

NOVACON TECHNOLOGY GROUP LIMITED 連成科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8635

2019

THIRD QUARTERLY REPORT



CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chung Chau Kan (*Chief Executive Officer*)
Mr. Wong Wing Hoi

Non-executive Director

Mr. Wei Ming (*Chairman*)

Independent Non-executive Directors

Mr. Moo Kai Pong
Mr. Lo Chi Wang
Mr. Wu Kin San Alfred

COMPANY SECRETARY

Ms. Chan Lok Yee (*ACIS, ACS*)

COMPLIANCE OFFICER

Mr. Chung Chau Kan

AUTHORISED REPRESENTATIVES

Mr. Chung Chau Kan
Ms. Chan Lok Yee

AUDIT COMMITTEE

Mr. Lo Chi Wang (*Chairman*)
Mr. Moo Kai Pong
Mr. Wu Kin San Alfred

REMUNERATION COMMITTEE

Mr. Moo Kai Pong (*Chairman*)
Mr. Chung Chau Kan
Mr. Wu Kin San Alfred

NOMINATION COMMITTEE

Mr. Wei Ming (*Chairman*)
Mr. Moo Kai Pong
Mr. Wu Kin San Alfred

COMPLIANCE ADVISER

Dongxing Securities (Hong Kong) Company Limited
6805-6806A, 68/F,
International Commerce Centre,
1 Austin Road West, Kowloon, Hong Kong

PRINCIPAL BANKERS

China Construction Bank (Asia) Corporation Limited
28/F, CCB Tower, 3 Connaught Road Central,
Central, Hong Kong

The Hongkong and Shanghai Banking
Corporation Limited
1 Queen's Road Central, Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive, P.O. Box 2681,
Grand Cayman KY1-1111, Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Office E, 17th Floor, EGL Tower,
No. 83 Hung To Road, Kwun Tong, Kowloon,
Hong Kong

HONG KONG LEGAL ADVISERS

H.M. Chan & Co
in association with Taylor Wessing
21/F, 8 Queen's Road Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P.O. Box 2681,
Grand Cayman KY1-1111, Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre, 183 Queen's Road East,
Hong Kong

STOCK CODE

8635

WEBSITE OF THE COMPANY

www.novacontechgroup.com

Unaudited Third Quarterly Results

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the three months and nine months ended 31 December 2019, together with the unaudited comparative figures for the corresponding period in 2018, as follows:

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months and nine months ended 31 December 2019

	Note	Three months ended 31 December		Nine months ended 31 December	
		2019	2018	2019	2018
		HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Revenue	4	10,815	12,469	31,883	32,502
Other income	5	200	8	589	41
Expenses					
Cost of sales of computer hardware and software		–	(1,042)	–	(1,042)
License and subscription cost		(565)	(397)	(1,469)	(1,187)
Internet services cost		(746)	(489)	(1,894)	(1,471)
Employee benefit expenses		(5,223)	(2,853)	(11,045)	(9,054)
Depreciation of property and equipment		(639)	(503)	(1,728)	(987)
Amortisation of intangible assets		(888)	(741)	(2,566)	(2,028)
Rental expenses		–	(1,318)	–	(2,666)
Fair value adjustment to an investment property		–	830	–	3,400
Listing expenses		–	123	(4,528)	(6,778)
Other expenses		(1,083)	(744)	(3,912)	(1,955)
Finance costs		(47)	(59)	(167)	(181)
Profit before income tax		1,824	5,284	5,163	8,594
Income tax expense	6	(910)	(714)	(2,659)	(1,979)
Profit and total comprehensive income attributable to owners of the Company for the period		914	4,570	2,504	6,615
Earnings per share attributable to owners of the Company for the period					
– Basic and diluted (express in HK cents per share)	7	0.23	1.52	0.64	2.21

Unaudited Condensed Consolidated Statement of Changes in Equity

For the nine months ended 31 December 2019

	Share capital HK\$'000 (Note 9)	Other reserves HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 April 2018 (audited)	*	7,500	39,801	47,301
Total comprehensive income				
Profit and other comprehensive income for the period	–	–	6,615	6,615
At 31 December 2018 (unaudited)	*	7,500	46,416	53,916
At 1 April 2019 (audited)	*	7,500	46,286	53,786
Total comprehensive income				
Profit and other comprehensive income for the period	–	–	2,504	2,504
Transaction with owners in their capacity as owners				
Issue of ordinary Shares	1,000	52,000	–	53,000
Capitalisation issue of Shares	3,000	(3,000)	–	–
Capitalisation of Listing expenses	–	(14,008)	–	(14,008)
Share-based payments	–	622	–	622
At 31 December 2019 (unaudited)	4,000	43,114	48,790	95,904

* Less than HK\$1,000

Notes to the Unaudited Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 7 February 2018 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Shares were listed on GEM by way of placing and public offer on the Listing Date. The address of the Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business is located at Office E, 17th Floor, EGL Tower, No. 83 Hung To Road, Kwun Tong, Kowloon, Hong Kong. The Company is an investment holding company. The Group is principally engaged in the development and provision of financial trading solutions and development and supply of resource allocation, planning, scheduling and management of software and services.

