

# Megalologic Technology Holdings Limited

宏創高科集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8242

Third Quarterly Report 2016

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")**

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*This report, for which the directors (the "Directors") of Megalogic Technology Holdings Limited (the "Company") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (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.*

## THIRD QUARTERLY RESULTS

The board of Directors (the “Board”) of the Company hereby announces the following unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and nine months ended 30 September 2016 together with comparable figures for the corresponding periods in 2015.

### Unaudited Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
<b>Revenue</b>	3	17,550	5,906	42,361	21,893
Cost of sales		(5,576)	(3,410)	(15,051)	(14,718)
<b>Gross profit</b>		11,974	2,496	27,310	7,175
Other income	4	—	17	6	33
Other gains and losses	5	296	(33)	205	(66)
Staff costs		(5,943)	(2,714)	(12,544)	(7,968)
Depreciation		(495)	(371)	(1,287)	(1,085)
Operating lease rental		—	—	—	—
— land and buildings		(672)	(306)	(1,543)	(909)
Other operating expenses		(1,459)	(882)	(7,125)	(3,507)
Finance cost	6	(179)	—	(354)	—
<b>Profit/(loss) before income tax</b>		3,522	(1,793)	4,668	(6,327)
Income tax expense	7	(739)	—	(1,588)	—
<b>Profit/(loss) for the period</b>	8	2,783	(1,793)	3,080	(6,327)
<b>Other comprehensive expense, net of income tax</b>					
<i>Item that may be subsequently reclassified to profit or loss:</i>					
Exchange differences arising on translation		(3)	(12)	(5)	(22)
<b>Total comprehensive income/(expense) for the period</b>		2,780	(1,805)	3,075	(6,349)
<b>Profit/(loss) for the period attributable to:</b>					
Owners of the Company		2,854	(1,793)	2,893	(6,327)
Non-controlling interests		(71)	—	187	—
		2,783	(1,793)	3,080	(6,327)
<b>Total comprehensive income/(expense) for the period attributable to:</b>					
Owners of the Company		2,851	(1,805)	2,888	(6,349)
Non-controlling interests		(71)	—	187	—
		2,780	(1,805)	3,075	(6,349)
<b>Earnings/(loss) per share attributable to owners of the Company</b>	10	HK cents	HK cents	HK cents	HK cents
Basic		0.20	(0.52)	0.21	(2.02)
Diluted		0.20	(0.52)	0.21	(2.02)

## Unaudited Condensed Consolidated Statement of Changes in Equity

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Merger reserve	Share option reserve	Exchange reserve	Accumulated losses	Sub-total		
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2015	28,800	34,277	17,941	—	4	(5,945)	75,077	—	75,077
Changes in equity for the period ended 30 September 2015:									
Loss for the period	—	—	—	—	—	(6,327)	(6,327)	—	(6,327)
Exchange differences arising on translation	—	—	—	—	(22)	—	(22)	—	(22)
Total comprehensive expense for the period	—	—	—	—	(22)	(6,327)	(6,349)	—	(6,349)
Issue of shares upon placing*	5,760	13,824	—	—	—	—	19,584	—	19,584
Expenses incurred in connection with the issue of shares	—	(519)	—	—	—	—	(519)	—	(519)
At 30 September 2015	34,560	47,582	17,941	—	(18)	(12,272)	87,793	—	87,793
At 1 January 2016	138,240	143,243	17,941	—	(20)	(14,803)	284,601	—	284,601
Changes in equity for the period ended 30 September 2016:									
Profit for the period	—	—	—	—	—	2,893	2,893	187	3,080
Exchange differences arising on translation	—	—	—	—	(5)	—	(5)	—	(5)
Total comprehensive income/ (expense) for the period	—	—	—	—	(5)	2,893	2,888	187	3,075
Recognition of equity-settled share-based payments (Note 8)	—	—	—	1,826	—	—	1,826	—	1,826
Share issued upon exercise of share options*	1,538	5,044	—	(968)	—	—	5,614	—	5,614
Non-controlling interests arising on business combination	—	—	—	—	—	—	—	180	180
At 30 September 2016	139,778	148,287	17,941	858	(25)	(11,910)	294,929	367	295,296

# On 3 June 2015, a total of 57,600,000 ordinary shares of HK\$0.10 each were issued by way of placing at a price of HK\$0.34 per share for cash consideration of HK\$19,584,000. The excess of the placing price over the par value of the shares issued was credited to the share premium account.

