activities	The condition attached to the registration of BITTrade as a Registered Virtual Currency Exchange Service Provider allows that BITTrade may trade a basket of virtual currency including bitcoin) through an online exchange platform.	The condition attached to the registration of the Target Company as a Registered Virtual Currency Exchange Service Provider requires that the Target Company can only trade a single virtual currency (i.e. bitcoin) on an offline trading platform (i.e. ATMs).

	BITTrade	Target Company
Operating Data	<p>According to the financial statements published by BITTrade:</p> <p>(i) the revenue of BITTrade for the 15 months ended 31 March 2018 was approximately JPY53,208,000 (equivalent to approximately HK\$3,669,224);</p> <p>(ii) the net loss of BITTrade for the 15 months ended 31 March 2018 was approximately JPY78,736,000 (equivalent to approximately HK\$5,429,625); and</p> <p>(iii) the net asset value of BITTrade as at 31 March 2018 was approximately JPY22,196,000 (equivalent to approximately HK\$1,530,636).</p>	<p>Based on the information provided by the Vendors:</p> <p>(i) the revenue of the Target Company for the year ended 30 April 2018 was approximately JPY49,603,600 (equivalent to approximately HK\$3,420,664);</p> <p>(ii) the net profit after taxation of the Target Company for FY2018 was JPY20,423,000 (equivalent to approximately HK\$1,408,000); and</p> <p>(iii) the net asset value of the Target Company as at 30 April 2018 was approximately JPY21,750,669 (equivalent to approximately HK\$1,499,926).</p>
History of Operation	<p>According to the website of BITTrade, BITTrade commenced its virtual currency exchange services business since 15 March 2017.</p> <p>As at the commencement date, BITTrade's trading platform was only compatible with exchange between Japanese Yen and bitcoin, but was subsequently expanded to cover the exchange between multiple virtual currencies and Japanese Yen.</p>	<p>The Target Company commenced its virtual currency exchange services business conducted through ATMs since 2015.</p> <p>According to the public register published by the FSA, the Target Company has been a Registered Virtual Currency Exchange Service Provider since 26 December 2017.</p>

BITTrade

Target Company

According to the public register published by the FSA, BITTrade has been a Registered Virtual Currency Exchange Service Provider since 29 September 2017.

Since December 2017, the Target Company has voluntarily suspended the virtual currency exchange business conducted through ATM for upgrading the functionality of the ATMs for the purpose of the enhancement of Know-Your-Client (KYC) and Anti-Money Laundering (AML) procedures for virtual currency trading transactions to be conducted through the ATMs.

The Target Company was engaged in provision of blockchain related consultancy services to a third party.

Trading Activities

BITTrade provides exchange services between multiple virtual currencies and Japanese Yen through its online platform.

The Target Company currently has no trading activities, and is expected to resume its virtual currency exchange service through ATMs by the end of first quarter of 2019 after completion of the functionality enhancement of the ATMs.

Trading Volume of bitcoin

According to the data disclosed by BITTrade, the annual trading volume of bitcoin into Japanese Yen of BITTrade for the year ended 30 May 2018 was approximately 259,808 bitcoins.

According to the data provided by the Vendors, the transaction amount handled by the ATMs of the Target Company in FY2017 was approximately JPY125 million (approximately 1,456 bitcoins).

BITTrade**Target Company**

Market Share and
Market Recognition

At the time of the BITTrade Acquisition, the market share of BITTrade in terms of annual bitcoin trading volume was insignificant (less than 0.5%) based on the annual trading volume of bitcoin in Japan during the year ended 30 May 2018 of approximately 89,712,660 bitcoins as indicated in jpbitcoin.com.

During FY2018, the market share of the Target Company in terms of annual bitcoin trading volume was insignificant (less than 0.1%) based on the annual trading volume of bitcoin in Japan during the year ended 30 April 2018 of approximately 87,420,337 bitcoins as indicated in jpbitcoin.com.

The Directors therefore consider that the BITTrade's market recognition was limited at the time of the BITTrade Acquisition.

The Directors therefore consider that the Target Company's market recognition is currently limited.