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2019 have been prepared in accordance with HKFRSs and the applicable disclosure provisions of the GEM Listing Rules.

The unaudited condensed consolidated financial statements for the nine months ended 31 December 2019 should be read in conjunction with the audited consolidated financial statements for the year ended 31 March 2019 and the notes thereto (the **"2019 Audited Consolidated Financial Statements"**). The significant accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements are consistent with those followed in the preparation of the 2019 Audited Consolidated Financial Statements except for the new and revised standards, amendments and interpretations issued by the HKICPA that are adopted for the first time for the current periods financial statements. It should be noted that accounting estimates and assumptions were adopted in the preparation of the unaudited condensed consolidated financial statements. Although the estimates are based on the management's best knowledge of and judgement on the present events and actions, the actual results may eventually differ from those estimates.

The unaudited condensed consolidated financial statements has not been audited or reviewed by the Company's external auditors, but has been reviewed by the Audit Committee.

3. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Certain new and revised HKFRSs have been issued. The Directors considered that the adoption of those new HKFRSs which are effective for the accounting periods beginning on 1 April 2019 will not have any material impact on the preparation and presentation of the results and financial conditions of the current period and previous periods. For the HKFRSs that are not yet effective nor have not been early adopted, the Group is in the process of making an assessment of the potential impact of the new issued HKFRSs.

Notes to the Unaudited Condensed Consolidated Financial Statements

4. REVENUE

	Three months ended 31 December		Nine months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Licensing and maintenance services	10,408	9,779	31,274	28,021
Initial set up and customisation services	407	1,430	609	3,221
Sales of computer hardware and software	–	1,260	–	1,260
	10,815	12,469	31,883	32,502

(a) **Disaggregation of revenue from contracts with customers**

During the nine months ended 31 December 2019, all sources of revenue were recognised over time (2018: same, except for revenue from sales of computer hardware and software which was recognised at a point in time).

(b) **Segment information**

The executive Directors have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance and allocate resources. For the nine months ended 31 December 2019, the Directors considered that the Group's operations were operated and managed as a single segment and no separate segment information was presented for the financial years (2018: same).

The Group domiciles and operates in Hong Kong. All revenue of the Group was generated in Hong Kong during the nine months ended 31 December 2019 (2018: same).

(c) Certain customers contributed more than 10% of the total sales of the Group during the period. The amount of sales of these customers are disclosed as follows:

	Three months ended 31 December		Nine months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Customer A	1,961	1,954	5,873	6,186
Customer B	*	1,899	*	3,547
Customer C	*	1,590	*	3,474

*: The revenue of the particular customer for the particular period was less than 10% of the Group's revenue for the particular period.

Notes to the Unaudited Condensed Consolidated Financial Statements

5. OTHER INCOME

	Three months ended 31 December		Nine months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Commission income	3	4	9	10
Bank interest income	197	4	580	5
Sundry income	–	–	–	26
	200	8	589	41

6. INCOME TAX EXPENSE

Hong Kong profits tax is levied at progress rate at 8.25% on the estimated assessable profit below HK\$2,000,000, and thereafter at a fixed rate at 16.5% for the nine months ended 31 December 2019 (2018: fixed rate at 16.5%). The amount of tax charges to the unaudited condensed consolidated statement of comprehensive income represents:

	Three months ended 31 December		Nine months ended 31 December	
	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2019 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)
Hong Kong profits tax				
– Current period	903	831	2,412	2,178
Deferred income tax	7	(117)	247	(199)
Income tax expense	910	714	2,659	1,979

Notes to the Unaudited Condensed Consolidated Financial Statements

7. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary Shares in issue during the period.

