

THIS RESEARCH REPORT EXPRESSES SOLELY OUR OPINIONS. We are short sellers. We are biased. So are long investors. So is Mega Expo. So are the banks that raised money for the Company. If you are invested (either long or short) in Mega Expo, so are you. Just because we are biased does not mean that we are wrong. Use BOC Texas, LLC’s research opinions at your own risk. This report and its contents are not intended to be and do not constitute or contain any financial product advice. Because this document has been prepared without consideration of any specific clients’ investment objectives, financial situation or needs, and no information in this report should be construed as recommending or suggesting an investment strategy. Investors should seek their own financial, legal and tax advice in respect of any decision regarding any securities discussed herein. You should do your own research and due diligence before making any investment decisions, including with respect to the securities discussed herein. We 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. Please refer to our full disclaimer located on the last page of this report.

COMPANY: Mega Expo Holdings Ltd. | HK: 1360  
 INDUSTRY: Exhibition and Entertainment

PRICE (AS OF CLOSE  
 5/8/2019)

HKD 4.20

MARKET CAP:

HKD 6.1 BILLION

30 DAY AVG VOLUME:

15.9 MM SHARES

BLUE ORCA VALUATION:

HKD 0.00

Mega Expo Holdings Ltd (HK: 1360) (“Mega Expo” or the “Company”) is a Hong Kong listed event organizer whose share price has mysteriously appreciated over 300% despite limited disclosures as to how it actually makes money. Its shares inexplicably trade at over 13.3x sales and 22x book, a valuation reminiscent of Hong Kong’s most notorious stock manipulations.

Since 2017, Mega Expo has spent an aggregate of HKD 470 million on seven acquisitions. With its core exhibition business unprofitable and shrinking, Mega Expo financed these acquisitions through the capital markets by issuing equity at a massive discount to its share price and selling corporate bonds at interest rates near or above 10%.

Despite raising debt at punitive interest rates and diluting shareholders, the Company has little to show for these purchases. Most of Mega Expo’s acquisition **targets were either empty shells or newly formed businesses with no revenues, minimal to no assets, and no track record of operating a business.** Many of the acquired entities do not even have operating WeChat accounts or websites, even though the target entities are supposedly in the businesses of marketing, brand consulting, or event planning. In our opinion, these were mostly sham transactions designed to loot money from the public company.

Almost all Mega Expo’s sham transactions over the last two years involved the acquisition of assets or businesses previously owned by or connected to the Noah’s Ark Group, a shadowy syndicate which Chinese law enforcement and media have linked to **prostitution** through its network of affiliated bars, clubs and KTVs. The picture below was allegedly taken at the White Horse Club in Shanghai, a club for male escorts linked by Chinese media to the Noah’s Ark Group. Unbelievably, we found evidence that Mega Expo’s current subsidiary (and recent acquisition) provided services for this notorious brothel.



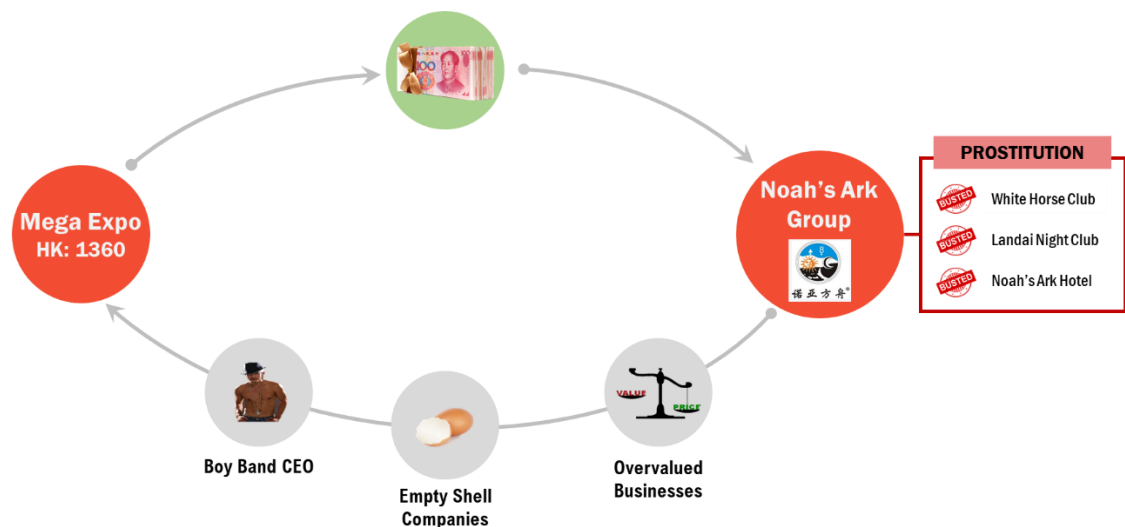
Source: [http://www.sohu.com/a/291718548\\_442092](http://www.sohu.com/a/291718548_442092)

In effect, we believe that Mega Expo has undergone a stealth reverse merger, and that shadowy networks with ties to criminal enterprises such as prostitution now control the public company. **We estimate that 95% of Mega Expo’s CY 2018 revenues were derived from businesses acquired from or connected to the Noah’s Ark Group.** Even Mega Expo’s new CEO, a **former member of a prominent Chinese boy band**, was plucked from an entity previously controlled by the Noah’s Ark Group.

To facilitate this scheme, Mega Expo retained the same appraisal firm that valued a sham acquisition for Tech Pro Technology (HK: 3823) (“Tech Pro”); a notorious Hong Kong fraud we exposed in 2016. After its auditor resigned, Mega Expo also retained an auditor whose only other major client is the notorious China Ding Yi Feng (HK: 0612) (“China DYF”). China DYF’s shares were recently suspended and its assets frozen by the Securities and Futures Commission amid accusations of stock manipulation and fraud.

Like Tech Pro and China DYF, we believe that Mega Expo is an obvious fraud, that its equity is **worth HKD 0.00**, and that trading of its stock should be halted to protect future investors and hopefully provide a modicum of recovery for shareholders and creditors.

1. **Fabricated Revenues from Undisclosed Related Parties.** Mega Expo's largest revenue segment is supposedly selling entertainment equipment and related services through two new subsidiaries formed in 2017. Within 21 months, these subsidiaries went from **zero revenues** to supposedly generating HKD 177 million in CY 2018, enough to be Mega Expo's largest segment (38% of total). Yet there is ample reason to question the authenticity of this reported revenue. Neither subsidiary has a working website, functional WeChat account or online presence. We could find no evidence of any operating businesses, but we discovered that one of the main subsidiaries shares a registered email address with an individual who claims to work for the Noah's Ark Group. The absence of any operating footprint and undisclosed related party connections indicate, in our opinion, that Mega Expo is simply fabricating revenues from these two subsidiaries.
2. **Serial Capital Raising for Sham Transactions.** Beginning in 2017, Mega Expo spent an aggregate of HKD 470 million on seven acquisitions in less than two years. These transactions were financed through the capital markets by diluting shareholders and raising debt at punitive interest rates. It is unclear if Mega Expo acquired anything of value. **Goodwill accounted for 71% of the value of the acquired companies.** The proportion of goodwill is so high because most of Mega Expo's acquisition targets were **either empty shells or newly formed entities with no revenues, minimal to no assets, and no track record of operating a business.**
  - a. **Noah's Ark: Shadowy Group Behind the Acquisitions.** Almost all Mega Expo's sham transactions over the last two years involved the acquisition of assets or businesses previously owned by or connected to the Noah's Ark Group, a shadowy syndicate which Chinese law enforcement and media have linked to **prostitution** through its network of affiliated bars, clubs, hotels and KTVs. **We estimate that 95% of Mega Expo's CY 2018 revenues were derived from businesses acquired from or connected to the Noah's Ark Group.** Even Mega Expo's new CEO, a **former member of a prominent Chinese boy band**, was picked from an entity related to the Noah's Ark Group. Not only do we believe that the Noah's Ark Group should be considered an undisclosed related party, but the evidence indicates that this shadowy group is now in de facto control of Mega Expo.



3. **One-Day Old Company acquired at 140x NAV for HKD 52 million.** In 2018, Mega Expo agreed to buy 51% of Shanghai Jiamao Expo ("Shanghai Jiamao") for HKD 52 million **in cash**. SAIC filings show that Jiamao was incorporated **only 1 day before the acquisition**. The target only had HKD 726,000 in net assets and did not even have a working website. In our opinion, this deal exemplifies Mega Expo's pattern of sham transactions. The Company raised money from the capital markets at punitive interest rates only to siphon the proceeds to an HKD 52 million cash acquisition of a 1-day old business with no operating history at 140x NAV.
4. **Shell Game: Three Acquisitions had Zero Assets.** In another glaring example of sham transactions, Mega Expo acquired three companies which had either zero or negative net assets. The most brazen was Mega Expo's

November 2018 acquisition of the Hananhal Group, whose PRC subsidiary had been **previously advertised as an empty shell for sale on Chinese corporate information websites, including Qichacha**. Marketed as a “clean, empty shell,” suitors were invited to inquire. Mega Expo was apparently interested and bought the business for cash. The sellers were undisclosed, but we found connections to the Noah’s Ark Group. We suspect that the only motivation for this transaction was to siphon proceeds from the public company to unjustly enrich hidden beneficiaries.

5. **Sparkle Mass: Millions for an Event Planner with Few Events.** In February 2017, Mega Expo kicked off its buying spree by [paying](#) HKD 40 million in cash for Sparkle Mass, whose operating subsidiaries had been formed only **two months before the deal was announced**. Mega Expo bought Sparkle Mass at 159x price to book. In the two years following the acquisition, Mega Expo claims that the target group generated 27 million in net profits (and an implied HKD 80 million in revenue) which we believe is highly unlikely. According to the target’s own amateurish website, it [organized](#) three events, including a tea pot demonstration attended by 20 people and a party for a company which collapsed after it defrauded Chinese investors in a property scam. The Noah’s Ark Group was clearly behind the acquisition, as the website of Sparkle Mass’s PRC subsidiary states “welcome to Noahs” across its banner.
6. **Cheer-Up: Derelict E-Commerce Site and Questionable Event Promoter Acquired for HKD 299 Million.** In November 2017, Mega Expo [announced](#) the HKD 299 million [purchase](#) of Cheer Sino Group (“[Cheer Sino](#)”) and its PRC subsidiaries. While on paper, this target apparently had an operating business, our research suggests that Mega Expo massively overpaid for assets of questionable value. We suspect yet another sham transaction.
  - a. **Worthless E-Commerce Platform.** Cheer Sino supposedly owned a platform to sell products and services to bars and clubs in China through its subsidiary, Shanghai Bayu E-Commerce (“[Bazayu](#)”). Mega Expo describes the platform as comprehensive, yet the e-commerce website is filled with “error” messages. When we click on the alcohol for sale, the website says that there have been **zero sales for all alcohol products**. Contrary to Mega Expo’s claims, the e-commerce platform appears worthless.
  - b. **Phantom Bar Consulting.** Cheer Sino supposedly derives consulting and membership revenues from a network of bars and clubs in China affiliated with the Noah’s Ark Group. Mega Expo claims that Cheer Sino generated HKD 177 million of revenue in CY 2018. Yet its PRC subsidiaries, NOD (Shanghai) Management Communication and NOD (Shanghai) Management Communication (collectively “[NOD](#)”), do not even have an operating website and until last week, applications to “become a member” on its WeChat account lead to a dead page. The details are even more vague and suspicious. Mega Expo claims that NOD’s event consulting business generated HKD 68 million from 100 bars in 1H FY2019, but we checked the WeChat accounts of 5-6 affiliated NOD bars, which advertised an average of only 1 event per week. We found the budget for numerous such NOD events. Even making generous assumptions, we do not believe it is credible for the Company to be earning anywhere close to HKD 11 million per month “consulting” bars for small parties which, depending on NOD’s take-rate, likely generate only HKD 5,000-10,000 in revenue for NOD per event.
7. **Change of Fortune: Newly Formed Business Acquired at an Estimated 43.4x NAV.** In April 2017, Mega Expo announced plans to acquire 100% equity interest in Fortune Selection Group (“[Fortune Selection](#)”), a collection of trademarks and businesses previously owned by the Noah’s Ark Group. These brands were allegedly valuable because they were licensed to four chains of bars and clubs in China owned by or connected to the Noah’s Ark Group. Yet according to records from China’s [trademark office](#), neither Fortune Selection nor its subsidiaries owned such trademarks at the time of acquisition. Like other sham transactions, the target had minimal revenues (RMB 3.6 million in the previous 5 months), tiny net assets (RMB 2.8 million), a minimal track record of operating a business, and no working website. Suspiciously, we could find no information about the individual who was supposedly the seller, Ms. Wong Man, or how she came into possession of the target group. The purchase price also appeared ludicrous. Mega Expo supposedly acquired Fortune Selection at **43.4x NAV** (excluding unowned intangible assets), and 8.7x revenues (based on pre-acquisition run rate revenues).

- 8. Major Red Flags.** Mega Expo's disclosures and financial reports have many of the same red flags of other Hong Kong stocks like Tech Pro and China DYF which have collapsed or been suspended under accusations of stock manipulation and fraud.
- Negative Operating Cash Flows and Ballooning Receivables.** Despite rising paper revenues, Mega Expo lost HKD 73 million in cashflow from operations in CY 2018. This loss is due in part to the Company's ballooning receivables balance, which from FY 2017 to FY 2018, grew 2730% (compared to revenue growth of 147%).
  - Peak Vision: Same Appraisal Firm as Tech Pro and Sound Global.** Mega Expo retained Peak Vision to serve as an independent appraiser in valuing its major acquisitions. Peak Vision does not have many clients, but its roster includes some of Hong Kong's most notorious frauds. By our estimate, almost 15% of Peak Vision's public company clients have had their shares suspended for fraud. The most notable example is [Tech Pro](#), for which Peak Vision played a critical role in appraising the value of a fraudulent acquisition at RMB 775 million. In reality, Tech Pro's target was worth zero. Peak Vision also worked for [Sound Global](#) (HK: 967), signing off on high valuations for assets which were subsequently written down to zero following Sound Global's collapse.
  - China DYF's Auditor.** In March 2017, HLB Hodgson [resigned](#) as Mega Expo's auditor. It was replaced with HLM CPA, whose only other major public company client is China DYF, a suspected stock manipulation whose shares were [suspended](#) and assets were recently [frozen](#) by Hong Kong regulators.
  - Abnormal Director Turnover.** Companies committing fraud often have high director turnover as they struggle to convince directors to incur the liability of signing off on false financial statements. Since 2014, Mega Expo has had 4 chairman and 4 CEOs. Each year an average of 3-4 directors have resigned.

## VALUATION

On valuation alone, we would expect an 92% downside to Mega Expo's stock price. In a recent acquisition [circular](#), Mega Expo identified several publicly listed companies which it considers peers. Yet even a cursory glance at these self-selected peers shows that Mega Expo's stock is laughably overpriced. Mega Expo is currently trading at 13.3x LTM revenues and 21.8x book value, nowhere close to its supposed peers, who are trading at an average of 0.6x sales and 1.7x book value.

HKD M							LTM
Company Name	Ticker	Market Cap	EV	P/S LTM	P/E LTM	P/B	EV/EBITDA
Pico Far East	752-HK	3,280	2,500	0.7x	12.1x	1.7x	5.6x
Enero Group	EGG-AU	639	442	0.5x	10.2x	1.0x	4.1x
Hakuten	2173-JP	399	454	0.4x	16.4x	4.6x	8.5x
TOW	4767-JP	1,147	932	1.0x	12.3x	1.8x	6.4x
CMO	CMO-TH	100	186	0.3x	7.8x	0.9x	3.0x
Dyandra Media Intl	DYAN-ID	253	311	0.4x	6.0x	0.7x	2.8x
<b>Industry Average</b>		<b>970</b>	<b>804</b>	<b>0.6x</b>	<b>10.8x</b>	<b>1.7x</b>	<b>5.1x</b>
<b>Mega Expo</b>	<b>1360-HK</b>	<b>6,144</b>	<b>6,181</b>	<b>13.3x</b>	<b>N/A</b>	<b>21.8x</b>	<b>N/A</b>

Source: FactSet, Blue Orca Calculation; Market caps as of May 8, 2019

Mega Expo is so overvalued that even if we ignore any evidence of corruption, we would expect an 92% downside to its stock price.

HKD	LTM	HKD	31-Dec-18
Last Traded Price	4.20	Last Traded Price	4.20
Revenue (HKD M)	463	Book Value (HKD M)	281
# of Shares (M)	1,463	# of Shares (M)	1,463
Sales per share	0.32	Book value per share	0.19
Industry Average P/S LTM	0.6x	Industry Average P/B	1.7x
<b>Adjusted Price</b>	<b>0.18</b>	<b>Adjusted Price</b>	<b>0.34</b>
<b>Downside %</b>	<b>-96%</b>	<b>Downside %</b>	<b>-92%</b>

Source: Blue Orca Calculation

In this report, we present overwhelming evidence indicating, in our opinion, that Mega Expo has engaged in HKD 470 million of mostly sham acquisitions over the last two years. Mega Expo paid unreasonably high premiums to purchase companies, most of which were either empty shells or newly formed businesses with insignificant revenues, minimal to no assets, and an undefined or invisible operating footprint. In many cases, these acquired companies have no functioning websites, active WeChat accounts, or online presence.