Apart from the BITTrade Acquisition, the Company also considered certain other acquisitions of virtual currency exchange service providers in Japan (though to a lesser extent), including the acquisitions of BITPoint, Coincheck, Inc. (“**Coincheck**”) and BTCBox Co., Ltd (“**BTCBox**”). Nevertheless, as the Directors considered that (i) the business of BITPoint is relatively mature in terms of business development stage; (ii) Coincheck was not a Registered Virtual Currency Exchange Service Provider at the time of completion of the transaction and was at a relatively mature stage of business development; and (iii) BTCBox was not a Registered Virtual Currency Exchange Service Provider at the time of completion of the transaction, the Board attached less importance to those transactions.

Based on the analysis of (i) the business scale; (ii) the stage of business development; and (iii) the registration status of the target companies at the time of completion of the respective transactions, the Directors considered that BITTrade Acquisition is the most relevant comparable to the Acquisition and given BITPoint, Coincheck and BTCBox were engaged in virtual currency exchange service in Japan, the Directors considered the acquisitions of those companies are also relevant comparables to the Acquisition, notwithstanding to a lesser extent due to the reasons explained above.

Given traditional valuation methods are not appropriate in valuing the Target Company which is at its early stage of development, the Directors are of the view that applying a value or determining the Consideration or the most appropriate discount to the price of BITTrade Acquisition is not or cannot be a direct quantitative exercise with market data readily available from the market.

(b) Factors to consider when determining the Consideration

Status of the Target Company as a Registered Virtual Currency Exchange Service Provider in Japan

As disclosed in the Announcements, it is the business direction of the Company to develop its virtual currency trading platform business in Japan given its well-established regulatory system and fair competition environment. The Company has keen interest in participating in the business of a Registered Virtual Currency Exchange Service Provider. In light of the future prospects and reasons and benefits previously mentioned in the Announcements, it is in the Company's interest to be able to enter and tap into the business of operating a registered cryptocurrency trading platform in Japan as soon as possible. Given (i) the Target Company has already obtained the registration status as a Registered Virtual Currency Exchange Service Provider, and (ii) according to the Japanese legal advice, notification to the FSA is required for the change of shareholders of the Target Company, the Company would be able to secure an immediately available platform and can fairly quickly tap into the industry with certainty and by saving time and resources in applying for the registration as a new market entrant. The Target Company has reported and the FSA has not shown any concern regarding the Target Company's notification of change in major shareholders, and the Purchaser became the largest shareholder holding 67.2% of the total issued share capital of the Target Company on 11 January 2019. The importance of the status of the Target Company as a Registered Virtual Currency Exchange Service Provider cannot be easily quantified.

Potential for expansion of business scope

The Company does recognise the current limitation of the Target Company, that is, having only one trading platform and trading one single virtual currency, as compared to the business of BITTrade (which is permitted to trade a basket of virtual currencies on an online exchange platform), and therefore the Company has taken into account the costs of expanding the scope of business of the Target Company to cover the trading of multiple virtual currencies on online platform and noted that the aggregate amount of Acquisition and the estimated costs of expansion is still lower than the consideration for the BITTrade Acquisition as adjusted by the percentage of shareholding of the Target Company acquired by the Group in the Acquisition.

Bitcoin as the most popular and widely traded and acceptable cryptocurrency

Whilst BITTrade is trading a number of virtual currencies and the Target Company's current scope of business is limited to the trading of bitcoin, bitcoin is considered as the most popular and mostly traded and acceptable virtual currency and accounts for approximately 32% of the monthly trading volume of the virtual currencies according to data from coinmarketcap.com as at 14 January 2019. Therefore, even though the Directors considered that the Target Company could not trade as many types of cryptocurrencies as BITTrade and therefore applied a discount to the implied value of BITTrade (i.e. consideration for the BITTrade Acquisition) when determining the Consideration, the Company cannot simply determine the proportion of discount which shall be made to the price for the BITTrade Acquisition based on the number of types of different virtual currency tradable by BITTrade as compared to those of the Target Company when determining the Consideration.

Relative market share of BITTrade and the Target Company

As mentioned above, the annual trading volume of bitcoin of BITTrade for the year ended 30 May 2018 was approximately 259,808 bitcoins whereas the trading volume of bitcoin of the Target Company in FY2017 and FY2018 were only approximately 1,456 and 71 bitcoins respectively. The Directors considered the difference in the trading volume a factor to apply a discount to the implied value of BITTrade (i.e. consideration for the BITTrade Acquisition) when determining the Consideration. However, the Directors also noted that both BITTrade and the Target Company had market share of less than 0.5% in terms of trading volume and were at their early stage of development, they have given greater weight to other factors as mentioned in "Factors to consider when determining the Consideration" in this announcement when determining the Consideration.

