

MEGALOGIC 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
2017



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

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Given the emerging nature of companies listed on GEM, 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.

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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 2017 together with comparable figures for the corresponding periods in 2016.

Unaudited Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)
Continuing operations					
Revenue	3	22,715	14,528	57,758	36,730
Cost of sales and services		(8,066)	(4,518)	(20,432)	(13,183)
Gross profit		14,649	10,010	37,326	23,547
Other income	4	75	—	256	6
Other gains and losses	5	423	296	759	205
Staff costs		(6,025)	(4,303)	(13,914)	(10,250)
Depreciation and amortisation		(381)	(405)	(1,135)	(1,143)
Operating lease rental — land and buildings		(547)	(528)	(1,596)	(1,306)
Other operating expenses		(1,238)	(1,187)	(5,671)	(6,542)
Finance cost	6	(61)	(179)	(857)	(354)
Profit before income tax		6,895	3,704	15,168	4,163
Income tax expense	7	(2,028)	(763)	(5,026)	(1,499)
Profit for the period from continuing operations	8	4,867	2,941	10,142	2,664
Discontinued operation					
(Loss)/profit from discontinued operation	9	—	(158)	462	416
Profit for the period		4,867	2,783	10,604	3,080
Other comprehensive income/(expense), net of income tax					
<i>Item that may be subsequently reclassified to profit or loss:</i>					
Exchange differences arising on translation of foreign operations		194	(3)	335	(5)
Total comprehensive income for the period		5,061	2,780	10,939	3,075

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)
Profit/(loss) for the period attributable to owners of the Company:					
from continuing operations		4,867	2,941	10,142	2,664
from discontinued operation		—	(87)	(571)	229
		4,867	2,854	9,571	2,893
Profit/(loss) for the period attributable to non-controlling interest:					
from continuing operations		—	—	—	—
from discontinued operation		—	(71)	1,033	187
		—	(71)	1,033	187
		4,867	2,783	10,604	3,080
Total comprehensive income/(expense) for the period attributable to:					
Owners of the Company		5,061	2,851	9,906	2,888
Non-controlling interests		—	(71)	1,033	187
		5,061	2,780	10,939	3,075
Earnings per share attributable to owners of the Company	11	HK cents	HK cents	HK cents	HK cents
Basic					
from continuing and discontinued operations		0.348	0.205	0.685	0.209
from continuing operations		0.348	0.211	0.726	0.192
Diluted					
from continuing and discontinued operations		0.348	0.202	0.685	0.207
from continuing operations		0.348	0.208	0.726	0.191

Unaudited Condensed Consolidated Statement of Changes in Equity

Attributable to owners of the Company

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Share option reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	(Accumulated losses)/ Retained profits (Unaudited) HK\$'000	Sub-total (Unaudited) HK\$'000	Non-controlling interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2016	138,240	143,243	17,941	—	(20)	(14,803)	284,601	—	284,601
Profit for the period	—	—	—	—	—	2,893	2,893	187	3,080
Other comprehensive expense for the period:									
Exchange differences arising on translation on foreign operations	—	—	—	—	(5)	—	(5)	—	(5)
Total comprehensive (expense)/ income 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
At 1 January 2017	139,778	148,287	17,941	—	(40)	(5,905)	300,061	1,874	301,935
Profit for the period	—	—	—	—	—	9,571	9,571	1,033	10,604
Other comprehensive expense for the period:									
Exchange differences arising on translation on foreign operations	—	—	—	—	335	—	335	—	335
Total comprehensive income for the period	—	—	—	—	335	9,571	9,906	1,033	10,939
Disposal of subsidiaries (Note 12(d))	—	—	—	—	—	—	—	(2,907)	(2,907)
At 30 September 2017	139,778	148,287	17,941	—	295	3,666	309,967	—	309,967

* 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 2017

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 its subsidiaries (together with the Company referred to as the “Group”) are: (1) the provision of integrated circuit (“IC”) solutions and the design, development and sales of integrated circuits (“ICs”); (2) 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; and (3) the provision of investment and planning consulting service, real estate agent, property management services and car parking management services in the People’s Republic of China (the “PRC”). The Group had discontinued the total solutions for information security business during the period.