We also believe that Mega Expo has fabricated its revenues, both from its questionable acquisitions and its newly formed subsidiaries which seemingly generate revenues out of nowhere without any evidence of an operating business.

In our view, Mega Expo has engaged in a stealth reverse merger with a shadowy entertainment group connected to prostitution in China. On this basis alone, we believe that Hong Kong regulators must act to protect investors and prevent undisclosed parties with connections to criminal organizations from taking over a listed Company.

We believe that Mega Expo is more sensibly compared to notorious frauds and stock manipulations like Tech Pro and China DYF, which either collapsed or have been suspended by the Hong Kong regulators.

#### Mega Expo Likely to Follow: Share Price Drops to Zero or Trading Halts

HKD M							LTM
Company Name	Ticker	Market Cap	EV	P/S LTM	P/E LTM	P/B	EV/EBITDA
Tech Pro (suspended)	3823-HK	14,839	14,843	56.4x	N/A	17.4x	N/A
China Ding Yi Feng (suspended)	612-HK	28,568	28,675	780.3x	222.2x	77.5x	154.4x
<b>Mega Expo</b>	<b>1360-HK</b>	<b>6,144</b>	<b>6,181</b>	<b>13.3x</b>	<b>N/A</b>	<b>21.8x</b>	<b>N/A</b>



Source: FactSet, Blue Orca Calculation, Google Finance

Note: 1. Market cap for Tech Pro is as of July 27, 2016, the day before we exposed its fraudulent transactions. Its financials are as of June 30, 2016.

2. Market cap for China DYF is based on its last traded price before it was suspended from trading on March 8, 2019. Its financials are as of December 31, 2018.

Like Tech Pro and China DYF, we believe that Mega Expo is an obvious fraud, that its equity is **worth HKD 0.00** and trading of its stock should be halted to protect future investors and hopefully provide a modicum of recovery for shareholders and creditors.

## FABRICATED REVENUES FROM UNDISCLOSED RELATED PARTIES

Mega Expo's largest revenue segment is selling entertainment equipment and contracting services. This revenue came out of nowhere, driven by the formation of two newly formed PRC subsidiaries: Shenzhen Qianhai Yuanchen Culture Development (“Shenzhen Yuanchen”) and Shanghai Shuomeng Culture Development (“Shanghai Shuomeng”).

Shenzhen Yuanchen was incorporated in April 2017, and Shanghai Shuomeng in November 2017. Within less than 21 months of operation, these subsidiaries went from **zero revenues** to supposedly generating HKD 177 million in revenues in CY 2018. This was enough to be Mega Expo's largest segment, representing 38% of the Company's aggregate reported revenue. Yet there is ample reason to question the authenticity of this reported revenue.

First, neither subsidiary maintains a website nor, that we could find, a WeChat account. We could not find any information online as to what kind of equipment these two companies offer. Without any online presence, we question how such a business could attract customers, grow so fast, or generate so much revenue?

Even the Company's minimal disclosures regarding this business suggest the revenues are fabricated. In its 2019 interim report, Mega Expo mentioned that this new entertainment equipment and contracting business has been “capitalizing on the client network from NOD Union Platform.” NOD Union's client network consists of mostly bars and clubs operated by or connected to the Noah's Ark Group.

NOD Union's website is currently not functioning, but the Wayback Machine preserved an archive of its website from September 2018. Given that Shenzhen Yuanchen and Shanghai Shuomeng supposedly generated hundreds of millions of Hong Kong dollars selling hardware and equipment through NOD Union's platform, we would expect both subsidiaries to be listed prominently in this section. However, neither Shenzhen Yuanchen nor Shanghai Shuomeng were listed among the five businesses mentioned on NOD Union's website as hardware and equipment partners.

### Two Newly Formed Subsidiaries Were Not Listed on NOD Union Website

The screenshot shows the NOD Union website's 'Hardware & Equipment' section. The URL in the browser address bar is <http://www.nodunion.com/ServerList.aspx?type=10003>. The page lists five suppliers:

Company Name	English Name
广州新智舞台灯光设备有限	Guangzhou Changzhi Stage Lighting Equipment Co. Ltd
深圳神雅明珠科技发展有限公司	Shenzhen Shine A Lumos Technology Development Co. Ltd.
广州市明道灯光科技股份有	Guangzhou Mingdao Lighting Technology Co. Ltd
上海雷舞智能系统技术有限	Shanghai LOVDMX System Technology Co. Ltd
深圳市大美光电有限公司	Shenzhen Laswerworld Co. Ltd

Source: <https://web.archive.org/web/20180928183345/http://www.nodunion.com/ServerList.aspx?type=10003>

Furthermore, neither subsidiary is listed on Bazayu, NOD Union's shoddy e-commerce platform. Bazayu supposedly caters to bars and clubs in the NOD Union network and lists 100 items for sale under hardware and equipment section. The website lists the vendor of each item.

If Mega Expo's two new subsidiaries were making hundreds of millions of Hong Kong dollars selling entertainment equipment and services to NOD Union's network, as the Company claims, then we would expect them to be listed as vendors on Bazayu. They are not. Yet four of five NOD Union's hardware and equipment partners were listed on Bazayu.

			
			
Unit Sold: 0 <span style="border: 1px solid red; padding: 2px;">已销售0件</span>	Unit Sold: 0 <span style="border: 1px solid red; padding: 2px;">已销售0件</span>	Unit Sold: 0 <span style="border: 1px solid red; padding: 2px;">已销售0件</span>	Unit Sold: 0 <span style="border: 1px solid red; padding: 2px;">已销售0件</span>
明道GTD-230 I-N BEAM电脑摇头光束灯	诗雅明珠LOMUS-Miami S6 (顶级服务器) 定制产品	雷舞LOVDMX - GW-60-玻璃幕墙灯 (硬灯管) 定制产品	大美光电tarm4高端激光投影设备
<span style="border: 1px solid red; padding: 2px;">广州市明道灯光科技股份有限公司</span>	<span style="border: 1px solid red; padding: 2px;">诗雅明珠</span>	<span style="border: 1px solid red; padding: 2px;">雷舞智能系统技术有限公司</span>	<span style="border: 1px solid red; padding: 2px;">Laserworld大美光电 (亚洲)</span>
Guangzhou Mingdao Lighting Technology Co. Ltd	Shenzhen Shine A Lumos Technology Development Co. Ltd.	Guangzhou Mingdao Lighting Technology Co. Ltd	Shenzhen Laswerworld (Asia)

Source: <http://www.bazayu.com>

Mega Expo claims that its hardware and equipment revenue arose from NOD Union's network of bars and clubs, but its two subsidiaries are not listed as partners under either the hardware and equipment section of NOD Union's website or its related e-commerce platform. We therefore think it is reasonable to question the authenticity of revenue when the supposed source of the revenue does not mention either subsidiary among its list of preferred vendors.

Second, there is evidence that this questionable revenue arises from the Noah's Ark Group, an undisclosed related party. Chinese corporate database Qichacha records indicate that the registered email account of Shanghai Shuomeng is [472786472@qq.com](mailto:472786472@qq.com).

**上海硕梦文化发展有限公司** 👁 监控 📄 递名片 📝 笔记

存续 Shanghai Shuomeng Culture Development

电话: 13916133303 Email: [472786472@qq.com](mailto:472786472@qq.com) 官网: 暂无

邮箱: [472786472@qq.com](mailto:472786472@qq.com) 地址: 上海市崇明区横沙乡富民支路58号D2-1193室(上海横泰经济开发区) 附近公司

Source: [https://www.qichacha.com/firm\\_7b2cca7052c412b258b12264a3f035a6.html](https://www.qichacha.com/firm_7b2cca7052c412b258b12264a3f035a6.html)

When we searched this account on QQ, the owner states in her personal profile that she works for "Noahs," an entity under the Noah's Ark Group.

QQ: 472786472

昵称 [Redacted]

性别 [Redacted]

年龄 [Redacted]

生日 [Redacted]

星座 [Redacted]

职业 其他职业

公司 诺莱仕 Company: Noahs

学校 [Redacted]

所在地 [Redacted]

故乡 [Redacted]

精选照片

TA还未开通任何特权服务

Source: QQ

Put simply, Mega Expo's largest revenue segment was supposedly generated out of nothing by two newly formed subsidiaries with no website, functional WeChat account or online presence. The Company claims this revenue was driven by selling services through a network of bars and clubs, yet this network's website never mentions the two Mega Expo entities. We could find no evidence of any operating business, but we did find that the main subsidiary shares a registered email address with an individual who claims to work for an undisclosed related party, the Noah's Ark Group. We believe, based on this evidence, that such reported revenue from Mega Expo's largest segment is likely fabricated.



## SERIAL CAPITAL RAISING FOR SHAM TRANSACTIONS

Starting in 2017, Mega Expo spent an aggregate of HKD 470 million on seven acquisitions in less than two years. With its core exhibition business unprofitable and shrinking, Mega Expo financed this acquisition spree through the capital markets by issuing equity and convertible bonds at a [massive discount](#) to its share price, and issuing corporate bonds at interest rates near or above 10%.

### Dilutive Equity Issuances and High Interest Corporate Bonds

Date	Event	# of Shares Issued in millions	Placing/ Conversion Price (HKD)	Proceeds HKD millions	# of Shares in millions	Cumulative % Dilution
30-Jun-2016	Outstanding shares				1,200	
23-Dec-2016	New shares issuance	150.8	0.63	92	1,351	13%
27-Jul-2017	Conversion of convertible bonds - Fortune Selection	26.1	0.92	24	1,377	15%
8-Mar-2018	New shares issuance	68.6	1.50	100	1,446	20%
6-Jun-2018	Conversion of convertible bonds - Fortune Selection	8.7	0.92	8	1,454	21%
2-May-2019	Conversion of convertible bonds - Fortune Selection	8.7	0.92	8	1,463	22%
<b>subtotal</b>		<b>262.9</b>		<b>233</b>		
Convertible bonds/notes - agreed to issue						
	Fortune Selection Acquisition	8.7	0.92	8	1,472	23%
	Cheer Sino Acquisition	91.8	1.83	168	1,563	30%
<b>subtotal</b>		<b>100.5</b>		<b>176</b>		

Date	Event	Face Value (HKD M)	Duration	Effective Interest %
Jun 2018	New Corporate Bond	3	4 years	10.21%
Aug 2018	New Corporate Bond	1	4 years	10.46%
Aug 2018	New Corporate Bond	2	3 years	9.13%
Sept 2018	New Corporate Bond	2	2 years	8.18%
Nov 2018	New Corporate Bond	300	2 years	10.45%
<b>Total Issuance of Corporate Bond/ Weighted Average</b>		<b>308</b>		<b>10.42%</b>
<b>Total</b>		<b>717</b>		

Source: Company Public Filings

It is unclear if Mega Expo acquired anything of value. **Goodwill accounted for 71% of the value of the acquired companies.**

### 71% of Consideration Went into Goodwill

HKD'000	Sparkle Mass	Fortune Selection	i-Lend Finance	Cheer Sino	CIS Industrial	Hananhal Group	Shanghai Jiamao	Total
Total consideration paid and payable	40,000	81,430	835	298,538	330	100	48,854	470,087
Goodwill	35,998	46,004	800	208,180	334	100	40,007	331,423
<b>Goodwill as a % of total consideration</b>	<b>90%</b>	<b>56%</b>	<b>96%</b>	<b>70%</b>	<b>101%</b>	<b>100%</b>	<b>82%</b>	<b>71%</b>

Source: Company Public Filings

The proportion of goodwill is so high because most of Mega Expo's acquisition targets were either empty shells or **newly formed entities with no revenues, minimal to no assets, and no track record of operating a business.**

We will discuss each acquisition in turn, but a few examples are notable. Mega Expo agreed to pay HKD 52 million in cash to acquire a business which was just one day old<sup>1</sup> and acquired two other entities within 100 days of their incorporation.<sup>2</sup> **Overall, the acquired operating subsidiaries had only existed for an average of 373 days before being acquired by Mega Expo.**

<sup>1</sup> Mega Expo stated the purchase price of Shanghai Jiamao was HKD 52 million in its FY 2019 interim report but recorded the fair value of the consideration to be HKD 49 million. As of December 31, 2018, it paid HKD 39 million and recognized the fair value of the contingent consideration payables of HKD 10 million.

<sup>2</sup> Two Sparkle Mass PRC subsidiaries (53 and 42 days), Shanghai Jiamao Expo (1 day).

	Date of Sale and Purchase Agreement	Incorporation Date	Fair Value of Consideration (HKD M)	Net Asset Value (HKD M)	in existence before being acquired
<b>Sparkle Mass</b>			<b>40.0</b>	<b>0.3</b>	
Shanghai Lin Yun Enterprise Management Consulting	10-Feb-2017	19-Dec-2016			53
Shanghai Lin Yun Exhibition Services	10-Feb-2017	30-Dec-2016			42
Average					48
<b>Fortune Selection</b>			<b>81.4</b>	<b>3.2</b>	
Shanghai Phebe Food & Beverage Management	7-Apr-2017	8-Sep-2016			211
Phebe (Shanghai) Brand Management	7-Apr-2017	24-Oct-2016			165
Average					188
<b>I-Lend Finance Limited</b>	18-Sep-2017	28-Sep-2016	<b>0.8</b>	<b>0.0</b>	355
<b>Cheer Sino</b>			<b>298.5</b>	<b>58.6</b>	
Nod (Shanghai) Management Communication	24-Nov-2017	25-Dec-2014			1,065
Shanghai Bayu E-commerce	24-Nov-2017	22-Jun-2016			520
Nod (Shanghai) Culture Development	24-Nov-2017	19-Aug-2016			462
Average					682
<b>CIS Industrial Group</b>			<b>0.3</b>	<b>(0.0)</b>	
Furuida Finance Leasing (Shenzhen)	25-Jun-2018	8-Feb-2018			137
<b>Hananhal Group</b>			<b>0.1</b>	<b>0.0</b>	
Shanghai Shouxin Factoring Co	1-Nov-2018	9-Nov-2015			1,088
<b>Shanghai Jiamao Expo Co., Ltd (51%)</b>	30-Nov-2018	29-Nov-2018	<b>48.9</b>	<b>0.4</b>	1
<b>Total/ Average number of days in existence before being acquired</b>			<b>470.1</b>	<b>62.4</b>	<b>373</b>

Source: Company Public Filings

Diluting shareholders and raising debt at punitive 10% interest rates only to spend the money on recently incorporated businesses with little to no revenues, few assets and minimal operating history is, in our opinion, compelling evidence that Mega Expo was simply conjuring sham transactions to siphon money away from the capital markets to hidden beneficiaries.

In effect, we believe that Mega Expo has executed a stealth reverse merger. Mega Expo's previous business has shrunk if not disappeared altogether. Its auditor resigned and its management and board of directors turned over.

Whereas Mega Expo's original event planning business used to account for 88% of revenues, in CY 2018 such business had shrunk if not disappeared altogether. Now Mega Expo's revenues are generated from questionable acquisitions and newly formed subsidiaries acquired from or connected to the Noah's Ark Group.

### 95% CY 2018 Revenues Related to Noah's Ark Group

HKD'000	CY 2018	%	Link to Noah's Ark Group
<b>Mega Expo business</b>	<b>24,458</b>	<b>5%</b>	
Organization of exhibitions	19,742	4%	
Financing	4,716	1%	
<b>Acquired business from Noah's Ark</b>	<b>261,428</b>	<b>56%</b>	
Sparkle Mass: Organization of exhibitions	49,201	11%	Website says "Welcome to Noahs"; Organize events for Noah's Ark related entities; PRC subsidiary's registered email shares the same phone number with Noah's Ark related entities
Fortune Selection: Brand management	35,417	8%	PRC subsidiaries share the same phone number with Noah's Ark related entities; All bar brands come from and are licensed to Noah's Ark related entities
Cheer Sino: Promotion and consulting	176,810	38%	Management overlap with Noah's Ark related entities; Provide services to Noah's Ark related entities
Hananhal: Financing		<1%	PRC Subsidiary purchased from Noah's Ark related individuals; PRC subsidiary shares the same phone number with Noah's Ark related entities
<b>New business related to Noah's Ark</b>	<b>176,884</b>	<b>38%</b>	
Contracting & entertainment equipment	176,884	38%	Shanghai Shuomeng's registered email belongs to a Noah's Ark employee
Total	462,770	100%	
<b>Revenue related to Noah's Ark</b>	<b>438,312</b>	<b>95%</b>	

Source: Company Public Filings, Blue Orca Calculations

Note: Calculated Sparkle Mass' revenue by dividing its profit guarantee by exhibition segment's profit margin with 20% estimated tax rate.