	Three months ended 31 December		Nine months ended 31 December	
	2019 (unaudited)	2018 (unaudited)	2019 (unaudited)	2018 (unaudited)
Profit attributable to owners of the Company (HK\$'000)	914	4,570	2,504	6,615
Weighted average number of ordinary Shares in issue for the purpose of calculation of basic earnings per share (thousands)	400,000	300,000	388,727	300,000
Effect of diluted potential ordinary Shares as a result of the Share Options granted	–	–	–	–
Weighted average number of ordinary Shares in issue for the purpose of calculation of diluted earnings per share (thousands)	400,000	300,000	388,727	300,000
Basic and diluted earnings per share (HK cents)	0.23	1.52	0.64	2.21

Notes:

- (i) The weighted average number of Shares in issue for the periods ended 31 December 2019 and 2018 for the purpose of earnings per share computation has been retrospectively adjusted for the effect of the 90 Shares issued on 21 March 2019, 299,999,900 Shares issued under the capitalisation issue and 100,000,000 Shares issued for the Listing which took place on the Listing Date.
- (ii) The computation of diluted earnings per share for the periods does not assume the conversion of the Company's outstanding Share Options because the adjusted exercise price of those Share Options is higher than the average market price of the shares for the periods which is regarded as anti-dilutive.

Notes to the Unaudited Condensed Consolidated Financial Statements

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the nine months ended 31 December 2019 (2018: nil).

9. SHARE CAPITAL

	Number of Shares	Nominal value HK\$'000 (unaudited)
Authorised:		
At 1 April 2018 (audited)	38,000,000	380
Increase in authorised share capital on 29 March 2019	9,962,000,000	99,620
At 31 March 2019 (audited)	10,000,000,000	100,000
At 31 December 2019 (unaudited)	10,000,000,000	100,000
Issued and fully paid:		
Ordinary Shares of HK\$0.01 each		
At 1 April 2018 (audited)	10	*
Issuance of Shares pursuant to the Reorganisation (as defined in the 2019 Audited Consolidated Financial Statements) on 21 March 2019	90	*
At 31 March 2019 and 1 April 2019 (audited)	100	*
Capitalisation issue of Shares on the Listing Date	299,999,900	3,000
Issue of ordinary Shares on the Listing Date	100,000,000	1,000
At 31 December 2019	400,000,000	4,000

* Less than HK\$1,000

Management Discussion and Analysis

BUSINESS REVIEW

We are a Hong Kong-based financial trading solution provider principally engaged in the development and provision of financial trading solutions. We mainly provide comprehensive and integrated financial trading solutions that enable trading of OTC-traded financial instruments, stock exchange-traded financial instruments and fund management to brokerage firms and wealth management companies to satisfy their various business needs.

For the nine months ended 31 December 2019, the Group recorded a revenue of approximately HK\$31.9 million, representing a decrease of approximately 2% from approximately HK\$32.5 million recorded for the nine months ended 31 December 2018. Profit attributable to owners of the Company for the nine months ended 31 December 2019 amounted to approximately HK\$2.5 million, representing a decrease of approximately 62% as compared with the profit of approximately HK\$6.6 million for the nine months ended 31 December 2018 mainly due to decrease in revenue by approximately HK\$0.6 million, decrease in fair value gain on investment property by approximately HK\$3.4 million and increase in some of the expenses by approximately HK\$6.7 million in total, including but not limited to increase in license and subscription cost of approximately HK\$0.3 million, internet service cost of approximately HK\$0.4 million, employee benefit expenses of approximately HK\$2.0 million, depreciation of property and equipment of approximately HK\$0.7 million, amortisation of intangible assets of approximately HK\$0.6 million, other expenses of approximately HK\$2.0 million and income tax expense of approximately HK\$0.7 million. It was partially offset by increase in other income by approximately HK\$0.6 million and decrease in cost of computer hardware and software, rental expenses and listing expenses of approximately HK\$1.0 million, HK\$2.7 million and HK\$2.3 million, respectively. If the fair value adjustment to an investment property and listing expenses were excluded, the profit attributable to owners of the Company decreased by approximately 30% from approximately HK\$10.0 million for the nine months ended 31 December 2018 to approximately HK\$7.0 million for the nine months ended 31 December 2019.

OUTLOOK

In line with the Group's long term objective to strengthen our position as a financial technology solution provider and to expand our market share, the Group intends to expend resources on enhancing and upgrading our existing financial trading solutions, exploring the development of new IT solutions, establishing our research and development centre and pursuing selective acquisition(s).