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 2017 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 2016, 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 2017. 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.

Revenue recognition

Revenue from property management services and value-added services in the PRC is recognised when services are rendered.

3. Revenue

The Group is principally engaged in the design, development and sales of ICs, money lending business and property management business in the PRC. 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 recognised on a time basis by reference to the principal outstanding and at the effective interest rate applicable, during the reporting periods. An analysis of the Group's revenue recognised during the period is as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)
Revenue				
Continuing operations				
Sale of ICs	5,014	5,853	13,939	16,954
Provision of ASIC service	—	975	1,178	975
Interest from money lending business	4,479	7,700	15,131	18,801
Provision of property management services	13,222	—	27,510	—
	22,715	14,528	57,758	36,730

4. Other Income

	Three months ended 30 September		Nine months ended 30 September	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Continuing operations				
Bank interest income	5	—	13	5
Sundry income	70	—	243	1
	75	—	256	6

5. Other Gains and Losses

	Three months ended 30 September		Nine months ended 30 September	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Continuing operations				
Loss on disposal of property, plant and equipment, net	—	—	(1)	—
Waive of accumulated interest on promissory note*	438	354	857	354
Exchange loss	(15)	(58)	(97)	(149)
	423	296	759	205

- * On 20 January 2017, the Company issued promissory note ("PN") with an aggregate principal amount of HK\$40,000,000 as part of the consideration for acquiring entire issued share capital of Quick Wit Ventures Limited (the "Quick Wit"). The principal amount of the PN was, however, early redeemed by the Company before the nine months ended 30 September 2017 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000
Continuing operations				
Accumulated interest on promissory note	61	179	857	354
	61	179	857	354

7. Income Tax Expense

	Three months ended 30 September		Nine months ended 30 September	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)
Continuing operations				
Current tax:				
Hong Kong Profits Tax				
Charge for the period	436	763	1,603	1,499
PRC Enterprise Income Tax				
Charge for the period	1,592	—	3,423	—
	2,028	763	5,026	1,499

Hong Kong Profits Tax is calculated at 16.5% (nine months ended 30 September 2016: 16.5%) of the estimated assessable profits for the nine months ended 30 September 2017. Provision for Hong Kong Profits Tax is made on the estimated assessable profits for the nine months ended 30 September 2017 for a subsidiary, Easy Loan Finance Limited (nine months ended 30 September 2016: approximately HK\$1,499,000).

Save as disclosed above, no provision for Hong Kong Profits Tax is made since the Company and certain subsidiaries have no estimated assessable profits for the nine months ended 30 September 2017.

Under the Law of the PRC on Enterprise Income Tax ("EIT") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% (nine months ended 30 September 2016: 25%). Provision for EIT is made on the estimated assessable profit for the nine months ended 30 September 2017 for the subsidiary, 四川威斯顿資產管理有限公司 (nine months ended 30 September 2016: Nil).

Save as disclosed above, no provision for EIT is made since the PRC subsidiary has no estimated assessable profit for the nine months ended 30 September 2017.

No deferred tax has been provided as the Group did not have any material temporary differences which gave rise to a deferred tax asset or liability for the nine months ended 30 September 2017 (nine months ended 30 September 2016: Nil).