Mega Expo has tried to justify such sham acquisitions by claiming that certain acquired entities hit profit guarantees or generated impressive revenues post-acquisition. Yet we question such reported financial performance, given that in many cases we can find little evidence that many of the acquired entities even operate a business, apart from an ill-defined and opaque relationship with a network of bars and clubs tied to the Noah's Ark Group.

#### Most Acquired Businesses & Newly Formed Subsidiaries Have NO Online Presence

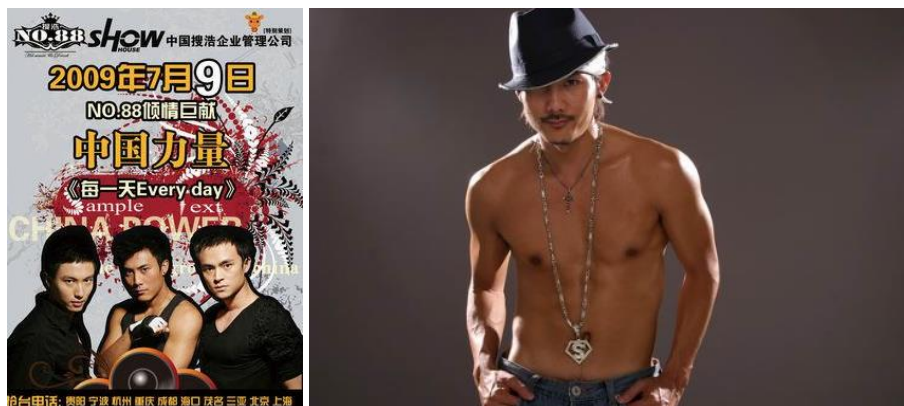
Acquisition/Subsidiary	PRC Subsidiary	Website	WeChat Account
Cheer Sino	NOD (Shanghai) Management Communication	Not working	Broken links
Cheer Sino	NOD (Shanghai) Culture Development	No website	No WeChat
Cheer Sino	Shanghai Bayu E-commerce	Not working	Last update in June 2017
Fortune Selection	Shanghai Phebe Food & Beverage Management	No website	No WeChat
Fortune Selection	Phebe (Shanghai) Brand Management	Not working	Became active late April
Sparkle Mass	Shanghai Lin Yun Enterprise Management Consulting	No website	No WeChat
Sparkle Mass	Shanghai Lin Yun Exhibition Service	Poorly Designed	Poorly Designed
CIS Industrial	Furuida Finance Leasing (Shenzhen)	No website	No WeChat
Hananhal Group	Shanghai Shouxin	No website	No WeChat
Shanghai Jiamao	Shanghai Jiamao	No website	No WeChat
Newly formed Subsidiary	Shenzhen Qianhai Yuanchen Culture Development	No website	No WeChat
Newly formed Subsidiary	Shanghai Shuomeng Culture Development	No website	No WeChat

Source: Company Public Filings, WeChat, Blue Orca

#### 1. Noah's Ark: Shadowy Group Behind the Acquisitions.

Mega Expo has gone to great length to conceal the involvement of Noah's Ark Group from investors, which was never mentioned (to our knowledge) in the Company's public filings until two weeks ago.<sup>3</sup> Not only do we believe that the Noah's Ark Group should be considered an undisclosed related party, we suspect that this shadowy entertainment syndicate is behind many of the sham or questionable transactions at the center of Mega Expo's fraud.

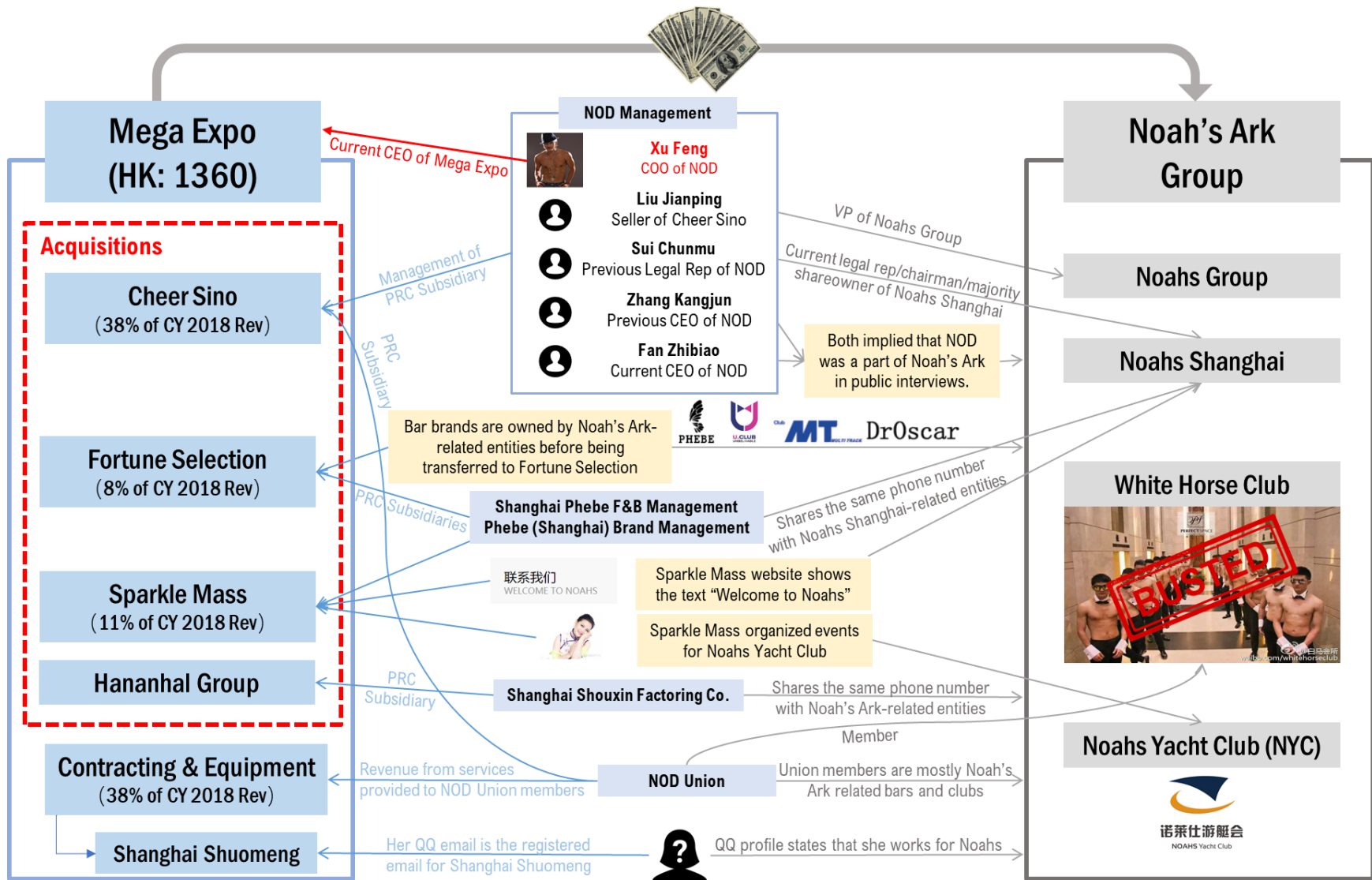
Although we will discuss each specific connection in turn, on the following page we have included a chart showing the overwhelming number of connections between Mega Expo, its acquisitions and the Noah's Ark Group. **We estimate that 95% of Mega Expo's CY 2018 revenues were derived from businesses acquired from or connected to the Noah's Ark Group.** Even Mega Expo's [new CEO](#), a former member of a prominent Chinese boy band, was picked from an entity related to the Noah's Ark Group.



Mr. Xu Feng (middle) was shown in the poster to be performing as China Power

Source: [Baidu Image](#), [http://blog.sina.com.cn/s/blog\\_48f490f701000bgw.html](http://blog.sina.com.cn/s/blog_48f490f701000bgw.html)

<sup>3</sup> On April 25, 2019, the Company [disclosed](#) that Noahs Global Group owns more than 5% of its shares.



Not much is known about the Noah's Ark Group, how it operates or who controls it. Supposedly an entertainment group with interests in bars, clubs, hotels and KTVs in China, the Noah's Ark Group has been linked by Chinese media and law enforcement to prostitution.

For example, the Noah's Ark Group recently made headlines in China when one of its private clubs in Shanghai – the White Horse Club, also known as Perfect Space - was shut down by the police after news broke out online that one of its male “models” received 28 luxurious gifts from his female patron on his 28<sup>th</sup> birthday, including a gold cup and RMB 280,000 yuan (USD 41,589) in cash.

Although its Weibo posts were deleted, Chinese netizens and media preserved images of “models” at the White Horse Club. We are no experts in male prostitution, but if it looks like a duck and quacks like a duck, it is probably a duck.

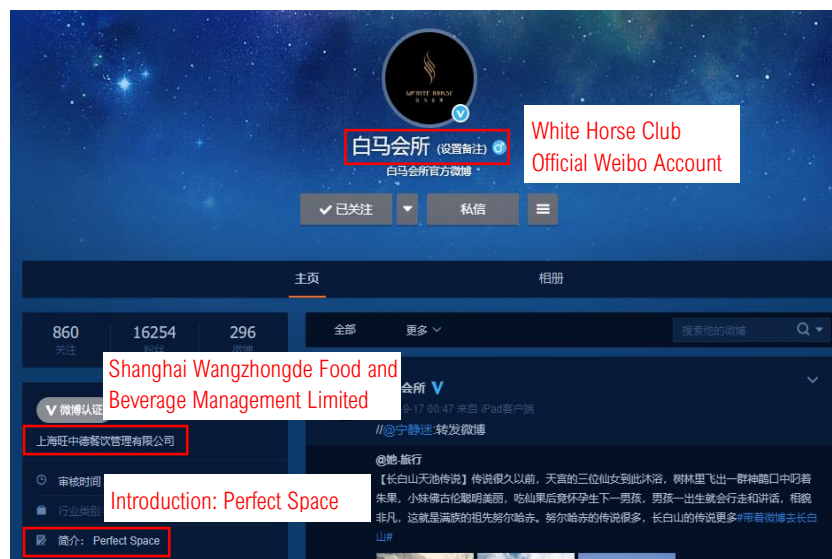
#### Other White Horse Club Male “Models”



Source: <https://zhuankan.zhihu.com/p/55810240>

Various sources linked White Horse Club, or Perfect Space, to the Noah's Ark Group. First, an ex-employee of the White Horse Club gave [an interview](#) to Chinese media stating that the club belonged to a Shanghai entity called Noahs, which was part of the Noah's Ark Group.

Next, the White Horse Club's official Weibo account shows that the club is operated by Shanghai Wangzhongde Food and Beverage Management Limited (“Wangzhongde”). According to [Qichacha](#), Wangzhongde has applied for multiple trademarks including: “WHITE HORSE”, “PERFECT SPACE”, and “白马会所.”



Source: <https://www.weibo.com/whitehorseclub>

According to Qichacha, Wangzhongde's most recent registered email address [823394281@qq.com](mailto:823394281@qq.com) was shared by multiple Noah's Ark entities, including Shanghai Noahs Economic Development Group Co. Ltd and its subsidiaries.

**上海旺中德餐饮管理有限公司** Wangzhongde (operator of the White Horse Club)

法定代表人: 沈健 注册资本: 20万元人民币 成立时间: 2012-10-24

邮箱: [823394281@qq.com](mailto:823394281@qq.com) 电话: 021-62187999 [更多号码](#)

地址: 上海市静安区石门一路211号23楼

**上海诺莱仕经济发展集团有限公司** Shanghai Noahs Economic Development Group (Noah's Ark entity in Shanghai)

法定代表人: 袁闯 注册资本: 3000万元人民币 成立时间: 2015-10-01

邮箱: [823394281@qq.com](mailto:823394281@qq.com) 电话: 13813985934 [更多号码](#)

地址: 上海市静安区北京西路1399号5楼C座

**上海玛蒂波餐饮管理有限公司** Shanghai Madibo Food and Beverage Management (Listed as Noahs' subsidiary on Noahs' official website)

法定代表人: 薛桂英 注册资本: 30万元人民币 成立时间: 2009-07-08

邮箱: [823394281@qq.com](mailto:823394281@qq.com) 电话: 021-52042001

地址: 宝庆路2号三层

**上海诺莱希装饰设计有限公司** Shanghai Nuolaixi Interior Design (Listed as Noahs' subsidiary on Noahs' official website)

法定代表人: 方群 注册资本: 100万元人民币 成立时间: 2011-09-27

邮箱: [823394281@qq.com](mailto:823394281@qq.com) 电话: 021-60408260 [更多号码](#)

地址: 上海市静安区北京西路1399号19楼A2、A3室

**上海菲逊菲苾餐饮管理有限公司** Shanghai Feixun Phebe Food and Beverage Management (Operates a Phebe bar in Shanghai)

法定代表人: 徐洪武 注册资本: 30万元人民币 成立时间: 2010-09-25

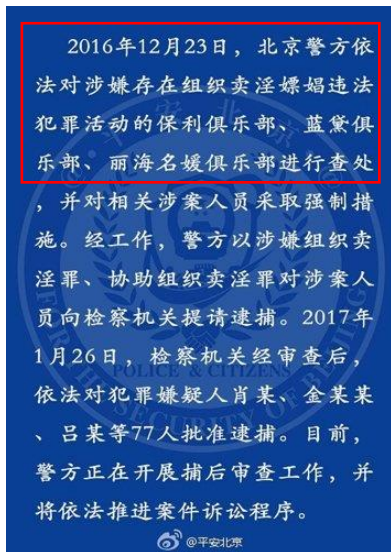
邮箱: [823394281@qq.com](mailto:823394281@qq.com) 电话: 021-65559998 [更多号码](#)

地址: 上海市徐汇区衡山路10号甲一楼

Source: <https://www.qichacha.com/>

Entities which share the same registered email address or phone number typically share overlapping control or common ownership.

This is not the first time that Noah’s Ark club was shut down for suspected involvement in prostitution by the Chinese police. In 2016, Beijing Police arrested 77 people during a nightclub prostitution raid. One of the clubs raided was the Landai Club.



On December 23, 2016, police in Beijing have investigated Baoli Club, Landai Club and Lihai Minyuan Club suspected of organizing illegal activities of prostitution.

Source: Beijing Police Weibo Account

The Landai Club was prominently featured on the main page of Noah’s Ark Group’s official website as one of its main clubs.



Source: <https://web.archive.org/web/20180820085850/http://www.nyfzjt.com/>

We found multiple criminal cases involving prostitution at clubs, hotels, or bars in China connected to the Noah’s Ark Group, including a case in which an individual was charged with operating a brothel out of a Noah’s Ark Hotel.



**中国裁判文书网**  
China Judgements Online

**贺增光犯组织卖淫罪、赵某某犯协助组织卖淫罪一审刑事判决书**

Criminal Judgment of the First Instance of He Zengguang's Crime of Organizing Prostitution and Zhao Mou's Criminal Assistance in Organizing Prostitution

三门峡市湖滨区人民法院  
刑事判决书  
(2015)湖刑初字第22号

三门峡市湖滨区人民检察院指控：2013年初至2013年10月，被告人贺增光经营诺亚方舟商务酒店期间，为谋取非法利益，伙同史某某（另案处理）组织卖淫人员在诺亚方舟酒店三楼从事卖淫活动，并与史某某约定所得利润

... from the beginning of 2013 to October 2013, as the manager of Noah's Ark Hotel, the defendant He Zengguang organized prostitutes to engage in prostitution on the third floor of Noah's Ark Hotel...

值班经理，赵某某、马某（均已判刑）作为诺亚方舟酒店主管，在对诺亚方舟酒店进行管理的过程中参与对卖淫人员的管理、向顾客推荐卖淫服务、处理对卖淫人员的投诉；张某某甲、张某某乙、程某某（均已判刑）作为史某某雇佣的人员，在诺亚方舟酒店负责管理卖淫小姐、接待嫖客、具体安排卖淫活动；张某某丁（已判刑）作为诺亚方舟酒店三楼吧台工作人员，负责在电脑上录入卖淫单据、登记核对酒店服务员推荐卖淫服务次数。2013年10月22日23时，公安人员在该酒店当场查获王某等七名卖淫人员及五名嫖客。

Source: <http://wenshu.court.gov.cn/content/content?DocID=ae45b65b-b376-4ab0-bb93-cab5456be62d>

There was even one homicide case after a fight arose from a dispute involving several “male models” of a club connected to the Noah’s Ark Group.

