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(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1360)

CLARIFICATION ANNOUNCEMENT AND RESUMPTION OF TRADING

On 9 May 2019, Mega Expo Holdings Limited (the “**Company**”, and its subsidiaries, the “**Group**”) became aware that it is the subject of a report published online by Blue Orca Capital (“**Blue Orca**”) (the “**Short Seller’s Report**”). On the same day, the Company published an announcement about the trading halt in the Company’s shares on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) with effect from 1:53 p.m. on Thursday, 9 May 2019 pending the release of a clarification announcement in response to the Short Seller’s Report.

This announcement provides the Company’s considered response to the Short Seller’s Report. In preparing this announcement, the Company has conducted a detailed assessment of the matters raised in the Short Seller’s Report together with the assistance of the Company’s external professional advisers.

BACKGROUND

The Short Seller’s Report claims that the Company’s valuation is higher than what Blue Orca believes it should be. To support this claim, Blue Orca makes various allegations against the Company (the “**Allegations**”).

Before the Company responds to the Allegations, the Company believes it is important for shareholders to take into account the following, important points of background and context.

First of all, the Company wishes to underline at the outset that the Company and its Directors (the “**Directors**”) are committed to full compliance with the principles of good corporate governance and transparency. The Allegations are an attack on the Company’s adherence to those principles, and it is important for shareholders to understand the underlying motives, so that they can make an informed assessment about each Allegation, and the Company’s response to the Allegations, with the benefit of publicly available information about the Company.

The Short Seller’s Report (by its own admission) contains opinions of Blue Orca, which is a short seller whose interests may not be aligned with those of the Company’s shareholders in general. Indeed, as a short seller, Blue Orca stands to profit from any fall in the Company’s share price. The Short Seller’s Report confirms that Blue Orca and/or those behind it have “*a short interest in Mega Expo’s stock and therefore stand to realize significant gains in the event that the price of such instrument declines*”. It is in Blue Orca’s interests to undermine shareholders’ confidence in the Company and its management, and to harm its reputation. The Company believes that this is precisely what the Short Seller’s Report aims to achieve, without regard for the risk of misleading shareholders and the market.

The Company considers the claims in the Short Seller’s Report to be untrue and misleading, and that the conclusions drawn in the Short Seller’s Report about the Company and its financial results are incorrect. The Company’s consolidated financial statements are prepared in accordance with applicable laws and HKFRS, and they are audited by the statutory auditor.

This announcement is made to refute or clarify the allegations or comments concerning the Group raised in the Short Seller’s Report. Notwithstanding that, the Directors stress that the Short Seller’s Report shall in no circumstances be weighted by the Directors and the Company will not make further analysis on its contents or make further response to the Short Seller’s Report.

The Company takes this matter very seriously, and urges shareholders to treat the Short Seller’s Report and the Allegations with caution. The Company reserves its right to take legal action against Blue Orca and/or those responsible for the Short Seller’s Report.

COMPANY’S RESPONSES TO THE ALLEGATIONS IN THE SHORT SELLER’S REPORT

The Company denies and refutes the unfounded allegations in the Short Seller’s Report.

In order to refute the frivolous allegations in the Short Seller’s Report, the Company wishes to draw the attention of its shareholders and potential investors to the following:

(1) Fabricated revenues from undisclosed related parties

Allegation

The Short Seller’s Report alleges that the revenues from the contracting services and entertainment equipment solution business segment (the “**Equipment Contracting Segment**”) of the Group were fabricated due to the absence of any traceable company operating footprints in the Internet domain (such as official company website or WeChat account) and the lack of ample evidence to show that the entertainment equipment were listed and sold through the e-commerce platform at NOD Union.

Response

In making this claim, the Short Seller’s Report appears to have misinterpreted the NOD Union as an “online” e-commerce platform and have been confused with the Group’s Equipment Contracting Segment business model and its synergic relationship with NOD Union.

Notably, the Company’s interim report 2018/19 disclosed that NOD Union is a well-known entertainment brand with well-established client network across China of over 1,000 members of clubs, bars and lounges.