\* On 3 August 2016, a total of 15,382,400 ordinary shares of HK\$0.10 each were issued upon exercise of share options under the share option scheme. The excess of the exercise price over the par value of the shares issued was credited to the share premium account.

## Notes to the Unaudited Condensed Consolidated Financial Statements

*For the nine months ended 30 September 2016*

### 1. General Information

The Company was incorporated in the Cayman Islands on 31 March 2011, as an exempted company with limited liability under the Companies Law Cap. 22 of the Cayman Islands. The address of its registered office is located at 190 Elgin Avenue, George Town, Grand Cayman KY1-9005, Cayman Islands. The address of its principal place of business is located at Suite 2101, 21/F, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The Company is an investment holding company. The principal activities of the Group are (i) the provision of integrated circuit ("IC") solutions and design, development and sales of ICs, (ii) money lending business in Hong Kong through the provision of unsecured and secured loans to customers, including individual and corporations, under the provisions of the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong) and (iii) the provision of total solutions for information security service, including security assessment, consulting, testing, monitoring and training as well as system integration services of information security business.

The unaudited condensed consolidated quarterly financial statements are presented in Hong Kong dollar ("HK\$"), which is the same functional currency of the Company and all values are rounded to the nearest thousand unless otherwise indicated.

The condensed consolidated quarterly financial information has not been audited.

### 2. Basis of Preparation

The unaudited condensed consolidated quarterly financial statements of the Group for the nine months ended 30 September 2016 have been prepared under historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies adopted are consistent with those applied in the Group's annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), except the following HKFRSs and for the adoption of new and revised HKFRSs, which are effective for the financial year beginning from 1 January 2016. The application of these new and revised HKFRSs has not had material impact on the unaudited condensed consolidated quarterly financial statements of the Group.

#### Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owner of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

## 2. Basis of Preparation (Continued)

### Business combinations (Continued)

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another standard.

### Revenue recognition

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract under which revenue is recognised in the accounting periods upon services being rendered. The stage of completion of the contract is determined as follows:

The stage of completion of a transaction is determined by services performed to date as a percentage of total services to be performed.

### 3. Revenue

The Group is principally engaged in the design, development and sales of ICs, money lending business and information security business. Revenue represents the amount received and receivable for goods sold and services provided by the Group at invoiced value, net of returns and discounts, and interest income from money lending business is recognized on a time basis by reference to the principal outstanding and at the effective interest applicable, during the reporting periods. An analysis of the Group's revenue recognized during the period is as follows:

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from sale of ICs	5,853	3,803	16,954	17,562
Revenue from provision of ASIC service	975	268	975	844
Revenue from money lending business	7,700	1,835	18,801	3,487
Revenue from information security business	3,022	—	5,631	—
	17,550	5,906	42,361	21,893

### 4. Other Income

	Three months ended		Nine months ended	
	30 September		30 September	
	2016	2015	2016	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bank interest income	—	—	5	14
Sundry income	—	17	1	19
	—	17	6	33

## 5. Other Gains and Losses

	Three months ended 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Gain on disposal of trading securities	—	—	—	64
Loss on disposal of property, plant and equipment, net	—	(4)	—	(6)
Waive of accumulated interest on promissory note*	354	—	354	—
Exchange loss	(58)	(29)	(149)	(124)
	296	(33)	205	(66)

- \* On 1 May 2016, the Company issued promissory note ("PN") with an aggregate principal amount of HK\$17,500,000 as part of the consideration for acquiring 55% of the issued share capital of Maximus Venture Holdings Limited. The principal amount of the PN was, however, early redeemed by the Company before the nine months ended 30 September 2016 and on the same time, the holder of the PN has agreed to waive all accumulated interest payable under the PN to be incurred.