Date	Charges	Links to Noah's Ark Group	Link
12/27/2010	Organized Prostitution	The convict was charged for organizing prostitution inside a Noah's Ark club	<a href="#">View Verdict</a>
1/15/2015	Organized Prostitution	The operator of a Noah's Ark hotel was charged for organizing prostitution at the hotel	<a href="#">View Verdict</a>
10/28/2016	Hosting Prostitution	The operators of a Noah's Ark club were charged for hosting prostitution	<a href="#">View Verdict</a>
11/20/2018	Organizing Obscene Performance	The manager and the operator of a Phebe bar were charged for organizing obscene performance	<a href="#">View Verdict</a>
12/6/2017	Homicide and Affray	An affray arising out of a dispute involving several male “models” of a Noah's Ark club led to the death of a person	<a href="#">View Verdict</a>

Ultimately, we believe that market participants and regulators should find it deeply troubling that an entity with connections to criminal enterprises such as prostitution appears to be so thoroughly entrenched in a public company. We believe that persons or entities connected to the Noah’s Ark Group have taken over Mega Expo and looted the public company through a series of sham transactions, each of which we will now discuss in turn.



**JIAMAO: ONE-DAY OLD COMPANY ACQUIRED FOR HKD 52 MILLION AT 140X NAV**

On November 30, 2018, Mega Expo agreed to buy 51% of Shanghai Jiamao Expo (“Shanghai Jiamao”) for HKD 52 million **in cash**.

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 上海伽貿展覽有限公司 (transliterated as “Shanghai Jiamao Expo Co., Ltd” or “Shanghai Jiamao”), at a cash consideration of approximately RMB45.65 million, equivalent to 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.

Source: [FY2019 Interim Report](#)


By its own admission, Mega Expo agreed to pay HKD 52 million for an empty shell. Per the Company’s disclosures, Shanghai Jiamao only had HKD 726,000 of net assets at the date of acquisition. As Mega Expo acquired only 51% equity interest of the target’s equity, we calculate that the Company acquired a controlling interest in Shanghai Jiamao at 140x NAV.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	CIS Industrial Group HK\$'000	Hananhal Group HK\$'000	Shanghai Jiamao HK\$'000	Total HK\$'000
<b>Non-current asset</b>				
Property, plant and equipment	-	-	171	171
	-	-	171	171
<b>Current asset</b>				
Cash and cash equivalents	-	-	1,139	1,139
	-	-	1,139	1,139
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>1,310</b>	<b>1,310</b>
<b>Current liability</b>				
Other payables	(4)	-	(584)	(588)
<b>Total liability</b>	<b>(4)</b>	<b>-</b>	<b>(584)</b>	<b>(588)</b>
<b>Net (liabilities recognised)/ assets acquired</b>	<b>(4)</b>	<b>-</b>	<b>726</b>	<b>722</b>

Source: [FY2019 Interim Report](#)

Even more ridiculous, online SAIC filings show that Shanghai Jiamao was formed **only one day before the acquisition agreement!**



上海伽貿展覽有限公司

存续 (在善、开业、在册)

Shanghai Jiamao

统一社会信用代码: 91310114MA1GW2775J

法定代表人: 王洪刚

登记机关: 上海市市场监督管理局

成立日期: 2018年11月29日

Date of incorporation: Nov. 29, 2018

发送报告

信息分享

信息打印

Source: <http://www.gsxt.gov.cn>

Interestingly, a week before the acquisition agreement, Mega Expo established a wholly-owned Chinese subsidiary, Shanghai Mega Expo, which engages in the **exact same** exhibition organizing business as the target.



Source: <http://www.gsxt.gov.cn>

### News Article about Shanghai Mega Expo

中新网上海新闻1月18日电(李佳佳)作为Mega Expo Holdings Limited旗下会展行业投资并购平台米伽香港国际有限公司在大陆设立的第一家全资子公司,上海米伽会展有限公司18日在黄浦江畔召开“聚合共赢·翼展未来——米伽会展中国区品牌发布会”,正式启用“米伽慧展”全新升级的品牌形象,并同时宣布米伽会展中国区业务进入战略发展新阶段。

Mega Expo (Hong Kong) International Co., Ltd established its first wholly-owned subsidiary in China, Shanghai Mega Expo Co., Ltd.

Source: <https://t.cj.sina.com.cn/articles/view/1784473157/6a5ce645020010u8y?from=tech>

If Mega Expo successfully formed a subsidiary to engage in the same business, what is the possible justification for paying HKD 52 million in cash for a 51% interest in a 1-day-old-business such as Shanghai Jiamao with no operating history and almost no assets?

Put simply, Mega Expo raised cash from the capital markets (either through dilutive equity issuances or 10% interest rate corporate bonds) to buy a one-day old business at 140x reported NAV. At the time of the acquisition, the target had no revenues, no profits, no operating history, almost no assets, and no online presence to suggest it even operated an event planning business. In our opinion, this sham transaction appears to be a brazen theft of public company money.

## SHELL GAME: THREE ACQUISITIONS HAD ZERO (OR CLOSE) ASSETS

In another glaring example of sham transactions, Mega Expo acquired three companies with either zero or negative net assets.

In November 2018, Mega Expo acquired the Hananhal Group for HKD 100,000 in cash, whose only PRC subsidiary was Shanghai Shouxin Factoring Co. Ltd. (“Shouxin”). Notably, the acquired Shouxin entity had previously been **marketed for sale online as an empty shell** on Chinese corporate information websites, including Qichacha.com (企查查), a popular enterprise information search platform. The sellers placed an advertisement that the Shouxin entity was a “clean” shell company. Any buyer who could “afford it” was invited to call the number. Company records suggest that Noah’s Ark Group took over this entity and sold it to Mega Expo.

**上海守信商业保理有限公司** Shanghai Shouxin Factoring Co. Ltd

存续

电话: 021-62791112 更多号码

Address: Unit 368, No. 211 - 302, Fute North Road, China (Shanghai) Free Trade Pilot Zone

邮箱: 暂无

地址: 中国(上海)自由贸易试验区富特北路211号302部位368室 附近公司

简介: 这家公司想转掉, 空壳的, 非常干净, 有实力联系, 中介勿扰, 131 207 [REDACTED]

Description: want to sell this company. It's a shell company, very clean. If you can afford, please contact me. No agents. 131 207 [REDACTED]

Source: [https://www.qichacha.com/firm\\_d526db35c4be66308de24263821ae47f.html](https://www.qichacha.com/firm_d526db35c4be66308de24263821ae47f.html)

Note: The description has been removed but the advertisement could be found on [other websites](#).

Evidence suggests that the Noah’s Ark Group was behind this transaction. Shouxin, the acquisition target, used 021-62791112 as its registered phone number. This same number is also used by multiple Noah’s Ark Group related entities.<sup>4</sup>

### Same Phone Number with Noah’s Ark Group related Entities

**诺亚新世纪(上海)商业管理有限公司** Noah New Century (Shanghai) Business Management

法定代表人: 孙海产 注册资本: 1000万元人民币 成立时间: 2018-08-23

邮箱: - 电话: 021-62791112

地址: 上海市宝山区德都路266号E-30室

**上海柏逊柏芭企业管理咨询有限公司** Shanghai Baixun Baibi Enterprise Consulting

法定代表人: 于永池 注册资本: 1000万元人民币 成立时间: 2016-09-19

邮箱: - 电话: 021-62791112 更多号码

地址: 上海市浦东新区沈梅路99弄1-9号1幢4楼

Source: <https://www.qichacha.com/>

Another Shanghai entity, Rongcheng Financial Leasing (Shanghai) (“Rongcheng”), also uses that same phone number in its registration filings. Rongcheng also operates out of the same address as Shouxin. Common phone numbers and addresses indicate common ownership or control, so we think Rongcheng is also connected or controlled by the Noah’s Ark Group. Rongcheng’s legal representative and supervisor are Liu Mei and Xu Heyi, both of whom also work(ed) at Shouxin before Mega Expo acquired it in November 2018.

<sup>4</sup> Noah New Century (Shanghai) Business Management: 46.1% owned by Noahs Ark Holding Limited, whose sole director, Lee Ting, is the legal representative of Noahs (Shanghai) Cultural Development. Shanghai Baixun Baibi Enterprise Consulting: wholly-owned by Shanghai Feixun Phebe Food and Beverage Management, which [operates](#) a Phebe bar in Shanghai. “Phebe” is a bar brand established by the Noah’s Ark Group and transferred to Fortune Selection. However, we believe the Noah’s Ark group essentially controls the Phebe brand and operates the Phebe bars.

### Management at Noah's Ark Group Related Entity Also Work(ed) at Shouxin

<b>融乘融资租赁(上海)有限公司</b>		我要认证	Rongcheng Financial Leasing (Shanghai) Co. Ltd
存续	Phone: 021-62791112	Address: Unit 368, No. 211 - 302, Fute North Road, China (Shanghai) Free Trade Pilot Zone	
电话: 021-62791112	更多号码	地址: 中国(上海)自由贸易试验区富特北路211号302部位368室	
邮箱: 暂无			
变更记录			
变更日期	变更项目	变更前	变更后
2018-01-05	法定代表人变更 带有*标记的为法定代表人	任永东 Legal Rep Change Supervisor (on record)	刘美* Liu Mei
2018-01-05	监事备案	张俊霞【退出】	许合义【新增】 Xu, Heyi (New)

Source: <https://www.qichacha.com/>

According to the records on Qichacha, Liu Mei was Shouxin's legal representative at the time of the acquisition. We think this shows that the Noah's Ark Group controlled Shouxin and sold the empty shell to Mega Expo.

### Shouxin's SAIC Information

<b>上海守信商业保理有限公司</b>		Shanghai Shouxin	
变更日期	变更项目	变更前	变更后
2019-01-17	境外股东发起人的境内 带有*标记的为法定代表人 Legal Rep Change	上海守信商业保理有限公司【退出】	邓仲麟*【新增】
2019-01-17	法定代表人变更 带有*标记的为法定代表人	刘美 Liu Mei	邓仲麟* Deng Zhonglin (Mega Expo Chairman)
主要人员 2 Main Management			
序号	姓名	职务	
1	许 许合义 Xu Heyi 他关联 3 家公司 >	监事 Supervisor	
2	邓 邓仲麟 Deng Zhonglin (Mega Expo Chairman) 他关联 1 家公司 >	执行董事 Executive Director	

Source: <https://www.qichacha.com/>

Mega Expo spent money acquiring a shell company with zero assets from Noah's Ark Group, an undisclosed related party. Yet this was not the only empty shell acquired by the Company.

In July 2018, Mega Expo acquired the CIS Industrial Group for HKD 330,000 in **cash**. The target's lone operating subsidiary was Furuida Finance Leasing (Shenzhen) Co. Ltd. ("Furuida"), which had been incorporated in February 2018, just **five months before the announcement of the acquisition**. At the time of acquisition, Furuida had zero assets and payables of HKD 4,000, giving it a negative net asset value of HKD 4,000.

	CIS Industrial Group HK\$'000	Hananhal Group HK\$'000		CIS Industrial Group HK\$'000	Hananhal Group HK\$'000
<b>Non-current asset</b>					
Property, plant and equipment	-	-			
	-	-			
<b>Current asset</b>			<b>Current liability</b>		
Cash and cash equivalents	-	-	Other payables	(4)	-
	-	-	<b>Total liability</b>	(4)	-
	-	-	<b>Net (liabilities recognised)/ assets acquired</b>	(4)	-
<b>Total assets</b>	-	-			

Source: Mega Expo FY 2019 Interim Report

On October 24, 2017, Mega Expo acquired i-Lend Finance Limited, another virtually empty shell,<sup>5</sup> for cash consideration of HKD 835,000.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Fortune Selection Group HK\$'000	i-Lend Finance Limited HK\$'000
<b>Non-current assets</b>		
Property, plant and equipment	80	-
Intangible assets	27,324	-
Deposits	122	-
Deferred tax assets	-	-
	27,526	-
<b>Current assets</b>		
Trade receivables	696	-
Prepayments, deposit and other receivables	866	3
Cash and cash equivalents	13,183	32
	14,745	35
<b>Total assets</b>	42,271	35

Source: Mega Expo FY 2018 Annual Report

In total, Mega Expo spent HKD 1.3 million on acquiring three virtually empty shells with minimal assets. The sellers were undisclosed, but we suspect the only motivation for this transaction was to siphon proceeds from the public company to unjustly enrich hidden beneficiaries.

<sup>5</sup> It appears that I-Lend may have possessed a Hong Kong money lending license at the time of acquisition. Yet we are not certain, because Mega Expo did not recognize any intangible assets under their purchase price accounting.

## SPARKLE MASS: MILLIONS FOR AN EVENT PLANNER WITH FEW EVENTS

Paying a high premium for newly incorporated companies seems to be a common practice for Mega Expo. In another instance, Mega Expo paid HKD 40 million in cash for a two-month old exhibition and event planning company, buying the business at a 159x price-to-book ratio.<sup>6</sup>

On February 10, 2017, Mega Expo announced its plan to acquire 100% equity interest in Sparkle Mass Group (“Sparkle Mass”), which had two PRC subsidiaries engaged in consulting and exhibition services. Notably, the two PRC companies were only incorporated on December 19, 2016, and December 30, 2016, respectively, **less than two months** before the announcement of the acquisition.

### PRC Subsidiary I

Shanghai Lin Yun Enterprise Management Consulting Co., Ltd.\* 上海臨蘊企業管理諮詢有限公司 is a company established in the PRC on 19 December 2016 and an indirect wholly-owned subsidiary of the Target Company. It is principally engaged in management consulting, business information consulting, conference services, ceremonial services, exhibition services, marketing planning, corporate image planning and brand management consulting.

### PRC Subsidiary II

Shanghai Lin Yun Exhibition Services Limited Liability Company\* 上海臨蘊會展服務有限公司, a company established in the PRC on 30 December 2016 and an indirect wholly-owned subsidiary of the Target Company. It is principally engaged in conference services, exhibition services, ceremonial services, marketing planning, corporate image planning, management consulting, business information consulting and brand consulting and management.

Source: [Mega Expo Announcement](#)

At the time of the acquisition, Sparkle Mass had not generated any revenue, and had only HKD 252,000 in reported net assets.

Despite recent incorporation, no revenues, tiny assets and no discernable operating history, Mega Expo bought Sparkle Mass for HKD 40 million **in cash** at a 159x price-to-book ratio. Mega Expo recognized HKD 36 million of goodwill, which made up 90% of the purchase price.

Goodwill arising from acquisition	
	HK\$'000
Consideration transferred	40,000
Less: Fair value of financial asset from Profit Guarantee (Note 23)	(3,750)
Less: Net assets acquired	(252)
Goodwill arising from the acquisition (Note 18)	35,998

Source: [Company Public Filings](#)

On this basis alone, we think it would be fair for investors to suspect that insiders are using sham transactions to simply loot the public company.

But here we think that the deception went a step further. Mega Expo noted that this acquisition carried a profit guarantee: Sparkle Mass had to generate at least **HKD 13 million in net profit** each year after the acquisition as a condition of the deal. This profit mark would seem unattainable, given that Sparkle Mass was a newly formed business with almost no assets and no revenues.

<sup>6</sup> Sparkle Mass has two PRC subsidiaries, but Mega Expo listed Shanghai Lin Yun Enterprise Management Consulting as an investment holding entity in its FY 2018 annual report.

**Financial Information of the Target Group**

The financial information of the Target Group as extracted from its unaudited management account is summarised as follows:

	<b>For the period from 25 October 2016 to 31 December 2016 RMB (unaudited)</b>
Revenue	–
Net loss before tax for the period	(240,590)
Net loss after tax for the period	(240,590)

Source: [Mega Expo Announcement](#)

But according to the Company, Sparkle Mass hit its post-acquisition net profit target and generated HKD 13 million and HKD 14 million in net profit in the years ended December 31, 2017 and 2018, respectively.

above period, there will be cash compensation of the shortfall from the vendor to the Group. As illustrated in the consolidated audited financial statements of the Sparkle Mass Group for the year ended 31 December 2017, the net profit has exceeded HK\$13 million and hence the guaranteed profit has been met, details of which can be referred to the announcement of the Company dated 10 February 2017 and 28 March 2018.

Source: [Mega Expo FY 2018 Annual Report](#)

there will be a cash compensation on the shortfall from the Vendor. The audited consolidated accounts of the Sparkle Mass Limited for the Second Relevant Period indicated that the Net Profit had exceeded HK\$14,000,000. Therefore the Board is pleased to announce the Guaranteed Profit of Sparkle Mass Limited for the Second Relevant Period has been met.

Source: [Mega Expo Announcement, March 27, 2019](#)

We think there is ample evidence to question whether Sparkle Mass really earned such profits.

Mega Expo stated that Sparkle Mass is principally engaged in the organization and management of trade exhibitions and related services. Based on the Company's filings, we calculate that its exhibitions service segment had profit margins of 52.3% and 35.6% in CY 2017 and CY 2018, respectively. Assuming Sparkle Mass has the same profit margins and has an income tax rate of 20%, it would have to had generated at least **HKD 31 million and HKD 49 million in revenues in 2017 and 2018, respectively, to hit its profit guarantee**. But we could find little evidence that Sparkle Mass organized any events on the scale required to generate such revenues. Not even close.

According to the Company's FY2018 annual report, Shanghai Lin Yun Exhibition Service ("Linyun") is the primary operating entity of Sparkle Mass.<sup>7</sup> However, Linyun's official website (<http://www.lead-way.cn>) seemed to be put together in a rush in 2017 (the year it was acquired) and appears not to have been updated since.<sup>8</sup>

<sup>7</sup> The other Sparkle Mass PRC subsidiary is listed by Mega Expo as an investment holding company.