8. Profit for the Period

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	Three months ended 30 September		Nine months ended 30 September	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)
Continuing operations				
Profit for the period has been arrived at after charging:				
(a) Staff costs including Directors' emoluments				
— salaries, bonus and benefits in kind	5,690	2,900	13,206	8,128
— equity-settled share-based payments	—	1,296	—	1,826
— staff welfare	68	22	131	54
— contributions to retirement benefits scheme	267	85	577	242
	6,025	4,303	13,914	10,250
(b) Other items				
Auditor's remuneration	166	114	401	324
Cost of inventories recognised as an expense*	3,541	5,576	10,135	15,051
Legal and professional fee	231	296	2,402	3,558
Design and development costs	212	209	620	637

- * including a reversal of provision of HK\$1,216,000 for slow-moving and obsolete inventories during the nine months ended 30 September 2017 (nine months ended 30 September 2016: provision of HK\$68,000) and write-downs of HK\$806,000 for scrapped inventories during the nine months ended 30 September 2017 (nine months ended 30 September 2016: Nil).

9. Discontinued Operation

On 25 April 2017, the Group entered into a sale and purchase agreement to dispose of 55% of the entire issued share capital of Maximus Venture Holdings Limited (the "Maximus"), which carried out total solutions for information security business. The disposal was completed on 28 June 2017.

The (loss)/profit for the period from the discontinued operation of information security is set out below:

	From 1 January 2017 to 28 June 2017 (Unaudited) HK\$'000	Nine months ended 30 September 2016 (Unaudited) HK\$'000
Profit for the period	2,295	416
Loss on disposal of subsidiaries (Note 12(d))	(1,833)	—
	462	416
(Loss)/profit for the period from discontinued operation attributable to:		
Owners of the Company	(571)	229
Non-controlling interests	1,033	187
	462	416

The results of the operation of information security for the period, which have been included in the unaudited condensed consolidated statement of comprehensive income, were as follows:

	From 1 January 2017 to 28 June 2017 (Unaudited) HK\$'000	Nine months ended 30 September 2016 (Unaudited) HK\$'000
Revenue	7,594	5,631
Cost of sales and services	(1,728)	(1,868)
Gross profit	5,866	3,763
Other income	1	—
Staff costs	(2,124)	(2,294)
Depreciation and amortisation	(362)	(144)
Operating lease rental — land and buildings	(274)	(237)
Other operating expenses	(355)	(583)
Profit before income tax	2,752	505
Income tax expense	(457)	(89)
Profit for the period	2,295	416

9. Discontinued Operation (Continued)

	From 1 January 2017 to 28 June 2017 (Unaudited) HK\$'000	Nine months ended 30 September 2016 (Unaudited) HK\$'000
Profit for the period from discontinued operation has been arrived at after charging:		
(a) Staff costs		
— salaries, bonus and benefits in kind	1,999	2,037
— staff welfare	34	173
— contributions to retirement benefits scheme	91	84
	2,124	2,294
(b) Other items		
Auditor's remuneration	38	4
Legal and professional fee	25	13
Cash flows of discontinued operation:		
Net cash generated from/(used in) operating activities	4,589	(1,028)
Net cash generated from/(used in) investing activities	1	(239)
Net cash inflow/(outflow)	4,590	(1,267)

The carrying amounts of the assets and liabilities of Maximus and its subsidiaries (collectively referred to as the "Maximus Group") at the date of disposal are disclosed in note 12(c) to the unaudited condensed consolidated financial statements.

10. Dividend

No dividend was declared or paid during the nine months ended 30 September 2017 (nine months ended 30 September 2016: Nil).

11. Earnings Per Share

The calculations of basic and diluted earnings 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	
	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)	2017 (Unaudited) HK\$'000	2016 (Unaudited) HK\$'000 (Restated)
Profit/(loss) for the period attributable to owners of the Company from continuing operations from discontinued operation	4,867 —	2,941 (87)	10,142 (571)	2,664 229
from continuing and discontinued operations	4,867	2,854	9,571	2,893
Number of shares (thousands)				
Shares				
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,397,782	1,392,265	1,397,782	1,385,712
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 per share	1,397,782	1,411,430	1,397,782	1,397,763

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 earnings per share was the same as basic earnings per share because the Group did not have any dilutive potential ordinary shares for the three months and nine months ended 30 September 2017.