Rarity of Registered Virtual Currency Exchange Service Providers

As at 11 January 2019, there were only 17 Registered Virtual Currency Exchange Service Providers in Japan, and there has only been one new Registered Virtual Currency Exchange Service Provider subsequent to the Target Company's registration on 26 December 2017. There is rarity in potential willing sellers of Registered Virtual Currency Exchange Service Provider available to the Purchaser in the market.

Long term development goal of the Company

Virtual currency is a product of tokenization. Tokenization is a process of embedding data of a real world transaction in a mathematical rules and/or open source code algorithms format on a blockchain network (commonly known as “**cryptocurrency**” or “**virtual currency**”). Virtual currencies are used in various applications such as medium of exchange for products or services and medium of exchange on certain blockchain networks. Virtual currencies are designed to be transferrable and are able to provide a secure and clear trace of ownership history.

As disclosed in the Announcements, the use of virtual currencies around the globe has been on the rise which is mainly attributable to the gaining popularity of its underlying blockchain technology being applied to various industries. It is expected that the wider the commercial use of blockchain technology, the greater the demand for virtual currencies.

Although the ATM currency trading platforms of the Target Company does not apply blockchain technology, the virtual currency being traded through ATMs was one of the applications of the blockchain technology. By facilitating the exchange of virtual currency, the Directors believe that the ATM currency trading platforms will enhance the liquidity of virtual currencies and hence, promote its underlying blockchain technology which, in turn, further promote the use of virtual currencies. Despite of the recent price volatility in major virtual currencies, the Directors maintain the view that application of underlying blockchain technology will become prevalent among various industries. As a result, the Directors believe that owning and operating a virtual currency trading platform is beneficial to the long-term development of the Group.

Conclusion and additional information

In view of the above, the Directors consider that the consideration of the Acquisition, which is equivalent to approximately 55.5% discount to that of the BITTrade Acquisition, is fair and reasonable after arm’s length negotiation between both parties.

Furthermore, the consideration of the Acquisition adopted by the Group and the Vendors is supported by HDR’s indicative purchase price for acquiring 49% in the Purchaser.

As disclosed in the announcement of the Company dated 11 December 2018, the Company and HDR entered into a memorandum of understanding in relation to the potential disposal of 51% of the entire issued share capital of the Purchaser by the Company (the “**Potential Disposal**”), and the indicative consideration for the Potential Disposal intended by the parties is approximately US\$17.14 million (approximately HK\$133.69 million), which is higher than the Consideration. The Board considers the Consideration for the Acquisition is commercially sensible for the Company to accept and is therefore fair and reasonable.

LEGALITY OF THE ACQUISITION

In relation to the Acquisition, the Company has obtained Japanese legal advice, which are summarised as below:

(a) Licences, permits and authorizations currently held by the Target Company for the operation of virtual currency exchange services, and the details of such license including the scope of permitted activities, material conditions and validity period

The Target Company currently holds a Virtual Currency Exchange Service Provider registration with the FSA (Registration Number: Kanto Local Finance Bureau [*Kantō_Zaimu-kyoku*] number 00013) (the “**Registration**”).

The Target Company applied for the Registration on 25 September 2017 (the “**Application**”), which was accepted by the FSA on 26 December 2017 and registered with the Office of the Prime Minister of Japan under Article 63-2 of the Act as a virtual currency exchange service provider. According to the Application and the Registration, the Target Company is only permitted to conduct the sale and purchase of bitcoin and Japanese Yen through ATMs. Apart from the type of virtual currency (i.e. bitcoin) that may be transacted, the Registration does not set forth any other terms or conditions regarding the Company to conduct virtual currency exchange services.

There is no validity period related to the Registration of the Company and thus the registration does not require renewal. However, a business reporting form (that mainly indicates operating performance during the reporting period) must be filed with the FSA on an annual basis for maintaining the Registration status. The FSA normally conducts non-regular inspection on some of the existing Registered Virtual Currency Exchange Service Providers, mainly on their AML and KYC policies.

The Target Company holds no other licenses, permits or authorizations other than the Registration with regard to operating any business related to its virtual currency exchange services.