<sup>8</sup> Its copyright information at the bottom of the webpage still shows the year of 2017.

Source: [Linyun's official website](#)

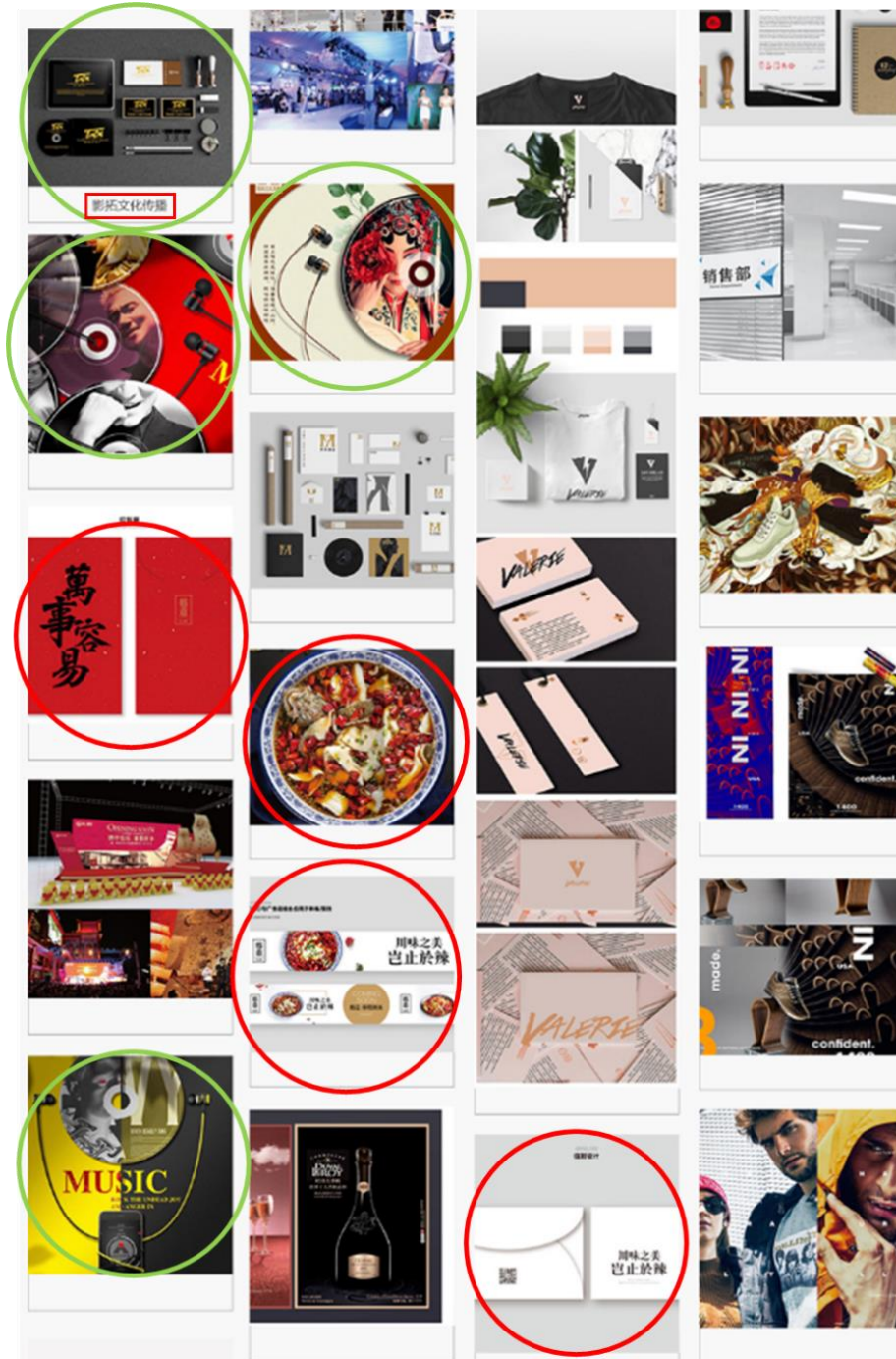
In the bottom right corner of the main page, a QR code links to Linyun's official WeChat account. Not just a messaging app, WeChat often serves as a crucial business platform in China between companies and their clients. However, when we scanned the code, it only shows a still image of Linyun's logo.

Nor is there any evidence that Linyun organized or even participated in any major events, let alone events that would have been sufficient to generate over HKD 27 million in net profits or an implied HKD 80 million revenues for the organizer in the last two years.

Under the [Show Case section](#) of Linyun's website, there are **only four tabs** showing past exhibitions. The website is amateurish at best, with much of its content apparently taken from other designers or websites.

The first tab is a general page [showing](#) a collage of **design posters that mostly appear to have been pulled from other websites**. For example, the pictures highlighted by green circles (below) are poster designs for earphones by a company called Yingtuo Cultural Communication (影拓文化传播). The name of the company was even shown in the first green circle (highlighted in red box). The [whole design portfolio](#) can be found on Zcool, a Chinese online community for designers. The pictures in the red circles (below) are designs for a restaurant by another design studio in Guangzhou. The [whole design series](#) is also accessible on Zcool.

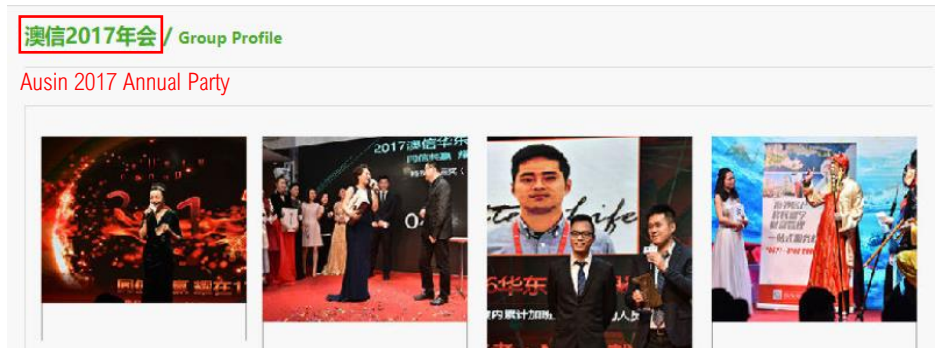




Source: <http://www.lead-way.cn/cases.aspx?cid=78>

The first tab of Linyun’s website appears to simply be content in part taken (or stolen) from other websites. The second, third and fourth tabs show events that Linyun apparently helped organize. But even taken together, these events look nowhere near sufficient to supposedly generate HKD 27 million in net profit and an implied HKD 80 million in revenues in the last two years.

For example, on the second tab, Linyun’s website showcases the annual party for the Eastern China branch of a company called Ausin China, which [collapsed](#) in 2018. Ausin China fell into disgrace after cheating more than 100 Chinese property investors out of millions of dollars in failed real estate projects in Australia.



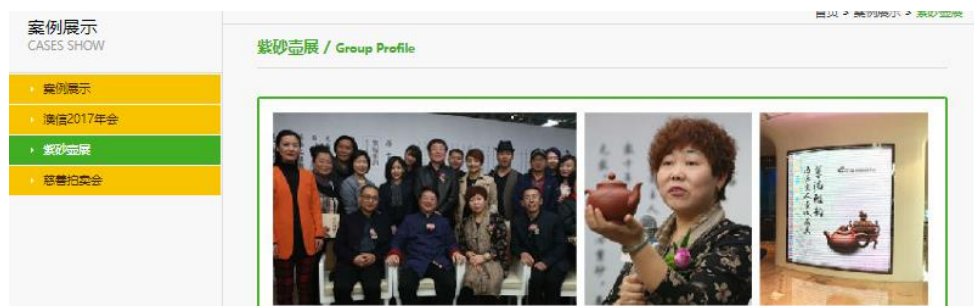
Source: <http://www.lead-way.cn/cases.aspx?cid=79>

This is noteworthy. The first real event showcased on the website of an HKD 40 million cash acquisition is a party thrown for a property scam which defrauded Chinese investors.

### Connections to the Noah's Ark Group

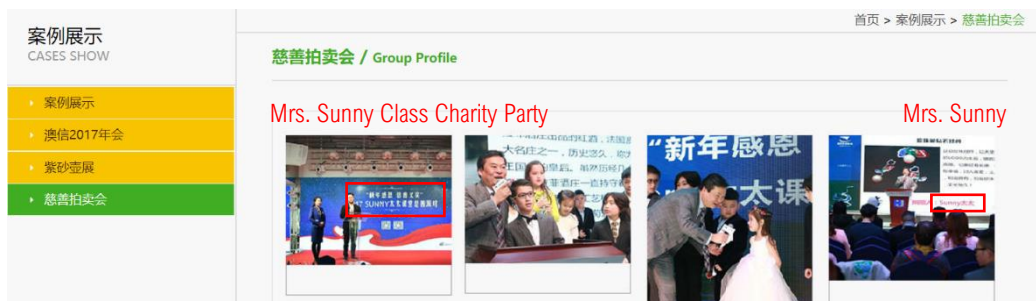
The next two showcased events are an unassuming Chinese Teapot Exhibition and a charity auction. We believe both events were related to Noahs Yacht Club (“NYC”), which is owned by Shanghai Noahs Economic Development Group and is part of the Noah's Ark Group.<sup>9</sup>

The teapot exhibition showcased on the third tab is a small, simple gathering, which looks like it was attended by less than 20 people. We found that, on November 11, 2016, NYC put out an [announcement](#) on its official website for an upcoming teapot exhibition. The event name and the guest lists published on the announcement matched the photos showcased on Linyun's website. Based on the pictures, we highly doubt that Linyun could generate any meaningful revenues from planning such an event.



Source: <http://www.lead-way.cn/cases.aspx?cid=80>

The last tab is for a charity auction. Despite the low resolution of the image, we were able to identify that the event is for a social group called Mrs. Sunny Class, which holds its events at NYC. Two of the three major events listed on Linyun's website are for the Noah's Ark Group related entities.



Source: <http://www.lead-way.cn/cases.aspx?cid=81>

<sup>9</sup> In December 2018, NYC's shareholder changed from Shanghai Noahs Economic Development Group to AMB Culture Hong Kong Holdings Limited, whose sole director is Lee Ting, the legal representative of Noahs (Shanghai) Cultural Development.

These are not the only connections between Sparkle Mass and the Noah's Ark Group. On [multiple](#) pages of Linyun's website, Sparkle Mass greets its visitors with a banner which says "Welcome to Noahs."



Source: <http://www.lead-way.cn/Contact.aspx>

On top of that, Sparkle Mass' other PRC subsidiary, Shanghai Lin Yun Enterprise Management Consulting, uses [17321110092@139.com](mailto:17321110092@139.com) as its registered email, which [shares](#) the same 10 digits number as the registered phone number of Noah's Ark Group related entities (discussed in detail later in this report).

**上海临蕴企业管理咨询有限公司** Sparkle Mass Subsidiary:  
 Shanghai Lin Yun Enterprise Management Consulting Co. Ltd

法定代表人: 秦春健 注册资本: 10万美元 成立时间: 2016-12-19

邮箱: [17321110092@139.com](mailto:17321110092@139.com) 电话: 021-68558032

地址: 中国(上海)自由贸易试验区耀华路251号一幢一层

[存续](#)

Source: [Qichacha](#)

To summarize, Mega Expo paid HKD 40 million in cash for a two-month-old business with zero revenues, minimal assets, and no operating history. Not only does this appear to be an obviously sham transaction, but we believe that Mega Expo fabricated the performance of the Sparkle Mass group post acquisition to deflect suspicions.

## CHEER-UP: HKD 299 MILLION FOR A DERELECT E-COMMERCE PLATFORM AND A QUESTIONABLE EVENT PROMOTER

On 24 November 2017, Mega Expo [announced](#) its plan to acquire 100% equity interest in the Cheer Sino Group (“Cheer Sino”) from Mr. Liu Jianping 劉建平 (the executive vice president of a Noah’s Ark Group affiliated company) for HKD 299 million.<sup>10</sup> Despite Mega Expo’s claims that Cheer Sino was a real business, our diligence shows that acquired assets were little more than a worthless e-commerce platform and an opaque event promotion business which generates revenues from bars and clubs connected to an undisclosed related party, the Noah’s Ark Group. We question what value, if any, Mega Expo received and believe that Mega Expo simply fabricated or exaggerated the post-transaction revenues.

### 1) Worthless E-Commerce Platform

In its acquisition circular, Mega Expo [claimed](#) that Cheer Sino developed the “first comprehensive information and resources sharing platform in the entertainment industry.” This platform apparently consisted of an e-commerce site offering alcohol and other supplies and services through Cheer Sino subsidiary Shanghai Bayu E-Commerce (“Bazayu”) to bars and clubs in China.

Although Mega Expo described the platform as comprehensive, in reality Bazayu’s e-commerce offering is a joke. Bazayu’s [platform](#) appears to be an amateurish, poorly designed website. The homepage is decorated by empty pictures with error signs.



Source: <http://www.bazayu.com/>

The Bazayu platform supposedly caters to bars, lounges and clubs, and the website lists 80 types of alcohol and soft drinks for sale. However, the Bazayu website states that not a single bottle has been sold.

<sup>10</sup> The consideration stated in the announcement was HKD 268 million, but Mega Expo reported the fair value of this consideration was HKD 299 million in its FY 2018 annual report.

## Bazayu Sold Zero Bottles

爆款推荐 Recommended Hot Items

N/AHS 诺莱仕



Sold Unit: 0

已销售0件

Dame de Lord Vigne-罗希维尼红葡萄酒原产法国  
国红酒750ml\*6(6瓶起订)

诺莱仕国际贸易集团 (酒水直营) 🏆



Sold Unit: 0

已销售0件

新青山-法国Martell马爹利xo干邑白兰地  
700ml\*12 (60瓶起订)

新青山酒业 🏆

熊猫 Panda Beer



Sold Unit: 0

已销售0件

熊猫王精酿9度一箱330ml\*24 (10箱起订)

熊猫王精酿啤酒官方 🏆



Sold Unit: 0

已销售0件

【白色情人节特卖】艾远根钻香槟750ml\*6(10箱  
起订)

金标旗舰店 🏆

共80件商品 1/4 &lt; &gt;

Source: [http://www.bazayu.com/topics.html?cat\\_id=1](http://www.bazayu.com/topics.html?cat_id=1)

The Bazayu website stopped working in late April. In our opinion, this platform appears worthless, and further evidence that the acquisition was another sham transaction in which the Company raised money from the capital markets only to transfer such proceeds to unnamed beneficiaries by overpaying for targets of little or no value.

But this was not the only business acquired in the Cheer Sino transaction.

## 2) Opaque and Questionable Bar Consulting Revenues

The other two operating subsidiaries of Cheer Sino are NOD (Shanghai) Management Communication and NOD (Shanghai) Culture Development, which we will refer to collectively as “NOD.”

NOD supposedly generates revenues from selling undefined services to bars and clubs in China, such as using the NOD Union website to provide internet marketing services.

Internet marketing services: the Target Group provides general and/or orienteering internet marketing services through mobile internet platform and website platforms such as wechat, NOD Union website;

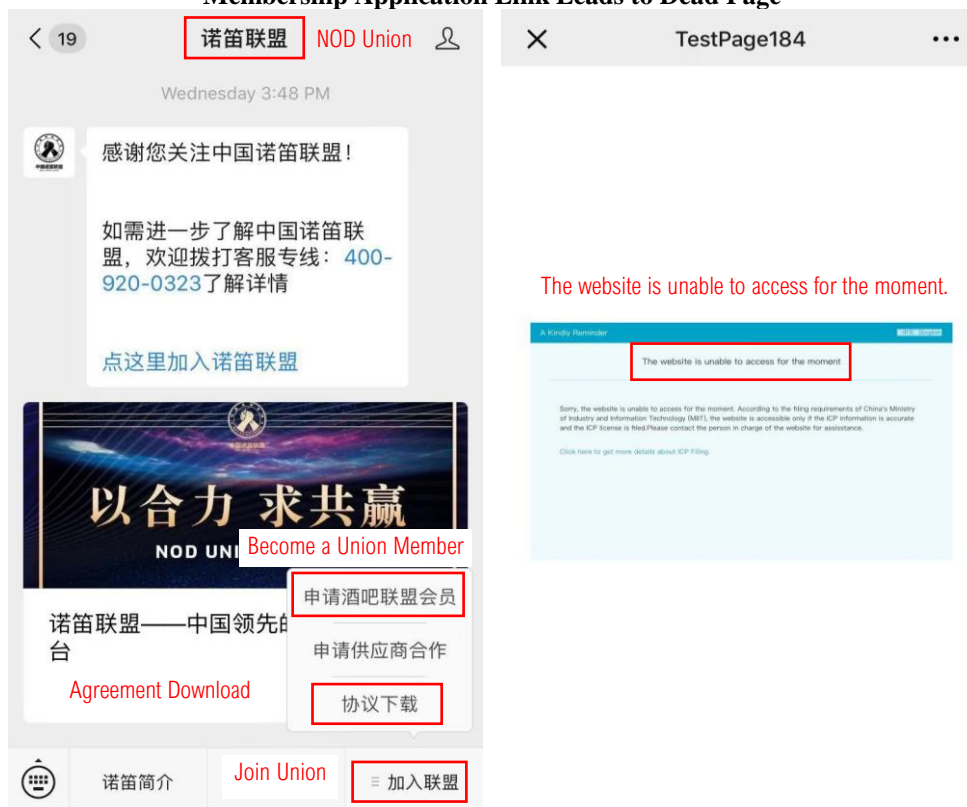
Source: [Mega Expo Circular](#), January 19, 2018

This is notable because NOD’s website is currently down. How could NOD provide internet marketing services through its website if its website is not working?