With such client network, NOD Union has provided synergistic advantages to the Group's Equipment Contracting Segment. In addition, the Group has commenced our own one-stop contracting and entertainment equipment solution services to our store customers in 2018. As a result, the Group successfully provided equipment advisory on the spectacle of light art, specialized sound and music, interactive light and sound art installation projects for the players in the cultural and entertainment industries. All these transactions were customised consulting and equipment solution services which required "offline" performance and not through an online e-commerce platform. For the year ended 31 December 2018, the Company's sales revenue increased rapidly as a result of the abovementioned synergistic advantages of NOD Union, where numerous customised contracting and supply of equipment services had been delivered "offline" to more than 50 customers from various cities in China, including but not limited to Shanghai, Jiangsu, Zhejiang, Hunan, Anhui, Henan, Shandong, Beijing, Liaoning, Hainan and Guangxi.

The Company would like to stress that the services provided under the Group's Equipment Contracting Segment were customised to the needs of specific customers and not e-commerce sales. For instance, 2 subsidiaries of the Company have been engaged in the offline trading of lighting and audio equipment to customers. As a result of the business nature of these offline services, the Group have not allocated much resources and effort in online promotion (by, for instance, actively maintaining an official company website or WeChat account). The Group currently has 2 operating offices in the Equipment Contracting Segment, which are located in Futian District in Shenzhen and Changning District in Shanghai respectively.

Furthermore, the Group's revenues, which have been audited by qualified auditors, have been properly recorded and recognized in conformity with HKFRS.

(2) **Serial capital raising for sham transactions**

Allegation

The Short Seller's Report alleges that almost all the Company's acquisitions over the last two years involved assets or businesses previously owned by or connected to an alleged entity so called Noah's Ark Group (the "**Alleged Entity**").

Response

The Company would like to point out that the Short Seller's Report speculates about potential connections, but without evidential support, hence arrives at its conclusion on highly questionable grounds (if any at all) and fails to provide evidence to show the existence of an entity for the shadowy syndicate which Chinese law enforcement and media have linked to illegal business. The Company would like to stress that all the Company's acquisitions over the last three years were from different individual and independent third parties, details of which have been fully disclosed in the relevant Company's announcements respectively. In any event, to the best knowledge of the Directors and the management, (i) the vendors under the said acquisitions were not related to the Alleged Entity and (ii) neither the Company has directly or indirectly acquired assets or businesses from the Alleged Entity in its acquisitions over the last three years nor the Group has any dealings with the Alleged Entity as mentioned in the Short Seller's Report in respect of its operations and businesses.

The Company is principally engaged in the organisation of exhibitions, events planning and related services, provision of brand management and related services, provision of contracting services and entertainment equipment solution, provision of promotion and consulting services, and provision of loan and financing, which is different from the business nature of the Alleged Entity as mentioned in the Short Seller's Report.

To clarify, it is through the recent series of strategic acquisitions that the Group is able to diversify its income stream and enhance its earning profile through exploring investment opportunities in China which help capitalise on any growth opportunities and thereon enhance the shareholders' value. As the Group had turned from a consecutive loss position to earning net profits of HK\$90.7 million for the financial year ended 30 June 2018, the board of Directors (the "**Board**") declared a dividend of HK1.0 cent per share in cash for the year ended 30 June 2018 (2017: Nil), which was paid on 11 January 2019. The Group intends to continue with its endeavor to create value for shareholders through dividend distributions.

As to the allegation of Mr. Xu Feng's connection to the Alleged Entity, Mr. Xu Feng's biographical details are fully disclosed in the Company's announcement dated 21 June 2018 and updated in the Company's subsequent annual and interim reports. Furthermore, the Company has obtained confirmation in writing from Directors in relation to their absence of direct connection to or association with the Alleged Entity as mentioned in the Short Seller's Report. To the best knowledge of the Directors and the management, the Company is not aware of any direct connections or associations of Mr. Xu Feng or other current Directors to any company bearing the name of the Alleged Entity.

(3) **One-day old company acquired at 140x NAV for HK\$52 million**

Allegation

The Short Seller's Report claims that the Company spent HK\$52 million cash to acquire a 1-day old business with no operating history at 140 times the net asset value.