(b) Notification process required by regulatory authorities in Japan for the Acquisition

With regard to any change in the shareholders that have more than 10% of total issued share capital, Registered Virtual Currency Exchange Service Providers, such as the Target Company, shall submit written notification to the FSA pursuant to Article 11(1)(5) of the Order. Other than the written notification to the FSA pursuant to the Order, the Japanese legal advisers of the Company are not aware of any other approval required from the FSA (or any other governmental authorities) for the Acquisition. Although there is no explicit approval requirement administered by the FSA or any other administrative authority under the Order for change in control of the Target Company by way of merger or acquisition, it is possible and likely that the FSA asks questions and even requests for documents submission about the background of the new shareholders and future business plan (if there is also a proposed change in the content of the services under the registration).

The Target Company has reported and the FSA has not shown any concern regarding the Target Company's notification of change in major shareholders, of which the Purchaser became the largest shareholder holding 67.2% of the total issued share capital of the Target Company on 11 January 2019.

(c) Compliance with relevant laws and regulations in Japan

It is the Company's Japanese legal advisers' opinion as at 28 December 2018 that the Acquisition and the business activities of the Target Company comply with the Act and the Order, including the provision of (i) virtual currency exchange service; and (ii) support and ancillary consultancy services in relation to virtual currency exchange business. Apart from the Registration, the Japanese legal advisers do not consider that any other registrations, licenses, permits or authorizations are necessary for the Target Company to be able to legally operate its business in Japan as at 28 December 2018.

(d) Possible potential change in laws and regulations

The Japanese legal adviser advised that, according to the website of FSA, a research committee comprised of professionals, scholars, industry experts and government officers made certain recommendations to the FSA in relation to the introduction and tightening of preventive measures that address fraudulent transactions, customer data protection and internal control issues relating to the IT system security of virtual currency exchange platform, including, among others:

- (i) virtual currency exchange service providers will be required to maintain a net amount of virtual currency of the same type and in an amount that exceeds the amount that its customers (that manage an online key) hold on the service provider for reimbursement purpose ("**Capital Requirement**");

- (ii) virtual currency exchange service providers shall establish a system that allows customers to have priority rights as creditors of virtual currency;
- (iii) virtual currency exchange service providers will be required to disclose financial documents and information of transaction prices;
- (iv) fraudulent transactions, illicit solicitations and price manipulation should be prohibited;
- (v) virtual currency exchange service providers will be required to have the transactions audited and will be prohibited to enter into transactions that have a purpose of achieving profit by unpublicized means.

Risk factor – Uncertainty relating to possible potential change in existing Japanese laws or regulations relating to Registered Virtual Currency Exchange Service Providers

As advised by the Japanese legal adviser, the recommendations made by the research committee are recommendations only and not laws and regulations and are of no legal effect. As no changes in the existing Japanese laws or regulations have been made or announced to regulate Registered Virtual Currency Exchange Service Providers following the publication of the aforesaid recommendations of the research committee, the Company is not in a position to, at this stage, assess the potential impact of any possible future amendments of the laws and regulations regarding virtual currency exchange services. **Shareholders and investors should note there is a risk of uncertainty as to (i) whether or not, the above recommendations proposed by the research committee will be enacted or implemented; (ii) the extent or scope, or timetable for, the enactment or implementation of any of the above recommendations relating to possible potential change in existing Japanese laws or regulations relating to Registered Virtual Currency Exchange Service Providers, including but not limited to the imposition of the Capital Requirement. As the recommended potential imposition of or change in Capital Requirement or change in existing Japanese laws or regulations have not been enacted or implemented, the Company is not in a position, and has not yet devised any plan for the maintenance of its capital should the Capital Requirement become the law.**

Given the Target Company's registration status is obtained close to the clients' assets embezzlement by Coincheck being reported by the media in January 2018, as one of the conditions for approving the registration status, the Target Company is required to upgrade the ATMs to enhance the AML and KYC procedures. As a result, the Target Company is in the process of upgrading its ATMs to enhance its KYC and AML procedures in relation to virtual currency trading transactions to be conducted through the ATMs.

The Target Company will keep an eye on the latest legal development on virtual currency trading and will continue to comply with the applicable legal requirements.

FURTHER INFORMATION ON THE TARGET COMPANY

The Board wishes to provide the following further information on the Target Company.

(a) Background information

The Target Company was incorporated for the purpose of engaging in virtual currency trading business, provision of online advertisement services, provision of support and ancillary services related to virtual currency business. According to the public register maintained with FSA, registration of the Target Company for conducting sale and purchase of virtual currency (i.e. bitcoin) and fiat currency (i.e. Japanese Yen) was completed on 26 December 2017. As advised by the Japanese legal advisers of the Company, the activity of sale and purchase of virtual currency (i.e. bitcoin) and fiat currency (i.e. Japanese Yen) shall be conducted through ATMs. As a result, the Target Company currently does not have an online trading platform.