12. Disposal of Subsidiaries

On 25 April 2017, the Group agreed to dispose of 55% of the entire issued share capital of Maximus for a consideration of HK\$29 million. All of the conditions precedent of the disposal have been fulfilled and the completion of the disposal took place on 28 June 2017. Upon completion, the Group discontinued its total solutions for information security business.

During the period up to 28 June 2017, the Maximus Group contributed revenue and incurred a profit of approximately HK\$7,594,000 and HK\$2,295,000 respectively to the Group's results.

(a) Consideration receivable

The following table summarises the consideration receivable.

	(Unaudited) HK\$'000
Deferred consideration	29,000

The deferred consideration of HK\$20,000,000 and HK\$9,000,000 were settled in cash by the purchaser in July 2017 and August 2017 respectively.

(b) Disposal-related costs

The Group incurred disposal-related costs of approximately HK\$600,000. These costs have been included in "other operating expenses" in the unaudited condensed consolidated statement of comprehensive income.

(c) Analysis of assets and liabilities over which control was lost

The following table summarises the recognised amounts of identifiable assets and liabilities over which control was lost.

	(Unaudited) HK\$'000
Property, plant and equipment	690
Intangible asset	1,635
Trade receivables	3,563
Deposits and prepayments	325
Tax recoverables	122
Bank balances and cash	6,276
Amount due to a former non-controlling interest shareholder of a former subsidiary	(4,285)
Other payables and accruals	(1,459)
Provision	(123)
Deferred tax liabilities	(284)
Net assets disposed	6,460

12. Disposal of Subsidiaries (Continued)

(d) Loss on disposal of subsidiaries

	(Unaudited) HK\$'000
Consideration receivable	29,000
Less: Net assets disposed	(6,460)
Less: Goodwill	(27,280)
Add: Non-controlling interests	2,907
Loss on disposal	(1,833)

(e) Net cash flow on disposal

	(Unaudited) HK\$'000
Cash consideration received	—
Less: cash and cash equivalent balances disposed	(6,276)
Total	(6,276)

13. Comparative Amounts

As a result of disposal of subsidiaries, certain comparative figures have been adjusted accordingly. In addition, certain comparative amounts have been reclassified to conform to the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first three quarters of 2017, the principal activities of the Group are: (1) the provision of ICs solutions and the design, development and sales of ICs; (2) 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 (3) the provision of investment and planning consulting service, real estate agent, property management services and car parking management services in the PRC. Following the disposal of the total solutions for information security company on 28 June 2017, the Group pulled out of the information security business in Hong Kong.

Business Review

Continuing operations

IC Business

Through its wholly-owned fabless semiconductor subsidiary, MiniLogic Device Corporation Limited, the Group sells IC under its own brand name “MiniLogic” and provides application specific IC service (the “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 2017, the research and development (“R&D”) team completed and launched a new model in ASIC Power Management IC.

During the first three quarters of 2017, the research and development teams deployed 5 more new IC models and 1 new IC models completed and launched. As at 30 September 2017, the Group had 15 new IC models under development and customer evaluation. The completion of the development of several new IC models has 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 Electronic Cigarette ICs, DVD Player ICs, Power Management ICs and CCD Surveillance System ICs. 5 new IC models launched for the first three quarters of 2017. Due to the stagnant demand in the IC industry, revenue and margin from Electronic Cigarette ICs and DVD Player ICs decreased when compared to the same period last year. Revenue from the ASIC products decreased from approximately HK\$15.1 million for the first three quarters of 2016 to approximately HK\$10.9 million for that of 2017.

At the same time, revenue from the provision of ASIC Service increased from approximately HK\$1.0 million for the first three quarters of 2016 to approximately HK\$1.2 million for that of 2017. Due to the decrease in revenue from the ASIC products, particularly in DVD player ICs, Electronic Cigarette ICs and CCD Surveillance System ICs, the overall revenue from the ASIC Section dropped by 24.8% from approximately HK\$16.1 million for the first three quarters of 2016 to approximately HK\$12.1 million for that of 2017.