Response

The Short Seller's Report misinterprets the arrangements between the Company and vendors and details of the transaction. The structure of this transaction was to acquire 51% interests of a newly incorporated company from the vendors while the vendors will inject its existing business and exhibition project team into this joint venture company. As disclosed in the Company's interim report 2018/19, on 30 November 2018, an indirect wholly-owned subsidiary of the Company entered into a sale and purchase agreement to acquire 51% equity interest in Shanghai Jiamao Expo Co., Ltd.* (上海伽貿展覽有限公司) ("**Shanghai Jiamao**") at a cash consideration of approximately HK\$51.98 million with vendors, the individual and independent third parties not connected with the Company and its connected person as at the date of entering into the sale and purchase agreement. Pursuant to the above sale and purchase agreement, each of the vendors and Shanghai Jiamao undertook to transfer the existing business carried out by an exhibition company named Hemaio Exhibition (Shanghai) Co., Ltd.* (合貿展覽(上海)有限公司) ("**Hemaio Exhibition**"), which one of the vendors had operated for more than 3 years, to Shanghai Jiamao as soon as reasonably practicable. This undertaking in effect would result in the existing revenue-generating business of Hemaio Exhibition under its existing business contracts to be borne by Shanghai Jiamao. As at the date of this announcement, the entire project team of Hemaio Exhibition including its management has been transferred to Shanghai Jiamao.

To this end, the Company had respectively appointed a qualified independent financial adviser, Deloitte Financial Advisory (Shanghai) Limited to conduct financial due diligence on Hema Exhibition and a qualified independent valuer to perform valuation on Hema Exhibition, which confirmed that Hema Exhibition was indeed profit making and the consideration payable was fair according to the valuation results. In particular, the Directors have reviewed the assumptions adopted in the valuation report and considered them to be fair and reasonable.

The Company wishes to further clarify that the vendors under the above sale and purchase agreement undertook that the net profit of Shanghai Jiamao in the audited financial statements for each of the financial years ended 31 December 2019, 31 December 2020 and 31 December 2021 shall not be less than RMB9.29 million, RMB11.91 million and RMB13.16 million respectively and that, as also mentioned in the Company's interim report 2018/19, approximately HK\$13.00 million of the cash consideration under such sale and purchase agreement shall be settled upon fulfillment of profit guarantee. If there is a shortfall on the profit of Shanghai Jiamao in each of the above period, there will be cash compensation or deduction of consideration of the shortfall from the vendors to the Group.

Hence, the Short Seller's Report's accusation is outrageously misleading.

(4) Shell game: Three acquisitions had 0 assets

Allegation

The Short Seller's Report claims that the Company acquired three companies which had either zero or negative net assets.

Response

The Company wishes to point out that, as disclosed in the Company's annual report 2017/18 and interim report 2018/19, the Group has acquired i-Lend Finance Limited, CIS Industrial Co., Limited and its subsidiary ("**CIS Industrial Group**"), and Hananhal Investment Holding Co., Ltd. and its subsidiary ("**Hananhal Group**") respectively in October 2017, July 2018 and November 2018 at considerations of approximately HK\$835,000, HK\$330,000 and HK\$100,000. Among these acquisitions, i-Lend Finance Limited is a Hong Kong company holding a money lenders license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), and CIS Industrial Group and Hananhal Group are respective owners of a finance leasing license and a commercial factoring license in China. The Company had respectively appointed an independent qualified legal adviser to conduct due diligence and an independent qualified valuer to perform valuation on these acquired companies, which confirmed that the considerations payable were reasonable and in market value. In particular, the Directors have reviewed the assumptions adopted in the valuation report and considered them to be fair and reasonable. Again, the Allegation that the Company acquired companies with no assets is misleading and incorrect.

Notably, the mentioned acquisitions were a strategic step of the Group in introducing financing services to our existing customers and potentially, the players in the cultural and entertainment industries. The Directors believe the finance leasing business and commercial factoring business, in collaboration with contracting and other advisory services of the Company, has built a unique ecosystem in provision of comprehensive services to players in the cultural and entertainment industries.