According to the Registration and the Application, the Target Company is only permitted to conduct the sale and purchase of bitcoin and Japanese Yen through ATMs. Apart from the type of virtual currency (i.e. bitcoin) that may be transacted and the trading platform which the Target Company may operate (i.e. ATM), the Registration does not set forth any other terms or conditions regarding the Target Company to conduct virtual currency exchange services.

As advised by the Japanese legal advisers, there is no validity period for the Registration and thus the Registration does not require renewal. The Company is required to file a business form reporting mainly about the operating performance on an annual basis to the FSA. Apart from the above, there is no other periodic reporting to any authority required regarding the registration with the FSA as a Registered Virtual Currency Exchange Service Provider. The FSA normally conducts non-regular inspection to some of the existing Registered Virtual Currency Exchange Service Providers, mainly on their AML and KYC policy. Those service providers shall report the issues specifically raised by the FSA within the requested period if they are selected for inspection by the FSA.

The official website of the Target Company is <http://www.bitoccean.com/>.

(b) Operating performance

FY2017

The Target Company reported revenue of JPY6,263,166 (equivalent to approximately HK\$431,908) for FY2017, which represented only transaction fee income generated from virtual currency exchange services through ATMs. Transaction fee is charged to the customers at a fixed percentage of the transaction amount. According to the management of the Target Company, the Target Company developed its proprietary ATMs and offered virtual currency exchange services through ATMs. The only transaction handled by ATMs was the exchange of bitcoin and Japanese Yen. The transaction amount handled by those ATMs during FY2017 was approximately JPY125 million (equivalent to approximately HK\$8.62 million) (around 1,456 bitcoins being transacted). As advised by the Target Company, the handling capacity of each ATM was JPY10,000,000 (i.e. 1,000 pieces of JPY10,000 bank note) per ATM cassette, subject to regular replenishment, and there were two ATMs in service in the central business district in Tokyo, Japan. Due to the development cost incurred for manufacturing ATMs (including research and development) and the related software, the Target Company was operating at a net loss of JPY2,121,898 (equivalent to approximately HK\$146,326) in FY2017.

FY2018

According to the management of the Target Company, after 26 December 2017, the Target Company has voluntarily suspended the virtual currency exchange business conducted through its proprietary ATMs. It is the business direction of the Target Company that upon registration with the FSA, the Target Company should further improve the functionality of its virtual currency ATMs in order to satisfy the more stringent regulatory requirements. Since then, the Target Company has contracted with another Japanese ATM manufacturer in developing an advanced model. The enhancement of ATM functionality is still in progress and the Target Company is aiming at deploying the new model ATMs in first quarter of 2019. In addition, during the process of developing an advanced ATM model, the Target Company further broadened the income source to provision of support and ancillary consultancy service related to virtual currency exchange business to a third party.

During FY2018, the Target Company reported revenue of JPY49,603,600 (equivalent to approximately HK\$3,420,664) which was mostly contributed from (i) provision of consultancy services to a third party; and, to a lesser extent, (ii) provision of virtual currency exchange services through ATMs (during the period from 1 May 2017 to 26 December 2017). Given the nature of the consultancy services provided, there was no directly attributable costs other than staff cost. The Target Company reported a net profit after taxation of JPY20,423,118 (equivalent to approximately HK\$1,408,378) for FY2018.

(c) Revenue generating model and its role in a virtual currency transaction

As disclosed in (b) above, the Target Company's revenue was generated from (i) transaction fee of 5.0% from virtual currency exchange services through ATMs and (ii) provision of consultancy services carrying a fixed fee upon delivery of services.

Enhancement of ATMs

The Target Company has determined to upgrade the ATMs in light of the more stringent regulatory environment following the clients' assets embezzlement by Coincheck as reported by the media in January 2018. The Target Company mainly focused on the enhancement of KYC and AML procedures in relation to virtual currency trading transactions to be conducted through the ATMs.

Newly developed software will be installed in the ATMs such that the ATMs will have the functionality to verify the identity of the customers before completing any transactions, aiming at enhancing the KYC and AML procedures. The Target Company has also engaged a Japanese ATM hardware supplier for the supply of hardware compatible with the newly developed software to enhance the hardware quality of the ATMs.