Standard IC Section

Under the Standard IC Section, the major products are LCD Driver ICs for instrument panel and Power Management ICs. There was no new IC model launched for the first three quarters of 2017. In view of the improvement in the market sentiment for the LCD Driver ICs, it led to the increase in overall revenue for the first three quarters of 2017. Accordingly, the overall revenue from the Standard IC Section was increased by 66.7% from approximately HK\$1.8 million for the first three quarters of 2016 to approximately HK\$3.0 million for that of 2017.

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, such as secured and unsecured loans to customers comprising individuals and corporations to earn interest income. Due to the market competition is still keen and highly competitive, the Group's loans receivables, which are repayable according to repayment schedules with contractual maturity ranging from 4 months to 12 years, decreased from approximately HK\$256.0 million as at 31 December 2016 to approximately HK\$146.5 million as at 30 September 2017. Accordingly, the revenue was decreased by 19.7% from approximately HK\$18.8 million for the first three quarters of 2016 to approximately HK\$15.1 million for that of 2017.

Property Management Business in the PRC

Following the completion of the acquisition of entire issued share capital of Quick Wit, the Group has entered into the property management industry in the PRC and provides a broad range of property management services to property developers and property owners since 20 January 2017.

Property Management Services

Through providing the property management services to property owners and residents such as predelivery services, move-in assistance services, security, cleaning, gardening, repair and maintenance, the revenue of this sector since acquisition amounted to approximately HK\$17.6 million.

As at 30 September 2017, it has managed residential and non-residential properties with an aggregate contracted gross floor area ("GFA") of approximately 57,000 and 155,000 square meters respectively. The total contracted GFA means the sum of revenue-bearing GFA, undelivered GFA and common area GFA.

Revenue-bearing GFA represented contracted GFA in relation to which the collection of property management fees has started when a property has been delivered or is ready to be delivered. In properties that have been delivered or are ready to be delivered after delivery notices have been given to the first group of property owners in such properties, property developers would pay property management fees on unsold units until such units are sold.

Undelivered GFA means contracted GFA in relation to which the collection of property management fees has not started because the relevant property is not ready to be delivered.

Common area GFA includes pathways, garden, parking lots, and advertisement bulletin boards.

Property Real Estate Agency Services

The property management team has provided the property real estate agency services in respect of commercial and residential buildings in the PRC. The revenue of this sector since acquisition amounted to approximately HK\$3.9 million.

Property Consulting Services

The property management team has also provided the property management consultancy services to other property management companies such as standardised operation, cost control and consultation. The revenue of this sector since acquisition amounted to approximately HK\$6.0 million.

Financial Review

Revenue, Cost of Sales and Services and Gross Profit

The total revenue of the Group from continuing operations increased by 57.5% from approximately HK\$36.7 million for the first three quarters of 2016 to approximately HK\$57.8 million for that of 2017. The increase was mainly due to the money lending business and the revenue generated from the newly acquired property management business in the PRC.

Cost of sales and services of the Group from continuing operations related to the IC and the newly acquired property management business in the PRC which were increased by 54.5% from approximately HK\$13.2 million for the first three quarters of 2016 to approximately HK\$20.4 million for that of 2017.