(5) Sparkle Mass: Millions for an event planner with few events

Allegation

The Short Seller's Report alleges that the Company bought Sparkle Mass Limited and its subsidiaries ("**Sparkle Mass Group**") at 159 times price to book, and the Sparkle Mass Group having organized few events generated HK\$27 million in net profits was highly unlikely.

Response

As disclosed in the Company's annual report 2017/18, during the financial year ended 30 June 2018, the Company delivered services in more than 130 exhibition events to our customers in China. The major events included but were not limited to product launch events, sales promotion events, music awards ceremony and art exhibitions. Organised by Sparkle Mass Group, these events were successful and received the general recognition from the market. Looking forward, the Group will continue to develop its project management team, sharpen its expertise as an event service provider and build its reputation within the industry. Having said that, due to the business nature of these offline services, the Group have not allocated much resources and effort in online promotion (by, for instance, actively maintaining an official company website). Just like many other reasonable companies or business owners, a certain page of one of the Group's websites does not necessarily reflect the Group's service deliverables to its fullest extent.

The Company would like to make references to the announcement dated 10 February 2017 in relation to the acquisition of Sparkle Mass Group. The vendor of Sparkle Mass Group undertook that the net profit of Sparkle Mass Group in the audited financial statements for each of the financial year ended 31 December 2017, 31 December 2018 and 31 December 2019 shall not be less than HK\$13 million, HK\$14 million and HK\$15 million respectively. If there is a shortfall on the guaranteed profit in each of the aforementioned period, there would be cash compensation of the shortfall from the vendor to the Group.

In particular, as at 31 January 2017, Sparkle Mass Group has entered into agreements in relation to exhibition services and conference services with its customers the terms of which range from 3 years to 5 years. The total amount of the agreements involved is more than RMB24 million and certain exhibition services have commenced in accordance with the terms of the agreements, details of which have been disclosed in the said announcement dated 10 February 2017.

Furthermore, the Company would like to make references to the announcements dated 28 March 2018 and 27 March 2019 respectively in relation to the profit guarantee, which stated that the net profit of Sparkle Mass Group in the audited financial statements for each of the financial year ended 31 December 2017 and 31 December 2018 had exceeded HK\$13 million and HK\$14 million. In light of this, the Company's auditors had reviewed and were satisfied with the fulfillment of the relevant profit guarantees.

The Company would like to further clarify that the Company had appointed an independent qualified valuer to perform valuation on Sparkle Mass Group, which showed the appraised value of equity interest of Sparkle Mass Group as at 31 January 2017 was not less than HK\$50 million. In particular, the Directors have reviewed the assumptions adopted in the valuation report and considered them to be fair and reasonable.

Therefore, the Company cannot agree with its unfounded speculations set out in the Short Seller's Report.

(6) Cheer-Sino: Derelict E-commerce site and questionable event promoter acquired for HK\$ 299 million

Allegation

The Short Seller's Report alleges that acquisition of Cheer Sino Investment Holdings Limited and its subsidiaries (the "**Cheer Sino Group**") was massively overpaid due to assets of questionable value including a worthless e-commerce platform.

Response

In making this claim, the Short Seller's Report appears to have misinterpreted the NOD Union platform as an "online" e-commerce platform and have been confused with Cheer Sino Group's business model.

With reference to the circular of the Company dated 19 January 2018 in relation to the acquisition of Cheer Sino Group, the acquisition consideration was HK\$268 million (including (a) HK\$168 million shall be settled by the issue of the convertible notes; and (b) HK\$100 million shall be settled in cash) in comparison to HK\$299 million as indicated in the Short Seller's Report.

The Company wishes to clarify that Cheer Sino Group is principally engaged in bar and club membership, wine and liquor promoting and event organising businesses. The e-commerce platform for business promotion purpose as indicated in the Short Seller's Report is still under development by Cheer Sino Group and does not generate any e-commerce income since its incorporation. With reference to the Company's interim report 2018/19, the Company has already reported that the Group is still developing its online entertainment services system to meet the online products and services needs of customers. In addition, it is the Group management's decision to disable the online member registration function in light of the industry practice in China where printed contracts are preferred to electronic ones.