Looking ahead, the financial technology industry is a fast-evolving industry. In recent years, financial service market practitioners are incorporating prevailing technologies such as big data and cloud computing into the finance industry. In addition, industry competition is expected to continue to intensify in the near future and financial technology is taking a more and more important role in the trading process, from pre-trade risk management to clearing and settlement. Market participants are actively exploring ways to perform system upgrades and service enhancements. In particular, cloud, algo-trading, big data and artificial intelligence applications are increasingly important in the areas of investment, trading, clearing and settlement as well as regulation. As such, the Group plans to explore new business initiatives by diversifying our financial trading solutions with an aim to becoming a one-stop financial trading solution provider covering the whole life cycle of trading and settlement process from order placing, risk management, compliance to settlement.

In line with the fast evolving business environment and the continuous innovation of the financial market, the Group responded swiftly to the needs of the financial institutions by broadening our IT offerings to our clients.

In addition, in view of the Group's stable revenue in recent years, the Group plans to continue to commit in research and development of our financial trading solutions by (a) enhancing and upgrading our financial trading solutions; and (b) incorporating prevailing technologies to promote algo-trading and awareness of our trading terminal and trading systems. Our management is devoted to retaining experienced staff members and maintaining sustainable recruitment, finding suitable location for the research and development centre and identifying suitable target for acquisition. For details of how the Group expects to utilise the net proceeds from the Listing in light of the future prospects of the Group in the financial technology industry, please refer to the paragraph headed "Use of Proceeds from the Listing" under the section headed "Management Discussion and Analysis" of the 2019 annual report of the Company.

The Directors believe that the financial resources obtained by the Group from the Listing will strengthen its financial position and enable it to implement its business plan as mentioned above.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group derives its revenue primarily from the provision of financial trading solutions which can be classified into (i) licensing and maintenance services; (ii) initial set up and customisation services; and (iii) sales of computer hardware and software. For the nine months ended 31 December 2019, the Group recorded revenue of approximately HK\$31.9 million, representing a decrease of approximately 2% as compared with the previous period of approximately HK\$32.5 million. The following table sets forth the breakdown of our revenue by source of revenue:

	Three months ended 31 December				Nine months ended 31 December			
	2019		2018		2019		2018	
	HK\$'000 (unaudited)	%	HK\$'000 (unaudited)	%	HK\$'000 (unaudited)	%	HK\$'000 (unaudited)	%
Licensing and maintenance services	10,408	96	9,779	78	31,274	98	28,021	86
Initial set up and customisation services	407	4	1,430	12	609	2	3,221	10
Sales of computer hardware and software	-	-	1,260	10	-	-	1,260	4
Total	10,815	100	12,469	100	31,883	100	32,502	100

The slight decrease was mainly attributable to the decrease in revenue from initial set up and customisation services and sales of computer hardware and software and it was partially offset by an increase in revenue from licensing and maintenance services. Revenue from initial set up and customisation services decreased by approximately 81% from approximately HK\$3.2 million for the nine months ended 31 December 2018 to approximately HK\$0.6 million for the nine months ended 31 December 2019. In addition, there was no sales of computer hardware and software during the nine months ended 31 December 2019 (2018: approximately HK\$1.3 million). Both initial set up and customisation services and sales of computer hardware and software are generally provided on an on-demand basis, depending on our customers' business needs. However, revenue from licensing and maintenance services increased by approximately 12% from approximately HK\$28.0 million for the nine months ended 31 December 2018 to approximately HK\$31.3 million for the nine months ended 31 December 2019. It was primarily because existing customers acquired new features on existing products they previously acquired for their business needs.

Other Income

The Group's other income consists of interest income on bank deposits and commission income generated from the referral of internet access services. The Group's other income were approximately HK\$589,000 and HK\$41,000 for the nine months ended 31 December 2019 and 2018, respectively. Such increase was mainly because the bank deposits increased significantly after obtaining the proceeds from Listing.

Cost of Sales of Computer Hardware and Software

For the nine months ended 31 December 2019, no cost of sales of computer hardware and software were incurred (2018: approximately HK\$1.0 million). This was in line with the decrease in sales of computer hardware and software as above-mentioned.

Management Discussion and Analysis

License and Subscription Cost

For the nine months ended 31 December 2019, the Group's license and subscription cost was approximately HK\$1.5 million, representing an increase of approximately 24% over the same cost of approximately HK\$1.2 million for the nine months ended 31 December 2018. Such increase was mainly due to increase in number of suppliers (2019: 7; 2018: 6) for business needs and implementation of our business plan as mentioned in the paragraph headed "Outlook" under this section.

Internet Services Cost

For the nine months ended 31 December 2019 and 2018, the Group's internet services cost were approximately HK\$1.9 million and HK\$1.5 million, respectively. For business needs and implementation of our business plan as mentioned in the paragraph headed "Outlook" under this section, we increased our number of suppliers (2019: 9; 2018: 6).