The gross profit of the ASIC Section from continuing operations decreased by 16.3% from approximately HK\$4.3 million for the first three quarters of 2016 to approximately HK\$3.6 million for that of 2017, and gross profit margin of the ASIC Section from continuing operations was 29.7% for the first three quarters of 2017, representing an increase of 3.3 percentage points from 26.4% for that of 2016. The increase in gross profit margin of ASIC Section was mainly due to the increase in revenue of ASIC Service, which had a higher margin, and decrease in cost of sales of ASIC products. The gross profit of the Standard IC Section from continuing operations increased significantly by 180.0% from approximately HK\$0.5 million for the first three quarters of 2016 to approximately HK\$1.4 million for that of 2017, and the gross profit margin of Standard IC Section from continuing operations was 46.2% for the first three quarters of 2017, representing a rise of 19.5 percentage points from 26.7% for that of 2016. The increase in gross profit margin of Standard IC Section was mainly attributable to the increase in revenue from certain higher margin Standard IC products. The overall gross profit of the Group from continuing operations increased by 58.7% from approximately HK\$23.5 million for the first three quarters of 2016 to approximately HK\$37.3 million for that of 2017, and the overall gross profit margin of the Group from continuing operations was 64.6% for the first three quarters of 2017, representing an increase of 0.5 percentage points from 64.1% for that of 2016. The overall gross profit margin improved due to the positive contribution in the money lending business and the newly acquired property management business in the PRC, which had a higher margin.

Expenses

Staff costs from continuing operations increased by 35.0% from approximately HK\$10.3 million for the first three quarters of 2016 to approximately HK\$13.9 million for that of 2017. The increase was primarily attributable to general pay rise and the newly acquired property management business in the PRC.

Depreciation and amortisation from continuing operations for the first three quarters of 2017 was approximately HK\$1.1 million, similar to that period in previous year.

Operating lease rental from continuing operations increased by 23.1% from approximately HK\$1.3 million for the first three quarters of 2016 to approximately HK\$1.6 million for that of 2017, which was mainly due to the opening of new office in Hong Kong since April 2016 and the newly acquired property management business in the PRC.

Other operating expenses from continuing operations decreased by 12.3% from approximately HK\$6.5 million for the first three quarters of 2016 to approximately HK\$5.7 million for that of 2017. The drop was mainly attributable to less spending on referral fee in the money leading business.

Profit Attributable to Owners of the Company

The consolidated profit attributable to owners of the Company from continuing operations for the nine months ended 30 September 2017 was approximately HK\$10.1 million. For the nine months ended 30 September 2016, the consolidated profit attributable to owners of the Company from continuing operations was approximately HK\$2.7 million. The increase was approximately HK\$7.4 million, or 274.1%. The increase was mainly attributable to the increase in overall revenue and gross profit as a result of revenue and profit generated from (i) the money lending business of the Group and (ii) the property management business following the completion of the acquisition of entire issued share capital of Quick Wit in January 2017.

Completion of the Acquisition of Quick Wit

On 6 January 2017, the Company as the purchaser, Standard Apex Limited as the vendor and Ms. Xie Jihong as the guarantor, being an independent third parties of the Group, entered into a conditional sale and purchase agreement (the "Sale and Purchase Agreement"), in relation to the acquisition of the entire issued share capital of Quick Wit at a consideration of HK\$140 million. The Quick Wit and its subsidiaries (collectively referred to as the "Quick Wit Group") is principally engaged in provision of investment and planning consulting service, real estate agent, property management services and car parking management services in the PRC. All of the conditions precedent under the Sale and Purchase Agreement have been fulfilled and the completion took place on 20 January 2017 in accordance with the terms and conditions of the Sale and Purchase Agreement. Upon completion of the acquisition, Quick Wit has become a direct wholly-owned subsidiary of the Company and the financial results of the Quick Wit Group have been consolidated into the financial statement of the Group.

Details of the acquisition were disclosed in the Company's announcements dated 22 December 2016, 6 and 20 January 2017 respectively.

Disposal of an Total Solutions for Information Security Business

On 25 April 2017, Excellence Steps Limited, a direct wholly-owned subsidiary of the Company, as the vendor and Mr. Chung Pui Nam, Roger as the purchaser entered into a sale and purchase agreement in relation to the proposed disposal of 55% of the entire issued share capital of Maximus for a consideration of HK\$29 million. The Maximus Group is principally engaged in total solutions for information security services, including security assessment, consulting, testing, monitoring and training as well as system integration services of information security business in Hong Kong. All of the conditions precedent under the sale and purchase agreement have been fulfilled and the disposal was completed on 28 June 2017 in accordance with the terms and conditions of the sale and purchase agreement. Upon completion of the disposal, the Maximus Group has ceased to be subsidiaries of the Company.