## 6. Finance Cost

	Three months ended 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Accumulated interest on promissory note	(179)	—	(354)	—
	(179)	—	(354)	—

## 7. Income Tax Expense

	Three months ended 30 September		Nine months ended 30 September	
	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000
Current tax — Hong Kong Profits Tax				
Current year	(763)	—	(1,499)	—
Deferred tax expense	24	—	(89)	—
	(739)	—	(1,588)	—

Provision for Hong Kong Profits Tax is made at the rate of 16.5% on the estimated assessable profit for the nine months ended 30 September 2016 for the subsidiary, Easy Loan Finance Limited, incorporated in Hong Kong (nine months ended 30 September 2015: 16.5%).

Save as disclosed above, no provision for Hong Kong Profits Tax is made since (i) the Company and certain subsidiaries have no estimated assessable profit for the nine months ended 30 September 2016 and (ii) the assessable profit to subsidiary, Maximus Consulting (Hong Kong) Limited, for the nine months ended 30 September 2016 are wholly absorbed by tax loss brought forward on acquisition date (nine months ended 30 September 2015: Nil). No provision for Enterprise Income Tax of the People's Republic of China (the "PRC") is made since the PRC subsidiary has no estimated assessable profit for the nine months ended 30 September 2016 (nine months ended 30 September 2015: Nil).

Deferred tax has been provided as the Group had a temporary differences which gave rise to a deferred tax liabilities for the nine months ended 30 September 2016 (nine months ended 30 September 2015: Nil).

## 8. Profit/(loss) for the Period

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Profit/(loss) for the period has been arrived at after charging:				
(a) Staff costs including Directors' emoluments				
— salaries, bonus and benefits in kind	4,355	2,619	10,165	7,671
— equity-settled share-based payments	1,296	—	1,826	—
— staff welfare	148	9	227	54
— contributions to retirement benefits scheme	144	86	326	243
	5,943	2,714	12,544	7,968
(b) Other items				
Auditor's remuneration	115	95	328	285
Cost of inventories recognized as an expense*	5,576	3,410	15,051	14,718
Legal and professional fee	148	274	3,571	1,232
Design and development costs	209	—	637	188

\* including a provision of HK\$68,000 for slow-moving and obsolete inventories during the nine months ended 30 September 2016 (nine months ended 30 September 2015: HK\$249,000).

## 9. Dividend

No dividend was declared or paid during the nine months ended 30 September 2016 (nine months ended 30 September 2015: Nil).

# 10. Earnings/(loss) Per Share

The calculations of basic and diluted earnings/(loss) per share are based on the profit/(loss) attributable to owners of the Company and the weighted average number of ordinary shares in issue during the periods.

	Three months ended 30 September		Nine months ended 30 September	
	2016	2015	2016	2015
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Profit/(loss) for the period				
Profit/(loss) attributable to owners of the Company	2,854	(1,793)	2,893	(6,327)
Number of shares (thousands)				
Shares				
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	1,392,265	345,600	1,385,712	313,319
Effect of dilutive potential of ordinary shares:				
— Share options	19,165	—	12,051	—
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	1,411,430	345,600	1,397,763	313,319

For the three months and nine months ended 30 September 2016, diluted earnings per share was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Group has dilutive potential ordinary shares which are the share options.

The amounts of diluted loss per share was the same as basic loss per share because the Group had no potential ordinary shares outstanding for the three months and nine months ended 30 September 2015.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the first three quarters of 2016, the Group continues to engage in integrated circuit (“IC”) business, specialized in design, development and sales of ICs, as well as the provision of IC solutions and money lending business in Hong Kong. Following the acquisition of a total solutions for information security company on 1 May 2016, the Group is also involved in the information security business in Hong Kong.

### Business Review

#### IC Business

Through its indirect wholly owned fabless semiconductor subsidiary, MiniLogic Device Corporation Limited, the Group sells ICs under its own brand name “MiniLogic” and provides application specific IC service (“ASIC Service”) in design and development of tailor-made IC to its customers. The Group also provides tailor-made IC solutions and sells tailor-made ICs to customers under the ASIC Service business section (the “ASIC Section”); and independently develops and sells generically-applicable ICs for sale in the market under the MiniLogic Brand IC business section (the “Standard IC Section”).

During the first three quarters of 2016, the research and development (“R&D”) team completed and launched 2 new models in standard LCD IC and ASIC DVD Player IC respectively.