Although its WeChat account is active, when we clicked on the “Become a Member” and “(Membership) Agreement Download” links on NOD’s official WeChat account, until recently an error page popped up.<sup>11</sup>

<sup>11</sup> We checked the “become a member” and “(Membership) Agreement Download” links on NOD’s WeChat account periodically starting in March 2019. For the next two months, both links led to dead pages. However, in the last week, the WeChat account was updated to include a membership agreement, but the “become a member” link remains broken.

### Membership Application Link Leads to Dead Page



Source: NOD Union Official WeChat Account

Note: We checked agreement download link from March to April 30, 2019 and it led to this broken page. In the last week it has been updated to include a service contract. But, "become a member" link remains broken.

NOD Union supposedly made HKD 139 million selling services to bars and clubs in 1H FY 2019, yet its website is inactive and its WeChat leads to broken links for membership applications. We think it is fair to question the authenticity of reported revenues when NOD cannot seem to manage the basics of operating a business.

Mega Expo fails in its obligation as a public company to disclose even basic details about how its subsidiaries make money. We believe that this lack of transparency is intentional because it makes it more difficult for investors and regulators to check the Company's claims. But even the vague and opaque details disclosed by Mega Expo suggest, in our view, that the Company's reported revenues from such acquisitions as NOD are likely fabricated.

For example, after the acquisition, NOD's consultancy revenue experienced a substantial jump from HKD 3 million for the nine months in 2017 to HKD 68 million for the six months in 1H FY 2019. As the consultancy service became the main revenue driver of Mega Expo's promotion and consulting segment, the profit margin inexplicably increased from 51% to 82% in the first half of FY 2019.

### Consultancy Revenue Brought Incredible Profit Margin

	9mo ended	4mo ended	6mo ended
HKD'000	9/30/2017	6/30/2018	12/31/2018
Segment Revenue	58,322	37,741	139,069
- Ad-hoc Consultancy	2,619	n/a	68,010
Segment Results	30,011	21,381	114,120
<b>PBT margin</b>	<b>51%</b>	<b>57%</b>	<b>82%</b>

Source: Company Public Filings

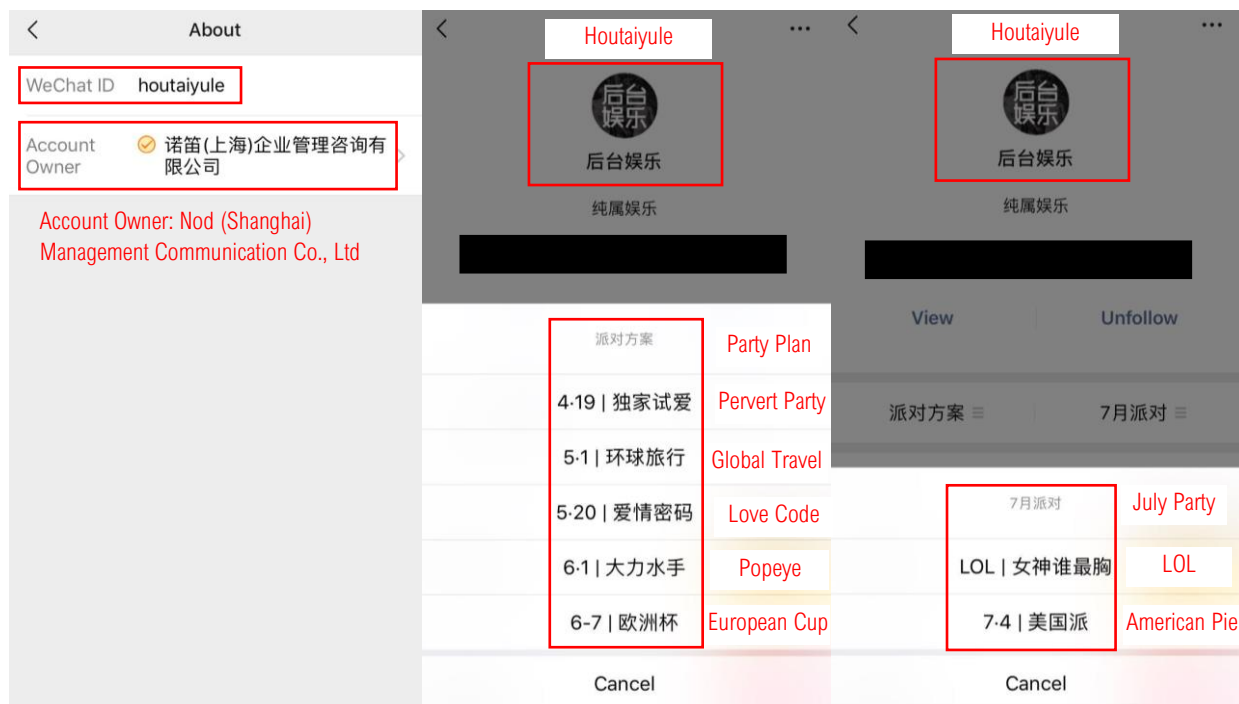
Note: Used the profit before tax as segment results for the nine months in 2017

Mega Expo fails to provide detailed information on what kind of consultancy service it performs or the average size of its consultancy projects. Mega Expo only disclosed that this HKD 68 million consultancy revenue was generated from 100 unnamed clients made up of clubs, bars, and pubs in China.

Apart from the above, with the synergic advantages of NOD Union Platform, the Group has achieved remarkable result in the service of systematic business solution, entertainment advisory, event planning and other ad hoc consultancy for more than 100 clubs, lounges, bars, restaurants and pubs during the Reporting Period, the revenue was approximately HK\$68.01 million (2017: Nil).

Source: <http://www3.hkexnews.hk/listedco/listconews/SEHK/2019/0326/LTN20190326437.pdf>

NOD has two WeChat accounts, NOD Union (诺笛联盟) and Houtaiyule (后台娱乐). NOD Union posts articles regarding company news and club event notices, while Houtaiyule focuses more on event planning. On the homepage of Houtaiyule's WeChat account, we found plans for seven events. All posted in 2016.



Source: Houtaiyule WeChat Account

Event proposals suggest that the average budget was HKD 28,899 per event, including the cost of venue decorations, setup, props, and gifts.

## Event Proposal Example

类别	项目	细则	单价	单位	数量	合计
场地布置	美国宝贝外场拍照区	气球墙布置	1000	套	1	1000
	美国队长背景	汽车墙布置	5000	套	1	5000
	棕榈吧台	门口贴纸 + 背景板 + 美国旗堆头	3000	套	1	3000
						小计: 9000
互动道具	女模服装	美国宝贝服装套装	30	套	30	9000
						小计: 9000
礼品	伴手礼物等		100	套	100	10000
						小计: 10000
基础报价总计: 28000元 (不包含高端礼品和精装场饰费用)						

Category	Item	Details	Unit Price	Unit	Quantity	Total
Venue	American Pie Photo Area	Set up the balloon wall	1,000	Set	1	1,000
Decorations/ Setup	Captain America Background	Set up the automobil wall	5,000	Set	1	5,000
	Palm Bar Counter	Door stickers + background wall + American Flag Display	3,000	Set	1	3,000
					Subtotal	9,000
Interactive Props	Costumes for female models	American Pie costumes	30 (sic)	Set	30	9,000
					Subtotal	9,000
Gift	Souvenirs		100	Set	100	10,000
					Subtotal	10,000
Budget for basic package: 28,000 (excluding costs for high-end gifts and expensive decorations)						

Source: Houtaiyule's WeChat Account

The 82% profit margin suggests that NOD does not provide materials or labor, but makes money selling proposals and event ideas to bars and clubs. We think it is therefore reasonable to assume that NOD recognizes only a small portion of the budget as revenue, akin to an event planning fee. Assuming a 20% fee on the proposed event budget, we estimate that NOD would only generate HKD 5,780 per event.

Event Date	Name	Budget (RMB)	Budget (HKD)
4/19/2016	S&M Pervert Party	10,000	11,700
4/29/2016 - 5/2/2016	Travel Around the World	46,000	53,820
5/20/2016	Network Valentine's Day party	14,400	16,848
6/1/2016	Popeye	35,000	40,950
6/10/2016 - 7/10/2016	LE VIN A PARIS	15,000	17,550
7/4/2016	American Pie	28,000	32,760
July 2016	League of Legends	24,500	28,665
<b>Average</b>		<b>24,700</b>	<b>28,899</b>
<b>Take Rate</b>	<b>20%</b>	<b>4,940</b>	<b>5,780</b>

Source: Houtaiyule's Official WeChat Account, Blue Orca Calculation

\*EX rate: RMB to HKD: 1.17

This is a paltry sum and hardly justifies a HKD 299 million acquisition, not to mention the dilution of shareholders and the incurrence of crippling, high-interest debt.



If the average consultancy revenue per event is only HKD 5,780, each of NOD's 100 clients needed to host 20 events every month or 5 events every week to generate HKD 68 million in 1H FY 2019. It is highly unlikely that a bar would host events that frequently.

HKD'000	
Reported Consultancy Revenue - 1H FY19	68,010
Estimated Revenue to NOD per event	5.8
Estimated number of event	11,767
# of clients	100
<b># of events per client per month</b>	<b>19.6</b>
<b># of events per client per week</b>	<b>4.5</b>

Source: Blue Orca Calculation

We checked six bars' WeChat accounts (five Phebe Club and one Dr. Oscar) to understand the frequency of event hosting and found that, on average, each bar held 3.8 events every month, one event a week.

	# of months	Performance	Special Event	Unknown event	Total Surveyed	Events Per Month	Events Per Week
Taizhou Phebe Bar	6	29	9	1	39	6.5	1.5
Linyi Phebe Bar	12	17	8	2	27	2.3	0.5
Xuancheng Phebe Bar	6	3	22	0	25	4.2	1.0
Bazhou Phebe Club	12	21	11	3	35	2.9	0.7
Beiliu Phebe Bar	12	8	20	0	28	2.3	0.5
Jinan Oscar	4	10	8	0	18	4.5	1.0
<b>Total/ Average</b>	<b>52</b>	<b>88</b>	<b>78</b>	<b>6</b>	<b>172</b>	<b>3.8</b>	<b>0.9</b>

Source: WeChat, Blue Orca Calculation

As sensitivity test shows, assuming that the bars host one event per week and NOD charges a 20% markup on the event budget, the 1H FY 2019 consultancy revenue would be only HKD 13.9 million, 80% less than the claimed HKD 68 million.

#### Impossible to Generate HKD 68 Million by Providing Event Proposals

Take Rate	# of events per month					
	68,010	2.0	4.0	6.0	8.0	19.6
10%	3,468	6,936	10,404	13,872	34,000	
15%	5,202	10,404	15,605	20,807	51,000	
20%	6,936	13,872	20,807	27,743	68,000	
25%	8,670	17,339	26,009	34,679	85,000	
30%	10,404	20,807	31,211	41,615	102,000	
35%	12,138	24,275	36,413	48,550	119,000	

Source: WeChat, Blue Orca Calculation

We find it highly unlikely that NOD was able to generate HKD 11 million per month promoting small events, especially without a functioning website to attract new customers. Even with generous assumptions about its take-rate, we estimate that such consulting fees could yield at most a fraction of that amount.

The company claims that the ad-hoc consultancy services is mainly a "marketing means" to recruit new NOD Union members. Yet we question how the Company's reported consulting fees could grow so rapidly when "membership" in the NOD Union was supposedly crashing.

According to the Company, as of January 19, 2018, NOD Union supposedly boasted a client-network of over 1,500 members of clubs, bars and lounges in the PRC.

Leveraging on the brand of NOD Union (transliterated as 諾笛聯盟), the Target Group has developed a well-established client network across the PRC with over 1,500 members of nightclubs, bars and lounges in the entertainment industry for its comprehensive business consulting and event planning services. In order to provide comprehensive business

Source: [Mega Expo Announcement](#)

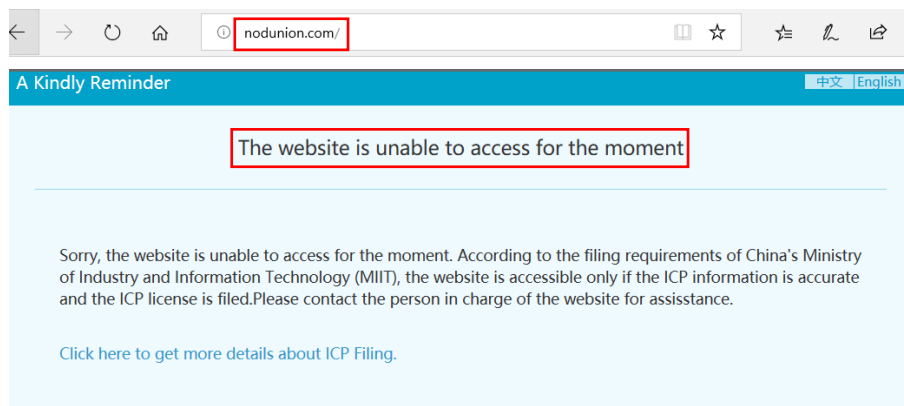
Yet Mega Expo stated in its FY2019 interim report that the number of union members dwindled to over 1,000, a 33% decrease in a year.

In March 2018, the Group has completed the acquisition of Cheer Sino Group in the PRC which is principally engaged in bar and club membership, wine and liquor promoting and event organising businesses by providing professional, precise and comprehensive services to the entertainment industry in the PRC, and owns a well-established client network across the PRC of over 1,000 members of clubs, bars and lounges by operating a well-known entertainment brand 諾笛聯盟平台 (transliterated as "NOD Union Platform" or "NOD Union"). With the synergistic advantages of NOD Union Platform, the Group is able to extend business operations to provide a comprehensive cultural and entertainment solution

Source: [2019 Interim Report](#)

NOD Union seems to have lost nearly one thirds of its members in 2018. If its "membership" base is shrinking rapidly, signaling that its network is far less popular; how are NOD's consulting services becoming more popular? Mega Expo purposefully fails to disclose much detail about its business, making due diligence difficult, but we think such simple sanity checks suggest that the Company is likely fabricating its opaque revenue stream.

It is also unclear what, if anything, the Company means by membership? Not all members seem to pay a membership fee. The company disclosure mentions a "basic free membership", a "lower rank membership" and a "diamond membership." We tried to check the pricing information for the membership, but both its official website and the membership section of its official WeChat account were not working.



Source: <http://nodunion.com/>

### 3) Overwhelming Connections to the Noah's Ark Group

Mega Expo spent HKD 299 million to buy Cheer Sino, an event planning and promotion company without a functioning website, not to mention a broken e-commerce platform. Yet the evidence is overwhelming that similar to Sparkle Mass and Fortune Selection, the Cheer Sino group is a collection of assets and interests purchased from the Noah's Ark Group.

Mega Expo disclosed that the [seller](#) of Cheer Sino is Mr. Liu Jianping. Yet the Company failed to disclose that Liu Jianping was the executive vice president of the Noahs Group.

此次活动由诺莱仕集团执行副总裁刘建平先生，及NYC所有高管全程陪同接待。Handle地产集团董事长PeterBurke先生对此行NYC高规格的接待，及精心准备的入会、入驻仪式表示感谢及称赞。并对于双方在未来的合作发展抱乐观态度，期望和诺莱仕集团的合作，能通过NYC的平台上赢得更广阔的发展空间！**This event was hosted by Noahs Group Executive Vice President, Mr. Liu Jianping, and all the NYC executives.**

Source: [http://news.ifeng.com/a/20160414/48455699\\_0.shtml](http://news.ifeng.com/a/20160414/48455699_0.shtml)

Prior to Liu, the legal representative of acquired subsidiary NOD was Sui Chunmu, who served in the position from the entity's incorporation in 2014 until 2016. Currently, Sui is the legal representative, chairman and the majority shareholder of Noahs (Shanghai) Enterprise Development Co., Ltd ("Noahs Shanghai").