Intangible Assets

For the nine months ended 31 December 2018 and 2019, our research and development expenses (which were mostly included in employee benefit expenses) amounted to approximately HK\$4.7 million and HK\$5.8 million, respectively. Out of the total research and development costs, approximately HK\$3.5 million and HK\$4.1 million for the nine months ended 31 December 2018 and 2019, respectively, were capitalised as intangible assets.

Employee Benefit Expenses

For the nine months ended 31 December 2019, the Group's employee benefit expenses were approximately HK\$11.0 million, representing an increase of approximately 22% over the employee benefit expenses of approximately HK\$9.0 million for the nine months ended 31 December 2018. The increase is primarily because of the increase in staff cost by approximately HK\$1.0 million in total for implementation of our business plan as mentioned in the paragraph headed "Outlook" under this section, increase in gratuity paid to terminated staffs by approximately HK\$0.6 million, increase in allowance to management and director fee by approximately HK\$0.6 million after the Listing and increase in share-based payment by approximately HK\$0.6 million. It was partially offset by decrease in performance bonus and special bonus paid and payable to staff by approximately HK\$0.2 million and increase in capitalised staff cost as intangible assets by approximately HK\$0.6 million.

Depreciation of Property and Equipment

The Group's depreciation of property and equipment was approximately HK\$1.7 million for the nine months ended 31 December 2019, representing an increase of approximately 75% from approximately HK\$1.0 million for the nine months ended 31 December 2018. The increase was primarily due to the increase in depreciation on property reclassified from investment property to land and building as we began using a self-owned property located at Office E on 17th Floor, EGL Tower, No. 83 Hung To Road, Hong Kong (the "Property"), as our office in October 2018.

Amortisation of Intangible Assets

The Group's amortisation of intangible assets was approximately HK\$2.6 million for the nine months ended 31 December 2019, representing an increase of approximately 27% from approximately HK\$2.0 million for the nine months ended 31 December 2018. The increase was primarily due to additions of computer software systems mainly contributed from staff costs capitalised during the year ended 31 March 2019.

Rental Expenses

For the nine months ended 31 December 2019, no rental expenses were incurred (2018: approximately HK\$2.7 million). The decrease was primarily due to the Group entering into a surrender agreement with the landlord for early termination in respect of the leased premises in November 2018 and self-use of the Property as operating office since January 2019.

Management Discussion and Analysis

Fair Value Adjustment to an Investment Property

The Property was acquired in January 2018 at approximately HK\$31.4 million, with transaction cost of approximately HK\$2.7 million. It was initially recognised as investment property and subject to fair value adjustment. On 15 October 2018, the Property was reclassified as property and equipment in the consolidated statement of financial position, as the management of the Group had passed a resolution to change the usage of the Property from earning rental to self-use as operating office. We recorded a fair value gain to our investment property of approximately HK\$3.4 million up to the date of reclassification from investment property to property and equipment during the nine months ended 31 December 2018. For details, please refer to note 14 to the 2019 Audited Consolidated Financial Statements.

Valuation of Property

For the purpose of the Listing, a valuation as at 31 January 2019 was conducted on the Property. As above-mentioned, on 15 October 2018, the Property was reclassified as property and equipment in the consolidated statement of financial position, as the management of the Group had passed a resolution to change the usage of the Property from earning rental to self-use as operating office. As detailed in note 2.5 to the 2019 Audited Consolidated Financial Statements, the property and equipment is carried at historical cost less depreciation and impairment loss. Accordingly, no additional depreciation would be charged to the consolidated statement of comprehensive income regardless of the changes in market value of the Property.

Listing Expenses

Listing expenses comprise professional and other expenses in relation to our Listing. They were recognised based on percentage of completion of the Listing by various professional parties. The Group's listing expenses was approximately HK\$4.5 million for the nine months ended 31 December 2019, representing a decrease of approximately 33% from approximately HK\$6.8 million for the nine months ended 31 December 2018.

Other Expenses

The Group's other expenses mainly include (i) legal and professional fee; (ii) auditors' remuneration; (iii) building management fees; and (iv) advertising expenses. The Group's other expenses for the nine months ended 31 December 2019 were approximately HK\$3.9 million, representing an increase of approximately 100% over the other expenses of approximately HK\$1.9 million for the nine months ended 31 December 2018. The increase was primarily attributable to the increase in legal and professional fee and auditors' remuneration after the Listing.