Detail of the disposal of 55% of the entire issued share capital of Maximus was disclosed in the Company's announcements dated 25 April 2017, 31 May 2017 and 28 June 2017 and the Company's circular dated 7 June 2017 respectively.

Acquisition of an Health Supplement Business

On 29 September 2017, Excellence Steps Limited, a wholly-owned subsidiary of the Company, and Perfect Day Ventures Limited as the vendor and being an independent third party of the Group entered into a sale and purchase agreement in relation to the proposed acquisition of 60% of the issued share capital of Aggressive Resources Limited (the "Target Company") for a consideration of an aggregate sum of HK\$97.8 million. The Target Company is principally engaged in the sourcing, manufacturing, designing, packing, wholesaling and trading of health supplement products and as the Original Equipment Manufacturer of various health supplement products in Hong Kong. As of the date of this report, the acquisition of the Target Company has not been completed.

Details of the proposed acquisition were disclosed in the Company's announcements dated 29 September 2017 and 24 October 2017 respectively.

Deemed Disposal as a result of Subscription of 40% Issued Share Capital for IC Business

On 31 October 2017, Smart Chip Investment Company Limited, as the subscriber, entered into the subscription agreement with Minilogic Investment Limited (the "Minilogic"), a direct wholly-owned subsidiary of the Company, pursuant to which the subscriber has agreed to subscribe for, and Minilogic has agreed to allot and issue, the subscription shares (representing 40% of the issued share capital of Minilogic as enlarged by the allotment and issue of the subscription shares upon completion) at the consideration of HK\$3.4 million. Completion took place on the same day as the date of the subscription agreement, being 31 October 2017. Upon completion, Minilogic will be held as to 60% by the Group and 40% by the subscriber and Minilogic will continue to be a subsidiary of the Company. Accordingly, the assets, liabilities and financial results of Minilogic and its subsidiary will continue to be consolidated into the financial statements of the Group.

Details of the deemed disposal were disclosed in the Company's announcement dated 31 October 2017.

Outlook

The global economy is picking up steadily as the cyclical recovery continues. However, on the United States trade policies under President Donald Trump's protectionist government, as well as the Federal Reserve Bank's implementation of its rate hike cycle, this in turn will influence economic developments in other major economies. Facing these challenging environment, we will continue to enhance the operational efficiency in IC business by closely monitoring the development of the products and optimizing our resource allocation. We are also going to divert more attention and resource to develop the money lending business and the newly acquired property management business in the PRC respectively.

Looking forward, considering the recent global economic condition, the management will continue to exercise prudence in looking for any suitable business opportunities in future, so as to broaden the source of our revenues and cash flows, 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 2017, 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 any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were 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 which they are taken or deemed to have under such provisions of the SFO), or (b) to be and were entered in the register required to be kept by the Company pursuant to section 352 of the SFO, or (c) as otherwise notified to the Company and the Stock Exchange pursuant to the Rules 5.46 to 5.68 of the GEM Listing Rules, were as follows:

Long and Short Position

Ordinary shares of the Company

Name of Directors	Capacity/ Nature of interests	Number of the Company's issued ordinary shares held (Note 1)	Approximate percentage of total issued shares capital of the Company (Note 2)
Executive Directors			
Mr. Zhang Qing	Personal interest	4,000,000(L)	0.29%
Dr. Sung Tak Wing Leo	Personal interest	10,000,000(L)	0.72%
Mr. Lau Mo	Interest of a controlled corporation (Note 3)	278,000,000(L)(S)	19.89%

Notes:

1. 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.
2. The percentages are calculated on the basis of 1,397,782,400 ordinary shares of the Company in issues as at 30 September 2017.
3. Mr. Lau Mo is the beneficial owner of all of the issued share capital of Champsword Limited, and is therefore deemed to be interested in the 278,000,000 ordinary shares of the Company in which Champsword Limited is beneficially interested.