**诺莱仕（上海）企业发展有限公司** 存续（在营、开业、在册）

统一社会信用代码：913101045868327866

法定代表人：随春木

登记机关：徐汇区市场监督管理局

成立日期：2011年12月14日

Noahs (Shanghai) Enterprise Development Co., Ltd.  
Legal Representative: Sui Chunmu

发送报告  
信息分享  
信息打印

Source: <http://www.gsxt.gov.cn>

In its circular, Mega Expo stated that Fan Zhibiao was the CEO of NOD at the time of the transaction. In an interview in August 2016, Mr. Fan talked about NOD as if it was part of the Noah's Ark Group.

I am NOD Union's executive director, Fan Zhibiao

范志彪：主持人好，我是上海诺笛联盟的执行董事范志彪。我从事的是娱乐文化产业，大家可能不了解这个行业，到底娱乐是卖什么？娱乐是卖快乐，精神享受亦可以说是精神文明！我从事这个行业17年，到目前为止，诺笛联盟在中国已经成功做到第一，垄断了行业70%的人才。目前诺亚方舟已有180家实体店，预计未来6年要开到500家以上。行业里一共有1500多家。也就是说六年左右我们要占到行业三分之一以上。两年前，受中国政策利好影响，文化娱乐产业和互联网行业一同成为热门行业。

So far, NOD Union has successfully become the best (in entertainment) in China, monopolizing 70% of the industry's talent. Currently, Noah's Ark has 180 stores and expects to have more than 500 stores in the next six years. There are more than 1,500 stores in the industry, meaning that we will account for more than one-third of the industry in about six years.

Source: [http://zt.brandcn.com/gflt22xcbd/160810\\_405199.html](http://zt.brandcn.com/gflt22xcbd/160810_405199.html)

Although the link has been taken down, presumably following the raid by Chinese police, NOD Union even listed the notorious White Horse club as a member.

http://www.nodunion.com/NewsList.aspx?type=10002

3 captures

25 Dec 2016 - 28 Sep 2018

AUG 28 2018

中国诺笛联盟  
NOD UNION CHINA

首页 关于诺笛 新闻资讯 联盟会员 服务展示 招贤纳士 合作伙伴 加入联盟

新闻资讯

会员伙伴 Member

White Horse Club, the best Garden of Eden for women in Asia

白马会所，亚洲第一女性伊甸园

白马会所建筑面积2200平方，内设124间风格迥异的vip包厢，尽显奢华典范。聘请国际一流室内团队打造，采用简单大气的欧式装修风格，气派的罗马柱在建筑上给人以明朗...

查看更多

2018-09-18

Source: <https://web.archive.org/web/20180928150456/http://www.nodunion.com/NewsList.aspx?type=10002>



Source: [Shanghaiist Article](#)

The White Horse club was advertised on NOD Union's website as the "garden of Eden" for women in Asia. This shows not only NOD's connections to the shadowy Noah's Ark Group, but that Mega Expo's subsidiary was providing membership services for a brothel.

We think the overlapping legal representatives and statements by NOD's CEO overwhelmingly confirm that the Cheer Sino entities were acquired from interests or individuals controlled by or affiliated with the Noah's Ark Group. Together with evidence that the Company massively overpaid for acquired assets of questionable value, we believe that the Cheer Sino acquisition fits the narrative of a sham transaction to transfer money from the capital markets to hidden beneficiaries.

## CHANGE OF FORTUNE: NEWLY FORMED BUSINESS ACQUIRED AT AN ESTIMATED 43.4x NAV

On April 7, 2017, Mega Expo [announced](#) its plan to acquire 100% equity interest in Fortune Selection Group (“[Fortune Selection](#)”) from an mysterious individual, Ms. Wong Man, 黃閩.

This transaction had many of the features that make Mega Expo’s other recent acquisitions look so suspicious. First, the two PRC operating subsidiaries of Fortune Selection were formed in the second half of 2016, **only seven months before the announcement of acquisition**. Suspiciously, we could find no information about the individual who was supposedly the seller, Ms. Wong Man, or how she came into possession of the target group.

### PRC Subsidiary I

上海菲益苾餐飲管理有限公司 is a company established in the PRC on 8 September 2016 and an indirect wholly-owned subsidiary of the Target Company. It is principally engaged in catering management, cultural event planning/consulting and brand management services.

### PRC Subsidiary II

菲益苾(上海)品牌管理有限公司 is a company established in the PRC on 24 October 2016 and an indirect wholly-owned subsidiary of the Target Company. It is principally engaged in brand management, marketing planning, corporate image planning, catering management and services. As at 31 March 2017, the company 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.

Source: [Mega Expo Announcement](#)

Like other questionable transactions, the target had minimal revenues (RMB 3.6 million in the previous 5 months), tiny net assets (RMB 2.8 million), and a minimal track record of operating a business. The purchase price also appeared ludicrous. Mega Expo supposedly acquired Fortune Selection for 8.7x revenues (based on pre-acquisition run rate revenues).

Even more suspicious, Mega Expo’s disclosures about the acquired business were inconsistent and incomplete. In the Company’s acquisition announcement, Mega Expo stated that the appraised value of Fortune Selection was not less than HKD 49 million.

The Consideration has been determined after arm’s length negotiations between the Purchaser and the Vendor with reference to, amongst others, (i) the business development opportunity and prospects of the Target Group; (ii) the profit guarantee of the Target Company as set out in the Agreement; and (iii) the preliminary valuation prepared by Peak Vision Appraisals Limited (“**Peak Vision**”), an independent valuer, showing the appraised value of equity interest of the Target Company as at 31 March 2017 (the “**Valuation Date**”) being not less than HK\$49,000,000.

Source: [Company Announcement](#), April 9, 2017

Mega Expo satisfied the consideration with a convertible bond and set the conversion price at a 19% discount to the average closing price for the last five trading days prior to the agreement. As a result, Mega Expo ultimately agreed to pay HKD 81 million for the acquisition. The Company artificially inflated the transaction consideration by HKD 33 million between the time of the announcement and the consummation of the transaction.

Mega Expo’s disclosures about the fair value of the assets were also inconsistent. Mega Expo’s purchase price accounting recognized HKD 27 million of intangible assets, which are trademarks and brands, through this acquisition. However, the Company states clearly in its announcement that Faithful Progress provides brand services but “**has no material assets and liabilities at the date of this announcement.**”

In addition, Chinese trademark records [show](#) that when this acquisition was completed in July 2017, Faithful Progress did not own the trademarks of these four brands, (“PHEBE”, “菲苾”, “MT,” and “U.CLUB”). Because the acquired

entity did not own the trademarks at the time of the transaction, we question how Mega Expo's purchase price accounting could have recognized HKD 27 million of intangible assets.<sup>12</sup>

商标转让/移转公告 Trademark Transfer Announcement					第 1562 期
注册号/申请号	商 标	类 别	转 让 人	受 让 人	No. 1562 (Aug 6, 2017)
	Trademark		Transferor	Transferee	
6503037	菲花	41	江苏世纪方舟文化发展有限公司	诚进有限公司 FAITHFUL PROGRESS LIMITED	
8617342	PHEBE	43	江苏世纪方舟文化发展有限公司	诚进有限公司 FAITHFUL PROGRESS LIMITED	
8617358	PHEBE	41	江苏世纪方舟文化发展有限公司	诚进有限公司 FAITHFUL PROGRESS LIMITED	
8173077	CLUB MT MULTI TRACK	43	江苏世纪方舟文化发展有限公司	诚进有限公司 FAITHFUL PROGRESS LIMITED	

Jiangsu Century Ark Cultural Development

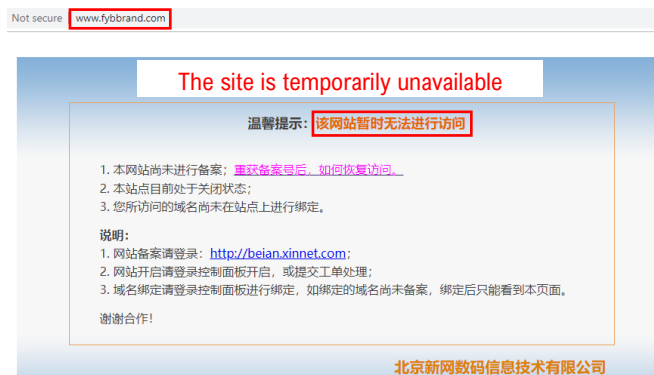
商标转让/移转公告 Trademark Transfer Announcement					第 1569 期
注册号/申请号	商 标	类 别	转 让 人	受 让 人	No. 1569 (Sept 27, 2017)
	Trademark		Transferor	Transferee	
13244249	U. CLUB UNBELIVABLE	43	唐永红 Tang Yonghong (used Noah's Ark Group Wuxi Headquarter as address)	诚进有限公司 FAITHFUL PROGRESS LIMITED	

Source: <http://wsjs.saic.gov.cn>

If we exclude intangible assets that according to Chinese records were not owned by the target at the time of the acquisition, we calculate that Mega Expo paid an estimated 43.4x NAV for the purchase.

Mega Expo disclosed very little about the acquired business. It stated that Fortune Selection, through its PRC subsidiaries, Shanghai Phebe Food & Beverage Management (“Phebe Food”) and Phebe (Shanghai) Brand Management (“Phebe Brand”), primarily engaged in catering, marketing, and brand management services.

However, our due diligence shows that neither of Fortune Selection's PRC subsidiaries has a working website. Phebe Brand used to own a website: [www.fybbrand.com](http://www.fybbrand.com). However, this website is no longer working. Phebe Brand's WeChat account was recently reactivated in late April, although when we checked, all its links lead to dead pages. We question whether the acquired entities could run a catering, marketing, or brand management business without an operational website or online presence.



Source: <http://www.fybbrand.com>

<sup>12</sup> Chinese trademark records indicate that prior to the acquisition, Fortune Selection's BVI subsidiary Faithful Progress assigned the rights to use at least one of the four brands (Phoebe) to bars and clubs in China. The assignment of such a license suggests some right to the underlying intellectual property, but we question how Mega Expo could recognize such IP as an intangible asset when the formal transfer of title to this IP has not been approved by PRC regulators.

What we did find is that both Phebe Food and Phebe Brand have extensive ties to the Noah’s Ark Group.

The Company [stated](#) that Fortune Selection generates revenues by providing brand management services related to the brands “PHEBE”, “菲苾”, “MT”, and “U.CLUB.”

The PRC Trademark Office of National Intellectual Property Administration showed the Noah’s Ark Group and its affiliated parties originally trademarked Phebe and three other brands in a period from 2008 to 2013, years before Fortune Selection was incorporated.

Trademark	Initial Application Date	Initial Applicant	Transferred to Fortune Selection on	Transferred From
Phebe	8/27/2010	Jiangsu Century Ark Cultural Development	8/6/2017	Jiangsu Century Ark Cultural Development
菲苾 (Phebe)	1/11/2008	Jiangsu Noah's Ark Entertainment Management	8/6/2017	Jiangsu Century Ark Cultural Development
U.Club	9/16/2013	Tang Yonghong (used Noah's Ark Group Wuxi Headquarter as address)	9/27/2017	Tang Yonghong (used Noah's Ark Group Wuxi Headquarter as address)
MT Club	4/1/2010	Jiangsu Century Ark Investment	8/6/2017	Jiangsu Century Ark Cultural Development

Source: <http://wsjs.saic.gov.cn>

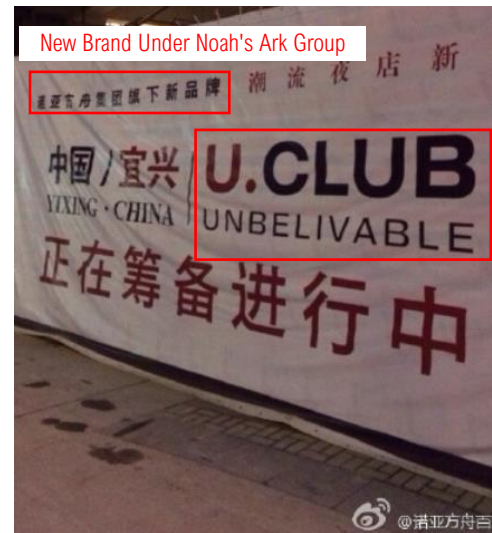
In fact, [Phebe](#), [Club MT](#), and [U.Club](#) were all reported to have been operated under the management of the Noah’s Ark Group.



诺亚方舟娱乐有限公司是由澳大利亚安博投资股份有限公司1999年投资创建。主要从事酒店、KTV、桑拿、酒吧、餐饮等娱乐服务行业。公司下辖福州总部、上海总部、南京总部、长沙总部、苏锡常总部、郑州总部、刚成立的杭州总部、宁波总部；其中南京总部分别成立了酒店事业部、KTV事业部、演艺事业部、水云天事业部、北极海狼事业部、菲苾事业部；上海总部成立了MT事业部、SKY事业部、宝马事业部，在沪宁一线共打造了38家诺亚方舟旗下的下属企业，全中国共有70家分公司及营业场所，我们的目标是打造全中国最大的娱乐品牌。

Noah's Ark Entertainment was founded by the Australian Anbo Investment in 1999, mainly engaged in hotel, KTV, sauna, bar, catering and other entertainment services industries. It has headquarters in Fuzhou, Shanghai, and Nanjing.... Among them, the Nanjing headquarter has established the hotel division, KTV division, performing arts division... and **Phebe division**; the Shanghai Headquarter established the **MT Division**, the SKY Division.... In the Shanghai-Nanjing area, Noah's Ark established a total of 38 subsidiaries.

Source: <http://d1.sina.com.cn/shh/mt/>, [U Club Weibo Post](#)



We think it is reasonable to infer that because Mega Expo supposedly acquired four brands started by the Noah’s Ark Group and its affiliated parties, the Noah’s Ark Group was behind the acquisition. There is additional evidence to support this conclusion.

Both PRC operating subsidiaries of Fortune Selection used 17321110092 as their contact number in their annual filings prior to the transaction. This number has been used by multiple entities related to the Noah’s Ark Group, including Bohai (Shanghai) Agent Management, whose legal representative is Mr. Sui Chunmu. Mr. Sui is also the current legal representative and controlling shareholder of Noahs Shanghai. He is also the former legal representative of NOD, Cheer Sino Group’s main PRC subsidiary, corroborating our argument that both Cheer Sino Group and Fortune Selection Group were parts of the Noah’s Ark Group.

**上海菲益苾餐饮管理有限公司** Fortune Selection Subsidiary:  
Shanghai Phebe Food and Beverage Management Co. Ltd  
法定代表人: 陈杰 注册资本: 500万元人民币 成立时间: 2016-09-08  
邮箱: - 电话: 17321110092 更多号码  
地址: 中国(上海)自由贸易试验区张杨路828-838号26楼

存续

**菲益苾(上海)品牌管理有限公司** Fortune Selection Subsidiary:  
Phebe (Shanghai) Brand Management Co. Ltd  
法定代表人: 陈杰 注册资本: 118万元人民币 成立时间: 2016-10-24  
邮箱: - 电话: 17321110092 更多号码  
地址: 上海市崇明县横沙乡富民支路58号A1-6744室(上海横泰经济开发区)

存续

**铂海(上海)演出经纪有限责任公司** Bohai (Shanghai) Agent Management Co. Ltd  
法定代表人: 随春木 Legal Representative: Sui Chunmu  
邮箱: 3051597377@qq.com 电话: 17321110092 更多号码  
地址: 中国(上海)自由贸易试验区德堡路38号2幢楼三层301-26室

存续

Source: Qichacha

As discussed earlier, the same phone number can be also found in the registered email address of Shanghai Linyun Enterprise Management Consulting, Sparkle Mass' PRC subsidiary. It is not uncommon to use phone number as one's email address in China, and we think it is reasonable to assume that common phone numbers indicate that entities have either common or overlapping control.

**上海临蕴企业管理咨询有限公司** Sparkle Mass Subsidiary:  
Shanghai Lin Yun Enterprise Management Consulting Co. Ltd  
法定代表人: 秦春健 注册资本: 10万美元 成立时间: 2016-12-19  
邮箱: 17321110092@139.com 电话: 021-68558032  
地址: 中国(上海)自由贸易试验区耀华路251号一幢一层

存续

Source: Qichacha

Ultimately, we question the authenticity of an acquired business with a minimal operating footprint, almost no assets or revenues, and no discernable online presence. With indisputable ties to the Noah's Ark Group, we believe this was yet another sham transaction to enrich hidden beneficiaries at the expense of public investors.



## MAJOR RED FLAGS

Mega Expo has all the accompanying red flags of businesses which collapsed under evidence of fraud.

### 1) Negative Operating Cash Flows and Ballooning Receivables

Companies misrepresenting their financial performance often report receivables growing at a faster pace than revenues and poor cash flow conversion. This justifies serial capital raising. Mega Expo's financials fit this pattern.

At the first glance, Mega Expo seemed to have made a turnaround in FY 2018 following its spree of questionable acquisitions. Yet despite rising paper revenues, Mega Expo lost HKD 73 million in cashflow from operations in CY 2018. This loss is due in part to the Company's ballooning receivables balance, which from FY 2017 to FY 2018, grew 2730% (compared to revenue growth of 147%).