Finance Costs

Finance costs remain constant at approximately HK\$0.2 million for the nine months ended 31 December 2019 and 2018. It was primarily because borrowing costs capitalized as development cost of intangible assets increased by approximately 53% from approximately HK\$94,000 for the nine months ended 31 December 2018 to approximately HK\$144,000 for the nine months ended 31 December 2019 offset by an increase in variable interest rate which resulted in increase in finance costs by approximately 13% from approximately HK\$275,000 for the nine months ended 31 December 2018 to approximately HK\$311,000 for the nine months ended 31 December 2019.

Profit Before Income Tax

Profit before income tax for the nine months ended 31 December 2019 amounted to approximately HK\$5.2 million (2018: HK\$8.6 million). Such decrease was primarily due to the decrease in revenue by approximately HK\$0.6 million, decrease in fair value gain on investment property by approximately HK\$3.4 million and increase in license and subscription cost, internet service cost, employee benefit expenses, depreciation of property and equipment, amortisation of intangible assets and other expenses by approximately HK\$6.0 million in total (as explained item by item above) and partially offset by increase in other income by approximately HK\$0.6 million and decrease in cost of computer hardware and software, rental expenses and listing expenses by approximately HK\$6.0 million in total (as explained item by item above). If the fair value adjustment to an investment property and listing expenses were excluded, the profit before income tax of the Company decreased by approximately 19% from approximately HK\$12.0 million for the nine months ended 31 December 2018 to approximately HK\$9.7 million for the nine months ended 31 December 2019.

Management Discussion and Analysis

Income Tax Expense

The Group's income tax expense for the nine months ended 31 December 2019 was approximately HK\$2.7 million, representing an increase of approximately 34% from approximately HK\$2.0 million for the nine months ended 31 December 2018. Such increase was mainly due to the recognition of deferred tax liability of accumulated fair value changes of investment property. The effective income tax rates of the Group, which equal to the income tax expense divided by profit before tax, were approximately 51.5% and 23.0% for the nine months ended 31 December 2019 and 2018, respectively. If the fair value adjustment to an investment property, listing expenses, non-deductible corporate expenses after the Listing and above-mentioned deferred tax were excluded, the effective income tax rates would be approximately 20.1% and 16.5% for the nine months ended 31 December 2019 and 2018, respectively.

Profit Attributable to Owners of the Company for the Period

Profit attributable to owners of the Company for the nine months ended 31 December 2019 amounted to approximately HK\$2.5 million, representing a decrease of approximately 62% as compared with the profit of approximately HK\$6.6 million for the nine months ended 31 December 2018. Such decrease was due to the combination of above-mentioned reasons, and the increase in income tax expense by approximately HK\$0.7 million. If the fair value adjustment to an investment property and listing expenses were excluded, the profit attributable to owners of the Company decreased by approximately 30% from approximately HK\$10.0 million for the nine months ended 31 December 2018 to approximately HK\$7.0 million for the nine months ended 31 December 2019.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the nine months ended 31 December 2019 and up to the date of this report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities, convertible securities, options, warrants or similar rights of the Company.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance. The Directors believe that sound and reasonable corporate governance practices are essential in providing a framework for the Company to safeguard the interest of Shareholders, enhance corporate value, formulate its business strategies and policies, and enhance its transparency and accountability.

The Company has adopted the principles and code provisions as set out in the CG Code contained in Appendix 15 of the GEM Listing Rules as the basis of the Company's corporate governance practices.

The CG Code has been applicable to the Company with effect from the Listing Date. The Board is of the view that since the Listing Date and up to the date of this report, the Company has complied with all applicable code provisions as set out in the CG Code.

Management Discussion and Analysis

SHARE OPTION SCHEME

The Company has adopted the Share Option Scheme on 29 March 2019. The principal terms of the Share Option Scheme were summarised in the paragraph headed “Statutory and General Information – D. Share Option Scheme” in Appendix VI to the Prospectus.

On 15 August 2019, the Company has granted a total number of 36,400,000 share options (the “Share Options”) to certain eligible participants (the “Grantees”) under the Share Option Scheme which will entitle the Grantees to subscribe for a total number of 36,400,000 Shares. The validity period of the Share Options shall be ten years from 15 August 2019, being the date of grant (the “Date of Grant”), to 14 August 2029 (both dates inclusive). The Share Options shall lapse at the expiry of the validity period. The vesting and exercise periods of the Share Options shall be as follows:

- (1) 50% of the Share Options granted shall be exercisable from 15 August 2020, being the first anniversary date of the Date of Grant, to 14 August 2029 (both dates inclusive); and
- (2) the remaining 50% of the Share Options granted shall be exercisable from 15 August 2021, being the second anniversary date of the Date of Grant, to 14 August 2029 (both dates inclusive).