The R&D team also deployed 3 more new IC models but terminated 7 during the period. As at 30 September 2016, the Group had 11 new IC models under development and customer evaluation. The completion of development of several new IC models had been extended as the process was prolonged due to customer evaluation, acceptance and modification work. Developing IC products with suitable technology that appeal to the market is essential for the growth of IC business. This can also expand the range of the IC products and maintain our competitiveness.

#### ASIC Section

Under the ASIC Section, the major products are DVD Player ICs, Electronic Cigarette ICs, Power Management ICs and CCD Surveillance System ICs. 1 new IC model was launched during the first three quarters of 2016. Due to the IC industry was in a state of recovery, revenue and margin from all major products were improved when compared to the same period last year. Revenue from the ASIC products slightly increased from approximately HK\$14.0 million for the first three quarters of 2015 to approximately HK\$15.1 million for that of 2016.

At the same time, revenue from the provision of ASIC Service slightly increased from approximately HK\$0.8 million for the first three quarters of 2015 to approximately HK\$1.0 million for that of 2016. Due to the increase in revenue from the ASIC Service and ASIC products, particularly in Power Management ICs and DVD Players ICs, the overall revenue from the ASIC Section rose by 8.6% from approximately HK\$14.8 million for the first three quarters of 2015 to approximately HK\$16.1 million for that of 2016.

### Standard IC Section

Under the Standard IC Section, the major products are LCD Driver ICs for instrument panel and Power Management ICs. There was 1 new IC model launched for the first three quarters of 2016. In view of increasing market competition, the market sentiment for the LCD Driver ICs and Power Management ICs were worsening for the first three quarters of 2016, which leading to substantial decrease in overall revenue. Accordingly, the overall revenue from the Standard IC Section was decreased significantly by 48.8% from approximately HK\$3.6 million for the first three quarters of 2015 to approximately HK\$1.8 million for that of 2016.

### Money Lending Business

Through its indirect wholly owned subsidiary, Easy Loan Finance Limited, which owned a money lender license in Hong Kong, the Group engages in the money lending business and provides secured and unsecured loans to customers comprising individuals and corporations to earn interest income. During the first three quarters of 2016, the Group continues to put more efforts and resources to develop this business and achieve remarkable progress. The Group's loan receivables, which are repayable according to repayment schedules with contractual maturity ranging from 3 months to 12 years, increased significantly from approximately HK\$86.4 million as at 31 December 2015 to approximately HK\$241.6 million as at 30 September 2016. Accordingly, the revenue increased by 439.2% from approximately HK\$3.5 million for the first three quarters of 2015 to approximately HK\$18.8 million for that of 2016.

### Total Solutions for Information Security Business

Following the completion of the acquisition of 55% of the issued share capital of Maximus Venture Holdings Limited ("Maximus"), the Group has entered into the total solutions for information security industry and provides professional one-stop information security services and solution for our clients since 1 May 2016.

### Technical Assessment Services

The consulting team conducts the penetration test, vulnerability scanning, threat assessment and source coding scanning of the customers' information systems and tools. There were 35 newly signed contracts in this sector as at 30 September 2016. The revenue of this sector since acquisition amounted to approximately HK\$2.1 million.

### Compliance Services

The consulting team designs and develops customers' internal security governance policies and trainings under the information security compliance area. There were 19 newly signed contracts in this sector as at 30 September 2016. The revenue of this sector since acquisition amounted to approximately HK\$3.3 million.

### Compliance Automation Services

The consulting team sources appropriate information security software and/or systems with the aim to improve security of the information technology systems and to prevent possible data threats. There were 7 newly signed contracts in this sector as at 30 September 2016. The revenue of this sector since acquisition amounted to approximately HK\$0.1 million.

### Managed Security Services

The consulting team monitors the customers' information technology systems on 24 hours everyday basis for locating possible threats and detecting attacks to the customers' systems. There were 9 newly signed contracts in this sector as at 30 September 2016. The revenue of this sector since acquisition amounted to approximately HK\$0.1 million.