Save as disclosed above, as at 30 September 2017, so far as is known to the Directors or Chief Executive Officer of the Company, 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) which (a) were required 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 which they were taken or deemed to have under such provisions of the SFO), or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (c) were required, pursuant to Rules 5.46 to 5.68 of the GEM Listing Rules to be notified to the Company and the Stock Exchange.

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

As at 30 September 2017, so far as is known to the Directors or Chief Executive Officer of the Company, the following persons or corporations (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 by the Company pursuant to 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 1)	Approximate percentage of total issued share capital of the Company
Champsword Limited	Beneficial owner (Note 2)	278,000,000(L)(S)	19.89%
Mr. Lau Mo	Interest of a controlled corporation (Note 2)	278,000,000(L)(S)	19.89%
Metro Classic Limited	Beneficial owner (Note 3)	400,800,000(L)(S)	28.67%
Mr. Ye Jian	Interest of a controlled corporation (Note 3)	400,800,000(L)(S)	28.67%
U Credit (HK) Limited	Beneficial owner of security interest (Notes 2, 3 and 4)	678,800,000(L)	48.56%

Name of shareholders	Capacity/ Nature of interests	Total number of the Company's issued ordinary shares held (Note 1)	Approximate percentage of total issued share capital of the Company
China Strategic Financial Holdings Limited	Interest of a controlled corporation (Note 4)	678,800,000(L)	48.56%
China Strategic Asset Holdings Limited	Interest of a controlled corporation (Note 4)	678,800,000(L)	48.56%
China Strategic Holdings Limited	Interest of a controlled corporation (Note 4)	678,800,000(L)	48.56%

Notes:

1. 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.
2. Mr. Lau Mo is the beneficial owner of all of the issued share capital of Champsword Limited, and is therefore deemed to be interested in the 278,000,000 ordinary shares in which Champsword Limited is beneficially interested. As disclosed in the announcement of the Company dated 11 September 2017, Champsword Limited has pledged the 278,000,000 ordinary shares of the Company in favour of U Credit (HK) Limited as security for a term loan facility provided to Champsword Limited. U Credit (HK) Limited thus has security interest over these shares.
3. Mr. Ye Jian is the beneficial owner of all 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. As disclosed in the announcement of the Company dated 29 August 2017, Metro Classic Limited has pledged the 400,800,000 ordinary shares of the Company in favour of U Credit (HK) Limited as security for a term loan facility provided to Metro Classic Limited. U Credit (HK) Limited thus has security interest over these shares.
4. U Credit (HK) Limited is wholly-owned by China Strategic Financial Holdings Limited. China Strategic Financial Holdings Limited is wholly-owned by China Strategic Asset Holdings Limited which in turn is wholly-owned by China Strategic Holdings Limited. Thus China Strategic Financial Holdings Limited, China Strategic Asset Holdings Limited and China Strategic Holdings Limited are deemed to be interested in the 678,800,000 ordinary shares of the Company in which U Credit (HK) Limited has security interest.

Save as disclosed above, as at 30 September 2017, so far as is known to the Directors and Chief Executive Officer of the Company, and based on the public records filed on the website of Hong Kong Exchanges and Clearing Limited and records kept by the Company, no other persons or corporations (other than Directors and Chief Executive Officer of the Company) had interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

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 2017.

INTEREST IN A COMPETING BUSINESS

During the nine months ended 30 September 2017, 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 2017.

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 2017.

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 2017, 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
Megalogic Technology Holdings Limited
Mr. Zhang Qing
Chairman

Hong Kong, 3 November 2017

As at the date of this report, the executive Directors are Mr. Zhang Qing, Dr. Sung Tak Wing Leo and Mr. Lau Mo; the non-executive Director is 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.