The following table sets out the movements in the Company’s Share Options under the Share Option Scheme during the nine months ended 31 December 2019:

Among the 36,400,000 Share Options granted above, 4,800,000 Share Options were granted to two Grantees who are a Director and an associate of a Director and substantial shareholder of the Company (the “Connected Grantees”). For details, please refer to the relevant announcement of the Company dated 15 August 2019 published in the websites of the Stock Exchange and the Company. The movements of the Share Options granted under the Share Option Scheme during the nine months ended 31 December 2019 are as follows:

Name and position/ capacity of participant	Number of Shares represented by Share Options outstanding as at		Exercise price (HK\$)	Number of Share Options granted during the period	Share Options exercised during the period	Share Options lapsed/ cancelled during the period (Note 2)	Number of Shares represented by Share Options outstanding as at 31 December 2019
	1 April 2019	Date of Grant (Note 1)					
Connected Grantees							
Mr. Wong Wing Hoi (Executive Director)	-	15 August 2019	0.178	4,000,000	-	-	4,000,000
Mr. Wei Chun Pong Benjamin (Associate of a Non-executive Director and Substantial Shareholder)	-	15 August 2019	0.178	800,000	-	-	800,000
Employees	-	15 August 2019	0.178	31,600,000	-	4,000,000	27,600,000
Total number of Share Options				36,400,000	-	4,000,000	32,400,000

Notes:

1. The closing price per Share is HK\$0.158 as stated in the daily quotation sheets issued by the Stock Exchange on 14 August 2019, being the trading day immediately before the Date of Grant.
2. 4,000,000 Share Options lapsed during the nine months ended 31 December 2019 due to resignation of an employee.

Management Discussion and Analysis

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2019, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Name of Director	Company/name of associated corporation	Capacity and nature of interest	Number of ordinary shares of the Company/ associated corporation held <i>(Note 4)</i>	Approximate percentage of the issued voting shares of the Company/ associated corporation
Mr. Wei Ming ("Mr. Wei")	Company	Interest in controlled corporation <i>(Note 1)</i>	210,000,000 (L)	52.5%
Mr. Chung Chau Kan ("Mr. Chung") <i>(Chief Executive Officer)</i>	Company	Interest in controlled corporation <i>(Note 2)</i>	90,000,000 (L)	22.5%
Mr. Wong Wing Hoi	Company	Beneficial owner	4,000,000 (L) <i>(Note 3)</i>	1%
Mr. Wei	Essential Strategy	Beneficial owner	1,000 (L)	100%

Notes:

- (1) The 210,000,000 Shares were held by Essential Strategy Investments Limited ("**Essential Strategy**") which is wholly owned by Mr. Wei. As such, Mr. Wei was deemed to be interested in all the Shares held by Essential Strategy pursuant to Part XV of the SFO.
- (2) The 90,000,000 Shares were held by Expert Wisdom Holdings Limited ("**Expert Wisdom**") which is wholly owned by Mr. Chung. As such, Mr. Chung was deemed to be interested in all the Shares held by Expert Wisdom pursuant to Part XV of the SFO.
- (3) These Shares represent the Share Options granted by the Company on the Date of Grant under the Share Option Scheme adopted by the Company on 29 March 2019.
- (4) The letter "L" denotes "long position" in such Shares.

Saved as disclosed above, as at 31 December 2019, none of the Directors or chief executive of the Company had registered an interest or short position in any Shares or underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which are required to be notified to the Company and the Stock Exchange, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Management Discussion and Analysis

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2019, the following persons (other than the Directors or chief executive of the Company) had interests and short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO, or as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO, or which would be, directly or indirectly, interested in 5% or more of the issued voting Shares were as follows:

Name	Capacity and nature of interest	Number of Shares held (Note 5)	Approximate percentage of the issued voting Shares
Essential Strategy	Beneficial owner (Note 1)	210,000,000 (L)	52.5%
Ms. Wong Siu King	Interest of spouse (Note 2)	210,000,000 (L)	52.5%
Expert Wisdom	Beneficial owner (Note 3)	90,000,000 (L)	22.5%
Ms. Yip Kim Kam	Interest of spouse (Note 4)	90,000,000 (L)	22.5%

Notes:

- Mr. Wei holds 210,000,000 Shares through his wholly owned subsidiary, Essential Strategy.
- Ms. Wong Siu King ("**Ms. Wong**") is the spouse of Mr. Wei. Under the SFO, Ms. Wong is deemed to be interested in the same number of Shares in which Mr. Wei is interested.
- Mr. Chung holds 90,000,000 Shares through his wholly owned subsidiary, Expert Wisdom.
- Ms. Yip Kim Kam ("**Ms. Yip**") is the spouse of Mr. Chung. Under the SFO, Ms. Yip is deemed to be interested in the same number of Shares in which Mr. Chung is interested.
- The letter "L" denotes "long position" in such Shares.