### Risk Relating to Reliance on a Few Key Customers of the Group's Businesses

The Group's ability to maintain close relationships with its customers is important to its ongoing growth and profitability. Although the Group's revenues from specific customers vary from period to period, a significant portion of the Group's total revenue was derived from a few major customers for the nine months ended 30 September 2016 and the corresponding period last year. The five largest customers accounted for approximately 30.3% and 62.1% of the Group's revenue while the largest customer accounted for approximately 9.5% and 24.4% of the Group's revenue for the nine months ended 30 September 2016 and 2015 respectively. The Group has established its business relationship with the largest customer, which is an independent third party (as defined in the GEM Listing Rules) principally engaged in sales and production of electronic devices and components, since 2006. However, as the Group does not enter into long term or master sales contracts with its major customers, there is no assurance that they will continue to purchase products from the Group at the same level as they have done in the past.

## Financial Review

### Revenue, Cost of Sales and Gross Profit

The total revenue of the Group substantially increased by 93.5% from approximately HK\$21.9 million for the first three quarters of 2015 to approximately HK\$42.4 million for that of 2016. The increase were mainly due to the continuous growth and expansion of the money lending business and the revenue generated from the newly acquired information security business.

Cost of sales of the Group related to the IC and information security business which were increased by 2.3% from approximately HK\$14.7 million for the first three quarters of 2015 to approximately HK\$15.0 million for that of 2016.

The gross profit of the ASIC Section increased significantly by 77.0% from approximately HK\$2.4 million for the first three quarters of 2015 to approximately HK\$4.3 million for that of 2016, and the gross profit margin of ASIC Section was 26.4% for 2016, representing an increase of 10.2 percentage points from 16.2% for 2015. The increase in gross profit margin of ASIC Section was mainly due to the favorable demand in ASIC products and service. The gross profit of the Standard IC Section decreased significantly by 61.8% from approximately HK\$1.3 million for the first three quarters of 2015 to approximately HK\$0.5 million for that of 2016, and the gross profit margin of Standard IC Section was 26.7% for 2016, representing a decrease of 9.1 percentage points from 35.8% for 2015. The drop in gross profit margin of Standard IC Section was mainly attributable to the aforesaid downward adjustment in revenue from certain higher margin Standard IC products. The overall gross profit of the Group increased by 280.6% from approximately HK\$7.2 million for the first three quarters of 2015 to approximately HK\$27.3 million for that of 2016, and the overall gross profit margin of the Group was 64.5% for 2016, representing an increase of 31.7 percentage points from 32.8% for 2015. The overall gross profit margin improved due to the positive contribution in the money lending business and the newly acquired information security business, which had the higher margins.

### Expenses

Staff costs notably increased by 57.4% from approximately HK\$8.0 million for the first three quarters of 2015 to approximately HK\$12.5 million for that of 2016. The increase was primarily attributable to equity-settled share-based payments in connection with share options and newly acquired information security business, as compared to the corresponding period last year.

Operating lease rentals notably increased by 69.7% from approximately HK\$0.9 million for the first three quarters of 2015 to approximately HK\$1.5 million for that of 2016. The increase was mainly due to the opening of new office in Hong Kong since April 2016 and newly acquired information security business.

Depreciation increased by 18.6% from approximately HK\$1.1 million for the first three quarters of 2015 to approximately HK\$1.3 million for that of 2016. The increase was mainly due to the depreciation of newly acquired instruments and leasehold improvement and newly acquired information security business.

Other operating expenses substantially increased by 103.2% from approximately HK\$3.5 million for the first three quarters of 2015 to approximately HK\$7.1 million for that of 2016. The increase was mainly attributable to related costs in the acquisition of the Maximus Group, more referral fees in the money lending business and newly acquired information security business.

### Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company for the nine months ended 30 September 2016 was approximately HK\$2.9 million. For the nine months ended 30 September 2015, the consolidated loss attributable to owners of the Company was approximately HK\$6.3 million. The increase was approximately HK\$9.2 million, or 145.7%. The turnaround was mainly attributable to the increase in overall revenue and gross profit margin as a result of the continuous growth and expansion of the money lending business and the revenue and profit generated from the newly acquired information security business.