Prior to the enhancement of ATMs, the Target Company only had two ATMs. The Target Company plans to introduce additional four ATMs. The current indicative timetable for the material development of the enhanced ATM currency trading platform is set out below.

Period	Material Development
Week commencing on 7 January 2019	Phase 1: First phase of testing and trial of enhanced ATMs: Testing on the work flow of the ATMs.
4 weeks after commencement of Phase 1	Phase 2: Second phase of testing and trial of enhanced ATMs: Testing will be conducted on the hardware and software deployed.
2 weeks after commencement of Phase 2	Phase 3: Refinement of work flow of the enhanced ATMs based on the test results of the first phase and second phase of the testing and trial.
1 week after commencement of Phase 3	Phase 4: (i) Stress test and further tests and refinement will be performed on the enhanced ATMs; (ii) implementation of marketing and promotion of the enhanced ATMs; (iii) finalization of the lease of the ATM sites; and (iv) establishment of plans on ongoing management of ATMs.
4 weeks after commencement of Phase 4	Phase 5: Reactivation of the enhanced ATM business.

Shareholders should note that the period specified in the expected timetable are indicative only and may be subject to changes. In the event any special circumstances arise, the Company may extend, or make adjustment to, the timetable if it considers appropriate. The Company will make an announcement to notify Shareholders and the Stock Exchange of any such extension or adjustment to the expected timetable.

During the period from the completion date of the Acquisition (i.e. 11 January 2019) and the date of commencement of operation of ATM business (i.e. currently expected to be in the first quarter of 2019), the Target Company will focus on (i) the testing and trial for the commercial launch of the ATMs; (ii) finalizing the lease of the ATM sites; and (iii) marketing and promotion of the enhanced ATM business.

It is expected that there is no further significant capital expenditure to be incurred for the launch of the enhanced ATMs. Since both the software development and hardware acquisition costs have been incurred and paid by the Target Company, there is no capital commitment in relation to the enhancement of ATMs functionality. The costs to be incurred in testing and trial before market launchment are considered minimal.

It is expected that upon redeployment of ATMs with better functionality in the first quarter of 2019, same transaction fee of 5.0% will be received from provision of virtual currency exchange services through ATMs. The Target Company provides ATMs as a physical platform handling exchange of bitcoin and Japanese Yen conducted by customers.

One-off consultancy services

As for the consultancy services, the Target Company provided consultation services to an organization incorporated in Singapore (the “**Customer**”) which develops and maintains its blockchain technology and targets to promote the business applications and adoption of blockchain technology. According to coinmarketcap.com, as at 6 January 2019, the market capitalization of the virtual currency (the “**Token**”) using the blockchain developed by the Customer is approximately US\$240.68 million.

The scope of consultation services provided include (i) the development of applications based on the Token; and (ii) the promotion of the use of the Token by the different communities (such as supply chain and e-commerce) in Japan.

The above consultation services were one-off in nature under a contract with the Customer and the contract was expired on 26 July 2018.

(d) Increase in profits for the FY2018

As disclosed in the Announcements, the Target Company made a net profit of approximately JPY27,542,000 (equivalent to approximately HK\$1,899,296) (before taxation) and approximately JPY20,423,000 (equivalent to approximately HK\$1,408,370) (after taxation) for FY2018 as compared to a net loss of approximately JPY2,122,000 (equivalent to approximately HK\$146,333) (before and after taxation) for FY2018. The reason for the increase in the Target Company's profit before and after tax for FY2018 is mainly attributable to commencement of provision of consultancy services in addition to transaction fee generated from the provision of virtual currency exchange services through ATMs during the period from 1 May 2017 to 26 December 2017.

RELATIONSHIP BETWEEN BITPOINT ACQUISITION AND THE ACQUISITION

As disclosed in the announcements of the Company dated 30 March 2018 and 13 April 2018, the Company had previously entered into an agreement with Remixpoint, Inc. and BITPoint in relation to the BITPoint Acquisition. The BITPoint Acquisition was terminated by mutual agreement of the relevant parties on 2 August 2018. The Company has been actively looking for investment opportunities similar to that of BITPoint and eventually identified the Target Company as potential investment target.