Saved as disclosed above, as at 31 December 2019, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who has interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the "**Securities Transactions Code**").

The Securities Transactions Code was not applicable to the Company before the Listing Date. Specific enquiry has been made with all the Directors and each of the Directors have confirmed that they have complied with the Securities Transactions Code since the Listing Date up to the date of this report.

Since the Listing Date and up to the date of this report, the Company is not aware of any incident of non-compliance of the Securities Transactions Code by the Directors.

Management Discussion and Analysis

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" above, at no time during the nine months ended 31 December 2019 were rights to acquire benefits by means of the acquisition of Shares or debentures of the Company granted to any Directors or chief executive of the Company or their respective associates (as defined under the GEM Listing Rules) or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company or their respective associates (as defined under the GEM Listing Rules) to acquire such rights in any other body corporate.

COMPETING INTEREST

Since the Listing Date and up to the date of this report, none of the Directors or the Controlling Shareholders or their close associates (as defined in the GEM Listing Rules) are interested in any business which competes or may compete, either directly or indirectly, with the business of the Group nor did they have any conflicts of interest with the Group.

INTERESTS OF THE COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, Dongxing Securities (Hong Kong) Company Limited has been appointed as the compliance adviser of the Company (the "**Compliance Adviser**"). Save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 23 May 2018, none of the Compliance Adviser or its directors, employees or close associates (as defined under the GEM Listing Rules) has or may have any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities), which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

REVIEW OF FINANCIAL STATEMENTS

The Company established the Audit Committee on 29 March 2019 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with Rule 5.29 of the GEM Listing Rules and code provision C.3.3 of the CG Code have been adopted. The primary duties of the Audit Committee are to make recommendations to the Board on appointment, reappointment and removal of the external auditor, review and supervise the financial reporting process and the financial controls, internal control and risk management systems of the Company.

The Audit Committee consists of three independent non-executive Directors, being Mr. Lo Chi Wang, Mr. Moo Kai Pong and Mr. Wu Kin San Alfred. Mr. Lo Chi Wang is the chairman of the Audit Committee.

The Group's unaudited condensed consolidated financial statements for the nine months ended 31 December 2019, the accounting policies and practices adopted by the Group, and this report have been reviewed by the Audit Committee in a meeting held on 5 February 2020.

By order of the Board

Wei Ming

Chairman and Non-executive Director

Hong Kong, 5 February 2020

Definitions

In this report, unless the context otherwise requires, the following expressions have the following meanings:

“Audit Committee”	the audit committee of the Board
“Board”	the board of Directors
“CG Code”	Corporate Governance Code and Corporate Governance Report set out in Appendix 15 of the GEM Listing Rules
“Chairman”	the chairman of the Board, as appointed and designated from time to time
“Company”	Novacon Technology Group Limited (連成科技集團有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands on 7 February 2018
“Controlling Shareholder(s)”	has the meaning ascribed to it under the GEM Listing Rules
“Director(s)”	the director(s) of the Company, as appointed from time to time
“GEM”	the GEM operated by the Stock Exchange
“GEM Listing Rules”	Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended, supplemented or otherwise modified from time to time
“Group”	the Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at that time
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HKFRS(s)”	Hong Kong Financial Reporting Standards issued by the HKICPA
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing”	The listing of the Shares on GEM of the Stock Exchange on 2 May 2019
“Listing Date”	2 May 2019, the date on which the Shares were initially listed on GEM of the Stock Exchange

Definitions

"OTC-traded financial instruments"

over-the-counter-traded financial instruments, which are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary

"Prospectus"

the prospectus of the Company published on 15 April 2019 in connection with the Listing

"SFO"

Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time

"Share(s)"

ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company

"Shareholder(s)"

holder(s) of the Shares

"Share Option Scheme"

The share option scheme of the Company adopted by the Shareholders on 29 March 2019

"Stock Exchange"

The Stock Exchange of Hong Kong Limited

"%"

per cent