### Fund Raising Activities

On 16 December 2015, the Company completed the open offer to raise approximately HK\$207.4 million (before costs and expenses) by way of an open offer of 1,036,800,000 offer shares at the subscription price of HK\$0.20 per offer share on the basis of three offer shares for every one share held on the record date, i.e. 24 November 2015, on the terms pursuant to the underwriting agreement dated 25 August 2015 ("Underwriting Agreement") entered into among the Company, China Rise Securities Asset Management Company Limited and Metro Classic Limited relating to the underwriting and other arrangement in respect of the open offer ("Open Offer"). Details of the Open Offer and the completion of the Open Offer are set out in the Company's announcements dated 1 September 2015, 21 September 2015, 29 September 2015, 9 October 2015 and 16 December 2015, the Company's circular dated 16 October 2015 and the Company's listing document dated 25 November 2015 respectively. The net proceeds raised upon completion after deduction of relevant costs and expenses were approximately HK\$199 million. The net proceeds has been intended to use (i) approximately HK\$169 million to fund the expansion of the money lending business of the Group; (ii) approximately HK\$20 million for the development of the IC business of the Group; and (iii) approximately HK\$10 million for the general working capital for the other existing businesses of the Group.

The Directors had considered various ways of raising funds and believed that the Open Offer represented an opportunity to raise capital for the Company while broadening the shareholder's base and capital base of the Company. The utilisation of the net proceeds up to 30 September 2016 is:

Net proceeds	Intended use of the net proceeds	Utilisation of the net proceeds up to 30 September 2016
Approximately HK\$199 million	(i) Approximately HK\$169 million will be used for the expansion of the money lending business of the Group	(i) The entire net proceeds has been used for the expansion of the money lending business of the Group.
	(ii) Approximately HK\$20 million will be used for the development of the IC business of the Group	(ii) Approximately HK\$13.7 million has been used for the development of IC business of the Group
	(iii) Approximately HK\$10 million will be used as general working capital for the other existing businesses of the Group	(iii) The entire net proceeds has been used for general working capital for the other existing businesses of the Group

### Acquisition of an Total Solutions for Information Security Business

On 5 February 2016 and 9 March 2016, Excellence Steps Limited, a direct wholly owned subsidiary of the Company as the purchaser and Mr. Chung Pui Nam, Roger as the vendor and being an independent third party of the Group, entered into a letter of intent and a sale and purchase agreement respectively in relation to the acquisition of 55% of the issued share capital of Maximus. All of the conditions precedent under the acquisition agreement have been fulfilled (or otherwise waived) and the completion took place on 1 May 2016 in accordance with the terms and conditions of the acquisition agreement. Upon completion of the acquisition, the Maximus has become an indirect non-wholly owned subsidiary of the Company and the financial results of the Maximus and its subsidiaries have been consolidated into the financial statement of the Group.

Details of the acquisition of 55% of the issued share capital of Maximus were disclosed in the Company's announcements dated 5 February 2016, 9 March 2016, 31 March 2016, and 2 May 2016 respectively and the Company's circular dated 12 April 2016.

### Grant of share options

On 9 May 2016, the Company has granted share options to certain grantees to subscribe, in aggregate, for up to 29,030,400 ordinary shares of HK\$0.10 each in the share capital of the Company, under the share option scheme adopted by the Company on 16 May 2012. For the nine months ended 30 September 2016, 15,382,400 share options were exercised by the grantees.

Details of the grant of share options were disclosed in the Company's announcement dated 9 May 2016 and in the section headed "Share Option Scheme" of this third quarterly report.

## Outlook

In spite of continuous support from central banks around the world, the global economies continue to struggle with repairing and reforming their financial sectors. The unexpected UK referendum voted in favour of leaving the European Union also posed great impacts to the global market. The negative effects triggered by market turmoil have impeded the global economic recovery and the global economic outlook will remain challenging, we shall maintain a cautious and prudent approach in IC business by closely monitoring the development of the products and optimizing our resource and increasing of operational efficiency. We are going to divert more attention and resource to develop the money lending business and be engaged in the total solutions for information security service through its interest in the Maximus Group.