The Company confirms that there is no difference in the subject matter between the Acquisition and the BITPoint Acquisition in the sense that both target companies are Registered Virtual Currency Exchange Service Providers in Japan. However, the percentage shareholding to be acquired in the Acquisition and the BITPoint Acquisition are different. It is the business direction of the Company to choose a developed country with regulations on virtual currency exchange services in place and allows fair competition for operating virtual currency exchange business. Since the Japanese Government has introduced a registration system and set out operational guidelines for virtual currency exchange service providers since 2017, the Directors are of the view that Japan is an ideal country to develop virtual currency exchange business.

Mr. Ting, an executive Director, with his own business connection through his private investment in Japan, came to know a local Japanese businessman (who is not a connected person to the Company), who introduced the Vendors to Mr. Ting in August 2018 and preliminarily discussed the potential acquisition of their aggregate equity stakes in the Target Company. Mr. Ting reported the investment opportunity of the Target Company to the Board in August 2018.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, the Target Company and its ultimate beneficial owners on one hand do not have any relationship with BITPoint and its ultimate beneficial owners on the other hand.

DEFINITIONS

Unless the context requires otherwise, capitalised terms in this announcement shall have the following meanings:

“Act”	the Payment Service Act of Japan, Act No. 59 of 2009 (as revised on 1 April 2016)
“ATM(s)”	Automated Teller Machines
“Announcements”	has the meaning ascribed to it in the section headed “Introduction”
“Application”	has the meaning ascribed to it in the paragraph headed “Legality of the Acquisition – (a) Licences, permits and authorizations currently held by the Target Company for the operation of virtual currency exchange services, and the details of such license including the scope of permitted activities, material conditions and validity period”
“BITPoint”	BITPoint Japan Company Limited, a company incorporated in Japan with limited liability
“BITTrade”	has the meaning ascribed to it in the paragraph headed “Basis of consideration for the Acquisition – (a) Selecting the relevant comparables”
“BITTrade Acquisition”	has the meaning ascribed to it in the paragraph headed “Basis of consideration for the Acquisition – (a) Selecting the relevant comparables”
“Board”	the board of Directors
“BTCBox”	has the meaning ascribed to it in the paragraph headed “Basis of consideration for the Acquisition – (a) Selecting the relevant comparables”
“Coincheck”	has the meaning ascribed to it in the paragraph headed “Basis of consideration for the Acquisition – (a) Selecting the relevant comparables”

“Company”	Madison Holdings Group Limited, a company incorporated in the Cayman Islands, whose Shares are listed on the Stock Exchange (Stock Code: 8057)
“Customers”	has the meaning ascribed to it in the paragraph headed “Further information on the Target Company – (c) Revenue generating model and its role in a virtual currency transaction – One-off consultancy services”
“Director(s)”	directors of the Company
“FSA”	the Financial Services Agency of Japan
“FY2017”	the financial year ended 30 April 2017
“FY2018”	the financial year ended 30 April 2018
“HDR”	HDR Cadenza Management Limited, an independent third party of the Company
“Order”	the Order for Enforcement of the Payment Services Act as amended on 30 May 2018
“Potential Disposal”	has the meaning ascribed to it in the paragraph headed “Basis of consideration for the Acquisition – (b) Factors to consider when determining the Consideration – Conclusion and additional information”
“Registration”	has the meaning ascribed to it in the paragraph headed “Legality of the Acquisition – (a) Licences, permits and authorizations currently held by the Target Company for the operation of virtual currency exchange services, and the details of such license including the scope of permitted activities, material conditions and validity period”
“Registered Virtual Currency Exchange Service Provider”	has the meaning ascribed to it in the paragraph headed “Basis of consideration for the Acquisition”

“Token”	has the meaning ascribed to it in the paragraph headed “Further information on the Target Company – (c) Revenue generating model and its role in a virtual currency transaction – One-off consultancy services”
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	percentage

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

Hong Kong, 23 January 2019

In this announcement, for reference only, the translation of Japanese Yen and the United States dollars into Hong Kong dollars is based on the exchange rates of JPY1 = HK\$0.06896 and US\$1 = HK\$7.75.

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 and the independent non-executive Directors are Ms. Fan Wei, Mr. Chu Kin Wang Peleus and Mr. Ip Cho Yin, J.P.

This announcement, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited 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 herein or this announcement misleading.

This announcement will remain on the “Latest Company Announcements” page of the GEM website at www.hkgem.com for at least 7 days from the date of its posting. This announcement will also be published on the website of the Company at <https://www.madison-group.com.hk>.