HKD'000	FY 2016	FY 2017	FY 2018	CY 2018
Cash Flow from Operating Activities	(174,679)	(84,225)	(19,137)	(73,367)
Cash Flow from Investing Activities		18,038	37,426	(55,039)
OCF+CFI		(66,187)	18,289	(128,406)
Net Profit	(68,711)	(39,317)	90,705	(81,356)
Revenue	160,289	102,938	254,051	462,770
<b>Growth</b>		<b>-36%</b>	<b>147%</b>	
Trade Receivables	0	3,880	109,793	125,642
<b>Growth</b>			<b>2730%</b>	
<b>Days Sales Outstanding</b>		<b>6.9</b>	<b>81.7</b>	<b>92.8</b>

Source: Mega Expo Company Filings

Mega Expo fails to provide much detail about the source of its revenues, other than to admit that such revenues are derived from providing entertainment equipment, event planning, marketing, and brand management services. Yet as we discuss in this report, there is ample evidence to suggest that such revenues are simply fabricated, as they originate mostly from newly formed entities which had no previous revenues, minimal assets and no operating footprint. In many cases, Mega Expo's acquired entities or subsidiaries supposedly generate revenues without a functional website or WeChat account.

The inexplicable growth in receivables corroborates our thesis that such revenues are fabricated, because fake sales are rarely converted into cash receipts.

### 2) Peak Vision: Same Appraiser as Tech Pro and Sound Global

To facilitate its acquisition scheme, Mega Expo retained Peak Vision as an independent valuer. Peak Vision played a critical role in valuing many of the major acquisitions, including:

- Provided the independent preliminary [valuation](#) for the acquisition of Sparkle Mass, which we believe was a sham transaction in which Mega Expo purchased newly formed entities with minimal assets for HKD 40 million.
- Provided the independent preliminary [valuation](#) of Fortune Selection.
- Provided fair value measurements of profit guarantees and contingent consideration payables related to acquisitions of Sparkle Mass, Fortune Selection and Cheer Sino.
- Tested the goodwill impairment for Mega Expo's acquisitions.
- Provided fair value measurements of convertible bonds issued to the seller in connection with the Fortune Selection acquisition.

Of the 48 public companies that are listed as Peak Vision clients (since 2015) on David Webb's [webb-site](#), **seven have been suspended from trading**. 15% of its public clients (which we could find) are so problematic that trading of their shares has been suspended or halted, a terrible track record.

Most notorious was Tech Pro Technology (HK: 3823). Peak Vision [provided](#) the Valuation Report on one of Tech Pro's fraudulent acquisitions, Shanghai Fuchao Property Management Company Limited ("Shanghai Fuchao"). Peak Vision valued Shanghai Fuchao at approximately RMB 775 million, yet as we pointed out in our [report](#) exposing Tech Pro as a fraud, this entity only had a net profit of RMB 45,000 the previous year. Essentially, Peak Vision blessed Tech Pro's fraudulent acquisition at a P/E multiple of 17,220x!

This is not the only time Peak Vision has contributed valuation services to companies caught defrauding the Hong Kong markets. Peak Vision served as Sound Global Limited (HK: 967) ("Sound Global")'s independent appraiser of choice. After Sound Global shares were [suspended](#) from trading in April 2016 and an investigation was launched, Sound Global wrote down the goodwill on previously unimpaired assets to zero.

In 2017, Sound Global shamelessly [claimed](#) that its financial documents went missing while being transported to a new file storage facility. Three of its former executive directors were [censured](#) by Hong Kong Stock Exchange. Peak Vision blessed the unimpaired valuation of assets which Sound Global eventually admitted were worth nothing.

#### Sampling of Peak Vision's High Profile Clients Since 2015

Company Name	HK Ticker	Exchange	Mkt Cap (HKD M)	Note
<a href="#">Mega Expo Holdings</a>	1360	Main	6,144	
Tech Pro Technology Development	3823	Main	Suspended	<a href="#">Roll-up fraud revealed by Glaucus</a>
Sound Global	967	Main	Suspended	<a href="#">Financials gone missing during investigation and three EDs censured by HKEX</a>
Hsin Chong Group Holdings	404	Main	Suspended	<a href="#">Tenants not Found by Anonymous Analytics Report</a>
Lerado Financial Group Company	1225	Main	Suspended	<a href="#">The Enigma Network: 50 stocks Not to Own by Webb-site Report</a>
China Solar Energy Holdings	155	Main	Suspended	<a href="#">3 directors, including Chairman, uncontactable since "around August 2013"</a>
Sustainable Forest Holdings	723	Main	Suspended	<a href="#">Failure to maintain a sufficient level of operations or assets per listing rules</a>
China Fortune Investments	8116	GEM	Suspended	<a href="#">Corporate governance issue</a>

Source: <https://webb-site.com/dbpub/adviserships.asp?p=133093&r=5>

Note: Trading Suspension information as of April 30, 2019

Shareholders rely on independent appraisals to provide at least some minimal check on the authenticity of an acquired businesses. Yet Peak Vision's involvement with listed companies whose shares have been suspended for fraud suggests that in some notable cases it is the appraiser of choice for dishonest market participants.

### 3) Subpar Auditor with History of Trouble

In March 2017, HLB Hodgson [resigned](#) as Mega Expo's auditor.



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

## RESIGNATION OF AUDITORS

The Board announces that HLB has resigned as auditors of the Group with effect from 31 March 2017.

Source: [Mega Expo Announcement](#), March 31, 2017

It was replaced with HLM CPA, whose only other notable public company client is China DYF (HK: 612), a suspected stock manipulation whose assets were recently [frozen](#) by Hong Kong regulators. Trading of its shares were [suspended](#).

According to David Webb's [webb-site](#), HLM CPA only currently audits 17 public companies listed on Hong Kong's main board and 4 companies on the GEM exchange. The average market cap of its clients is only HKD 1.1 billion (or

USD 145 Million). Mega Expo is its largest client by market cap. In fact, by excluding Mega Expo, the average market cap of HLM CPA's clients falls to HKD 858 million (or USD 109 million).<sup>13</sup>

HLM CPA's track record does not exactly inspire confidence. Two partners of the predecessor entity, one of whom still works for the firm, were fined by Hong Kong Institute of CPAs in 2016.

### **Hong Kong Institute of Certified Public Accountants takes disciplinary action against two certified public accountants (practising)**

(HONG KONG, 7 October 2016) — On 12 September 2016, a Disciplinary Committee of the Hong Kong Institute of Certified Public Accountants reprimanded Yuen Suk Ching (membership number A02183) and Leung Tai Keung (membership number A01132) for their failure or neglect to observe, maintain or otherwise apply professional standards issued by the Institute. Yuen and Leung were ordered to pay penalties of HK\$70,000 and HK\$50,000 respectively. In addition, they were ordered to pay costs and expenses of the disciplinary proceedings of the Institute and the Financial Reporting Council ("FRC") totalling HK\$54,123.60.

Yuen and Leung were previously partners of HLM & Co., a firm which is now de-registered. The firm issued an unmodified auditor's opinion on the financial statements of a Hong Kong listed company and its subsidiaries ("Group") for the year ended 31 March 2012. Yuen was the engagement partner who signed the audit report. Leung was the engagement quality control reviewer. The audited financial statements of the Group for the year ended 31 March 2013 recorded retrospective restatements in relation to the Group's investment in two convertible bonds.

The Institute received a referral from the FRC about non-compliance with professional standards in the audit work carried out by HLM & Co. on the accounting treatment and valuation of the two convertible bonds for the year ended 31 March 2012. After considering the information available, the Institute lodged complaints against Yuen and Leung under section 34(1)(a)(vi) of the Professional Accountants Ordinance, Cap 50.

Yuen and Leung admitted the complaints against them. The Disciplinary Committee found that:

- (1) Yuen was in breach of Hong Kong Standard on Auditing ("HKSA") 700 *Forming an Opinion and Reporting on Financial Statements* and HKSA 500 *Audit Evidence*; and
- (2) Leung was in breach of HKSA 220 *Quality Control for an Audit of Financial Statements*.

Source: [HK Institute of CPA Press Release, October 7, 2016](#)<sup>14</sup>

We doubt that Mega Expo's auditor, whose only other major client was notorious stock manipulation scheme China DYF, is likely to alert the capital markets to trouble or to adequately police the authenticity of Mega Expo's financial statements.

#### **4) Abnormally High Director Turnover**

Companies committing fraud often have high director turnover as they struggle to convince directors to incur the liability of signing off on false financial statements. Again, in this case, the shoe fits.

- Mega Expo has had 4 chairmen and 4 chief executive officers since 2014.
- Each year, an average of 3-4 directors resigned, which is considerable given that the Company has only had 6-7 board seats at any given time.

<sup>13</sup> Market capitalization as of April 30, 2019.

<sup>14</sup> [https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6\\_standards/compliance/disciplinary/2016/10/pr-20161007-en.pdf](https://www.hkicpa.org.hk/-/media/HKICPA-Website/HKICPA/section6_standards/compliance/disciplinary/2016/10/pr-20161007-en.pdf)

Name	Appointed On	Resigned On	Number of days on the board
<b>Chairman</b>			
Mr. Lee Chi Sang	21-Aug-2012	31-Jul-2015	1,074
Mr. Lam Wa	31-Jul-2015	29-Apr-2016	273
Mr. Ge Jin	29-Apr-2016	12-May-2017	378
Mr. Deng Zhonglin	12-May-2017		
Average tenure for resigned chairmen			575
<b>Chief Executive Officer</b>			
Mr. Lee Chi Sang	21-Aug-2012	31-Jul-2015	1,074
Mr. Sun Sizhi	31-Jul-2015	9-Mar-2017	587
Mr. Deng Zhonglin	9-Mar-2017	21-Jun-2018	469
Mr. Xu Feng	21-Jun-2018		
Average tenure for resigned CEOs			710
<b>Executive Director</b>			
Mr. Lee Chi Sang	21-Aug-2012	31-Jul-2015	1,074
Mr. Si Tze Fung	21-Aug-2012	9-Nov-2015	1,175
Mr. Lam Wa	31-Jul-2015	29-Apr-2016	273
Mr. Sun Sizhi	31-Jul-2015	9-Mar-2017	587
Mr. Ge Jin	29-Apr-2016	12-May-2017	378
Mr. Liu Gejiang	5-Jun-2015	14-Oct-2016	497
Ms. Yang Yan	22-Apr-2016	14-Oct-2016	175
Mr. Du Changqing	9-Nov-2015	18-Jan-2016	70
Mr. Deng Zhonglin	14-Oct-2016		
Ms. Zhang Jun	14-Oct-2016	27-Apr-2018	560
Mr. Lu Linyu	9-Mar-2017	6-Dec-2017	272
Mr. Au-Yong Shong Samuel	13-Dec-2017	21-Jun-2018	190
Mr. Xu Feng	21-Jun-2018		
Average tenure for resigned Executive Directors			477
<b>Non-executive Directors</b>			
Mr. Chu Kwok Man	18-Oct-2013	5-Jun-2015	595
Mr. Leung Hung Kee	18-Oct-2013	11-Nov-2014	389
Mr. Yeung Wai Keung	18-Oct-2013	4-Jul-2014	259
Mr. Law Sung Ching, Gavin	12-Sep-2014	17-Jul-2015	308
Mr. Yeung Chun Yue, David	2-Dec-2014	9-Mar-2017	828
Mr. Wong Ka Fai, Paul	5-Jun-2015	9-Nov-2015	157
Mr. Choi Hung Fai	17-Jul-2015		
Mr. Yang Bo	9-Nov-2015	7-Dec-2017	759
Mr. Tsang Wing Ki	9-Mar-2017		
Dr. Wong Kong Tin, JP	13-Dec-2017		
Mr. Qiu Peiyuan	11-Oct-2018		
Average tenure for resigned Non-Executive Directors			471
<b>Average tenure for resigned Chairmen, CEOs, and Directors</b>			<b>517</b>

Source: Company Annual & Interim Report

## VALUATION

On valuation alone, we would expect an 92% downside to Mega Expo's stock price. In a recent acquisition [circular](#), Mega Expo identified several publicly listed companies which it considers peers. Yet even a cursory glance at these self-selected peers shows that Mega Expo's stock is laughably overpriced. Mega Expo is currently trading at 13.3x LTM revenues and 21.8x book value, nowhere close to its supposed peers, who are trading at an average of 0.6x sales and 1.7x book value.

HKD M							LTM
Company Name	Ticker	Market Cap	EV	P/S LTM	P/E LTM	P/B	EV/EBITDA
Pico Far East	752-HK	3,280	2,500	0.7x	12.1x	1.7x	5.6x
Enero Group	EGG-AU	639	442	0.5x	10.2x	1.0x	4.1x
Hakuten	2173-JP	399	454	0.4x	16.4x	4.6x	8.5x
TOW	4767-JP	1,147	932	1.0x	12.3x	1.8x	6.4x
CMO	CMO-TH	100	186	0.3x	7.8x	0.9x	3.0x
Dyandra Media Intl	DYAN-ID	253	311	0.4x	6.0x	0.7x	2.8x
<b>Industry Average</b>		<b>970</b>	<b>804</b>	<b>0.6x</b>	<b>10.8x</b>	<b>1.7x</b>	<b>5.1x</b>
<b>Mega Expo</b>	<b>1360-HK</b>	<b>6,144</b>	<b>6,181</b>	<b>13.3x</b>	<b>N/A</b>	<b>21.8x</b>	<b>N/A</b>

Source: FactSet, Blue Orca Calculation; Market caps as of May 8, 2019

Mega Expo is so overvalued that even if we ignore any evidence of corruption, we would expect an 92% downside to its stock price.

HKD	LTM	HKD	31-Dec-18
Last Traded Price	4.20	Last Traded Price	4.20
Revenue (HKD M)	463	Book Value (HKD M)	281
# of Shares (M)	1,463	# of Shares (M)	1,463
Sales per share	0.32	Book value per share	0.19
Industry Average P/S LTM	0.6x	Industry Average P/B	1.7x
<b>Adjusted Price</b>	<b>0.18</b>	<b>Adjusted Price</b>	<b>0.34</b>
<b>Downside %</b>	<b>-96%</b>	<b>Downside %</b>	<b>-92%</b>

Source: Blue Orca Calculation

In this report, we present overwhelming evidence indicating, in our opinion, that Mega Expo has engaged in HKD 470 million of mostly sham acquisitions over the last two years. Mega Expo paid unreasonably high premiums to purchase companies, most of which were either empty shells or newly formed businesses with insignificant revenues, minimal to no assets, and an undefined or invisible operating footprint. In many cases, these acquired companies have no functioning websites, active WeChat accounts, or online presence.

We also believe that Mega Expo has fabricated its revenues, both from its questionable acquisitions and its newly formed subsidiaries which seemingly generate revenues out of nowhere without any evidence of an operating business.

In our view, Mega Expo has engaged in a stealth reverse merger with a shadowy entertainment group connected to prostitution in China. On this basis alone, we believe that Hong Kong regulators must act to protect investors and prevent undisclosed parties with connections to criminal organizations from taking over a listed Company.

We believe that Mega Expo is more sensibly compared to notorious frauds and stock manipulations like Tech Pro and China DYF, which either collapsed or have been suspended by the Hong Kong regulators.

**Mega Expo Likely to Follow: Share Price Drops to Zero or Trading Halts**

HKD M							LTM
Company Name	Ticker	Market Cap	EV	P/S LTM	P/E LTM	P/B	EV/EBITDA
Tech Pro (suspended)	3823-HK	14,839	14,843	56.4x	N/A	17.4x	N/A
China Ding Yi Feng (suspended)	612-HK	28,568	28,675	780.3x	222.2x	77.5x	154.4x
<b>Mega Expo</b>	<b>1360-HK</b>	<b>6,144</b>	<b>6,181</b>	<b>13.3x</b>	<b>N/A</b>	<b>21.8x</b>	<b>N/A</b>



Source: FactSet, Blue Orca Calculation, Google Finance

Note: 1. Market cap for Tech Pro is as of July 27, 2016, the day before we exposed its fraudulent transactions. Its financials are as of June 30, 2016.

2. Market cap for China DYF is based on its last traded price before it was suspended from trading on March 8, 2019. Its financials are as of December 31, 2018.

Like Tech Pro and China DYF, we believe that Mega Expo is an obvious fraud, that its equity is **worth HKD 0.00** and trading of its stock should be halted to protect future investors and hopefully provide a modicum of recovery for shareholders and creditors.

**DISCLAIMER**

*We are short sellers. We are biased. So are long investors. So is Mega Expo. So are the banks that raised money for the Company. If you are invested (either long or short) in Mega Expo, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.*

*You are reading a short-biased opinion piece. Obviously, we will make money if the price of Mega Expo stock declines. This report and all statements contained herein are solely the opinion of BOC Texas, LLC, and are not statements of fact. Our opinions are held in good faith, and we have based them upon publicly available evidence, which we set out in our research report to support our opinions. We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decisions. We are prepared to support everything we say, if necessary, in a court of law.*

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