Considering the recent economic condition, the management will prudently look for any suitable business opportunities in future to broaden the sources of our revenues and cash inflows, taking into account the funding requirement and associated business risk.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2016, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

### Long Position

Ordinary shares and underlying shares of the Company

Name of Directors	Capacity/ Nature of interests	Number of the Company's issued ordinary shares held	Number of the Company's underlying shares held (Note 2)	Total interests	Approximate percentage of total issued shares capital of the Company (Note 1)
<b>Executive Directors</b>					
Mr. Zhang Qing	Personal interest	4,000,000	9,824,000	13,824,000	0.99%
Dr. Sung Tak Wing Leo	Personal interest	10,000,000	3,824,000	13,824,000	0.99%
<b>Non-executive Director</b>					
Mr. Ye Jian	Interest of a controlled corporation	400,800,000 (Note 3)	—	400,800,000	28.67%
<b>Independent Non-executive Director</b>					
Mr. Chiu Yu Wang	Personal interest	1,382,400	—	1,382,400	0.09%

Notes:

1. The percentages are calculated on the basis of 1,397,782,400 ordinary shares of the Company in issue as at 30 September 2016.
2. These represented the interests in underlying shares of the Company are in respect of share options granted by the Company, details of which are disclosed in the section headed "Share Option Scheme" in this third quarterly report.
3. Mr. Ye Jian is the beneficial owner of all of the issued share capital of Metro Classic Limited, and is therefore deemed to be interested in the 400,800,000 ordinary shares of the Company in which Metro Classic Limited is beneficially interested.

Save as disclosed above, as at 30 September 2016, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 September 2016, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

### Long and Short Positions

#### Ordinary shares of the Company

Name of shareholders	Capacity/ Nature of interests	Total number of the Company's issued ordinary shares held (Note 2)	Approximate percentage of total issued share capital of the Company (Note 1)
Metro Classic Limited	Beneficial owner (Note 3)	400,800,000(L)	28.67%
Vital Apex Group Limited	Beneficial owner (Note 4)	293,581,368(L)(S)	21.00%
Mr. Wong Siu Piu	Interest of a controlled corporation (Note 4)	293,581,368(L)(S)	21.00%
China Rise Finance Company Limited	Beneficial owner of security interest (Notes 4 and 5)	293,581,368(L)	21.00%
China Rise Finance Group Company Limited	Interest of a controlled corporation (Note 5)	293,581,368(L)	21.00%
Jin Dragon Holdings Limited	Interest of a controlled corporation (Note 5)	293,581,368(L)	21.00%
Essential Holdings Limited	Interest of a controlled corporation (Note 5)	293,581,368(L)	21.00%
Cosmo Group Holdings Limited	Interest of a controlled corporation (Note 5)	293,581,368(L)	21.00%
Symphony Holdings Limited	Interest of a controlled corporation (Note 5)	293,581,368(L)	21.00%

Notes:

1. The percentages are calculated on the basis of 1,397,782,400 ordinary shares of the Company in issue as at 30 September 2016.
2. The letter “L” denotes long positions in the shares and underlying shares of the Company and the letter “S” denotes short positions in the shares and underlying shares of the Company.
3. Mr. Ye Jian is the beneficial owner of all of the issued share capital of Metro Classic Limited, and is therefore deemed to be interested in the 400,800,000 ordinary shares of the Company in which Metro Classic Limited is beneficially interested.
4. Mr. Wong Siu Piu is the beneficial owner of all the issued share capital of Vital Apex Group Limited, and is therefore deemed to be interested in the 293,581,368 ordinary shares of the Company in which Vital Apex Group Limited is beneficially interested. As per the announcement of the Company dated 4 January 2016, Vital Apex Group Limited has pledged the 293,581,368 ordinary shares of the Company in favour of China Rise Finance Company Limited as security for a term loan facility provided to Vital Apex Group Limited. China Rise Finance Company Limited thus has security interest over these shares.
5. China Rise Finance Company Limited is wholly-owned by China Rise Finance Group Company Limited. China Rise Finance Group Company Limited is wholly-owned by Jin Dragon Holdings Limited which in turn is wholly-owned by Essential Holdings Limited. Essential Holdings Limited is wholly-owned by Cosmo Group Holdings Limited which in turn is wholly-owned by Symphony Holdings Limited. Thus China Rise Finance Group Company Limited, Jin Dragon Holdings Limited, Essential Holdings Limited, Cosmo Group Holdings Limited and Symphony Holdings Limited are deemed to be interested in the 293,581,368 ordinary shares of the Company in which China Rise Finance Company Limited has security interest.