In regard to business development of Cheer Sino Group, leveraging on the brand of NOD Union, Cheer Sino Group has developed a well-established client network across China with nightclubs, bars and lounges in the entertainment industry for its comprehensive business consulting and event planning services. In order to provide comprehensive business consulting and event planning services to the members under NOD Union, Cheer Sino Group has also built up strong partnership with specialists in different fields of entertainment industry, such as alcoholic beverage suppliers, brand consultants, hardware support and interior design experts. Since 2016, Cheer Sino Group has established business relationship with two top multinational alcoholic beverage suppliers which possess certain finest and luxurious brands of wine, whisky and champagne all over the world. Under the leadership of the management of Cheer Sino Group with extensive industrial knowledge and business network in the entertainment industry of China, NOD Union has completed the planning and execution of more than 300, 290 and 250 product promotion events in China for the aforementioned two alcoholic beverage suppliers in 2016, 2017 and 2018. In 2017, the client portfolio of Cheer Sino Group has expanded to the industry of property development. Cheer Sino Group has also started to provide comprehensive brand management and entertainment business consulting services to a national real estate developer which is a member of Top 500 in the world with around 500 real estate projects in over 180 cities of China. In 2018, Cheer Sino Group initiated the business cooperation with a well-known power bank provider by leveraging the client network under NOD Union for its power bank facilities installation.

The revenues of Cheer Sino Group for the year ended 31 December 2016, 2017 and 2018 were HK\$76 million, HK\$75 million and HK\$195 million respectively. A majority of the revenue of Cheer Sino Group was generated from promotion income. For the year ended 31 December 2016, 2017 and 2018, (i) promotion income contributed approximately 81.4%, 56.5% and 38.6% of the total revenue, respectively; (ii) membership income contributed 10.3%, 43.0% and 21.0% of the total revenue, respectively; and (iii) the remaining revenue were contributed by consultancy services income.

In light of the above, the Company considers the information indicated in the Short Seller's Report does not indicate the accurate fact of the Cheer Sino Group acquisition (including but not limited to its consideration, transaction structure and the information of Cheer Sino Group). In particular, the Company considers the allegation as indicated in the Short Seller's Report may constitute illegal allegations to the existing clients of Cheer Sino Group, including well-known multinational enterprises.

Notwithstanding the foregoing, the Company had respectively appointed an independent qualified financial adviser to advise on the implications under the Rules Governing the Listing of Securities on the Stock Exchange and conduct due diligence, an independent qualified accounting firm to conduct financial due diligence, an independent qualified PRC legal adviser to conduct legal due diligence and an independent qualified valuer to perform valuation on Cheer Sino Group, in which the valuer was of the opinion that the market value of 100% equity interest in Cheer Sino Group as at 30 September 2017 was reasonably stated at the amount of HK\$330 million. In particular, the Directors have reviewed the assumptions adopted in the valuation report and considered them to be fair and reasonable. The Board considered the strategic acquisition of Cheer Sino Group capitalised the client network of Cheer Sino Group and created synergies to the Group's existing business for its expansion to the PRC market.

(7) Change of fortune: Newly formed business acquired at an estimated 43.4x NAV

Allegation

The Short Seller's Report alleges that the acquisition of Fortune Selection Limited and its subsidiaries ("**Fortune Selection Group**") was a sham transaction and was conducted at an estimated 43.4 times net asset value.

Response

The Group would like to make references to the announcement dated 7 April 2017 in relation to the acquisition of Fortune Selection Group. The vendor of the Fortune Selection Group undertook that the net profit of Fortune Selection Group in the audited financial statements for each of the financial year ended 31 December 2017, 31 December 2018 and 31 December 2019 shall not be less than HK\$10 million, HK\$11 million and HK\$12 million respectively. If there is a shortfall on the guaranteed profit in each of the aforementioned period, there would be an adjustment on the amount of remaining convertible bonds to be issued to vendor.

As at 31 March 2017, Fortune Selection Group has entered into agreements in relation to bar brand management services with its customers, the terms of which range from 3 years to 5 years. The total amount of the agreements involved is more than RMB20 million and certain brand management services have commenced in accordance with the terms of the agreements, details of which have been disclosed in the said announcement dated 7 April 2017.