Save as disclosed above, as at 30 September 2016, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of the SFO.

## SHARE OPTION SCHEME

The Company has adopted the share option scheme (the “Scheme”) on 16 May 2012 which will remain in force for a period of 10 years from the effective date of the Scheme and will expire on 9 July 2022. The principal terms of the Scheme are summarized in the section headed “Summary of the Principal Terms of the Share Option Scheme” in Appendix III to the Company’s circular dated 30 March 2012.

The refreshment of scheme mandate limit of the Scheme (the “Refreshment of Scheme Mandate Limit”) was approved by the shareholders of the Company at the Company’s annual general meeting held on 29 April 2016 and with effect from 6 May 2016. Details of the Refreshment of Scheme Mandate Limit are set out in the section headed “Letter from the Board” to the circular of the Company dated 24 March 2016.

On 9 May 2016, the Board had granted share options of the Company (the “Share Options”) to certain grantees to subscribe, in aggregate, for up to 29,030,400 ordinary shares (each a “Share”) of HK\$0.1 each in the share capital of the Company under the Scheme at an exercise price of HK\$0.365 per Share.

Summary details of the movement of the Share Options during the nine months ended 30 September 2016 are set out as follows:

					Number of Share Options			
Name of Grantee/ Category	Date of Grant (dd/mm/yyyy)	Exercise and validity period (dd/mm/yyyy)	Exercise Price per Share	Outstanding as at 1 January 2016	Granted	Exercised	Lapsed	Outstanding as at 30 September 2016
					during the nine months ended 30 September 2016	during the nine months ended 30 September 2016	during the nine months ended 30 September 2016	
<b>Executive Directors</b>								
Mr. Zhang Qing	09/05/2016	09/05/2016– 09/11/2016	HK\$0.365	—	13,824,000	4,000,000	—	9,824,000
Dr. Sung Tak Wing Leo	09/05/2016	09/05/2016– 09/11/2016	HK\$0.365	—	13,824,000	10,000,000	—	3,824,000
<b>Independent Non-executive Director</b>								
Mr. Chiu Yu Wang	09/05/2016	09/05/2016– 09/11/2016	HK\$0.365	—	1,382,400	1,382,400	—	—
Total				—	29,030,400	15,382,400	—	13,648,000

## **PURCHASES, SALES OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the nine months ended 30 September 2016.

## **INTEREST IN A COMPETING BUSINESS**

During the nine months ended 30 September 2016, none of the Directors, the controlling shareholders of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group and any other conflicts of interest with the Group.

## **DIRECTORS' SECURITIES TRANSACTIONS**

The Company has adopted a code of conduct regarding securities transactions by the Directors (the "Model Code") 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. Upon specific enquiry made to all the Directors, the Company was not aware of any non-compliance with the Model Code regarding securities transactions by the Directors during the nine months ended 30 September 2016.

## **CORPORATE GOVERNANCE PRACTICES**

The Group has committed to upholding high standards of corporate governance. The Board considers that enhanced public accountability and corporate governance are beneficial for the healthy growth of the Group, improving customer and supplier confidence and safeguarding the interests of shareholders of the Group.

The Board has continued to monitor and review the corporate governance principles and practices to ensure compliance. The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code and has complied with the CG Code for the nine months ended 30 September 2016.

## AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) is currently composed of 3 independent non-executive Directors, namely Mr. Cheung Chi Man Dennis, Mr. Chiu Yu Wang and Mr. Ko Yin Wai, and chaired by Mr. Cheung Chi Man Dennis, who has appropriate professional qualifications and experience as required by the GEM Listing Rules.

The Audit Committee has reviewed the unaudited condensed consolidated financial statements of the Group for the nine months ended 30 September 2016, which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosure have been made.

By Order of the Board  
**Megalagic Technology Holdings Limited**  
**Mr. Zhang Qing**  
*Chairman*

Hong Kong, 4 November 2016

*As at the date of this report, the executive Directors are Mr. Zhang Qing and Dr. Sung Tak Wing Leo; the non-executive Directors are Mr. Ye Jian and Mr. Liu Kam Lung and the independent non-executive Directors are Mr. Cheung Chi Man Dennis, Mr. Chiu Yu Wang and Mr. Ko Yin Wai.*