Furthermore, the Company would like to make references to the announcements dated 29 March 2018 and 29 March 2019 respectively in relation to the profit guarantee, which stated that the net profit of Fortune Selection Group in the audited financial statements for each of the financial year ended 31 December 2017 and 31 December 2018 had exceeded HK\$10 million and HK\$11 million. In light of this, the Company's auditors had reviewed and were satisfied with the fulfillment of the relevant profit guarantees.

The Company would like emphasise that the acquisition of Fortune Selection Group has enabled the Group to secure a list of licensees operating under the acquired brands such as "PHEBE", "MT", "菲苾" and "U.CLUB", which allows the Group to gain sharing of income from licensing, brand management and provision of management services. As to the allegation that Fortune Selection Group did not own the trademarks of the abovementioned acquired brands (the "**Trademarks**"), the Company would like to clarify that it had appointed a qualified PRC legal adviser to conduct legal due diligence on Fortune Selection Group, in which the qualified PRC legal adviser was of the view that the Trademarks were in the course of being transferred to the company controlled by the vendor as a result of a previous assignment of Trademarks and prior to the completion of such Trademarks transfer procedures, the company controlled by the vendor had the right to income and exclusive use of the Trademarks and the vendor may use, authorise any third parties (including Fortune Selection Group) to use, maintain and/or promote the Trademarks. As at the date of this Announcement, the Trademarks have been transferred to the Group.

The Company would like to further clarify that the Company had appointed an independent qualified valuer to perform valuation on Fortune Selection Group, which showed the appraised value of equity interest of Fortune Selection Group as at 31 March 2017 was not less than HK\$49 million. In particular, the Directors have reviewed the assumptions adopted in the valuation report and considered them to be fair and reasonable.

Similar to our response to the allegations regarding Sparkle Mass Group, the Company cannot agree with its unfounded speculations set out in the Short Seller's Report.

(8) Major red flags

Allegation

The Short Seller's Report alleges various matters relating to the Group's business generally were "red flags", which include but are not limited to its negative operating cash flow, abnormally high Director turnover.

Response

As to the allegation that the Group has negative operating cash flows and ballooning receivables, the Company would like to point out that the main reason for the increase in account receivables is that as a business strategy to expand its contracting services and entertainment equipment solution business segment, the Group has been offering its customers a longer repayment period in order to attract and increase sales from customers. Nevertheless, the Group has established a complete set of internal control measures and credit review system to ensure that there is no significant credit risk involved. As at the date of this announcement, all the relevant receivables have been collected according to their agreed payment terms.

As to the allegation in relation to the high Director turnover, the Company would like to point out that the past Directors' resignations were mainly due to personal, family reasons or other business, which have been fully disclosed in the Company's announcements respectively dated 9 March 2017, 6 December 2017 and 27 April 2018 and 21 June 2018.

Finally, the Company expresses no comment as to the miscellaneous allegations in relation to the Company's auditor and valuer and their respective clients mentioned in the Allegations, except to stress that they are qualified professional parties in possession of the relevant qualification by the relevant Hong Kong authorities to practice in Hong Kong and are also independent from the Company.

Save as stated in this announcement, having made such reasonable enquiries with respect to the Company as is reasonable in the circumstances, the Company confirms that it is not aware of any information which must be announced to avoid a false market in the Company's securities or of any inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

This announcement is made by order of the Company. The Directors collectively and individually accepts responsibility for the accuracy of this announcement.

Shareholders and potential shareholders should exercise caution when dealing in the Company's shares.

The Company will consider and adopt all reasonable measures to protect the interests of the shareholders. Currently, the Company is seeking legal advice from its legal advisers and reserves its rights to take legal actions against Blue Orca.

RESUMPTION OF TRADING

An application has been made by the Company to the Stock Exchange for the resumption of trading in the Company's shares with effect from 1:00 p.m. on 24 May 2019.

By Order of the Board
Mega Expo Holdings Limited
Deng Zhonglin
Chairman

Hong Kong, 24 May 2019

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.

* *For identification purposes only*