

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

(incorporated in the Cayman Islands with limited liability)

STOCK CODE: 8635

FIRST QUARTERLY REPORT

2023

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE

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

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

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

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Wei Ming (*Chairman*)

Independent Non-executive Directors

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

COMPANY SECRETARY

Ms. Lee Wing Yin (*CPA*)

COMPLIANCE OFFICER

Mr. Chung Chau Kan

AUTHORISED REPRESENTATIVES

Mr. Chung Chau Kan
Ms. Lee Wing Yin (*CPA*)

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

PRINCIPAL BANKERS

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

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

HONG KONG LEGAL ADVISERS

Howse Williams
27/F, Alexandra House, 18 Chater Road,
Central, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
17/F, Far East Finance Centre,
16 Harcourt Road, Hong Kong

STOCK CODE

8635

WEBSITE OF THE COMPANY

www.novacontechgroup.com

Unaudited First Quarterly Results

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the three months ended 30 June 2023 together with the unaudited comparative figures for the corresponding period in 2022, as follows:

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months ended 30 June 2023

| | Note | Three months ended 30 June | |
|---|------|---------------------------------|---------------------------------|
| | | 2023 HK\$'000 (unaudited) | 2022 HK\$'000 (unaudited) |
| Revenue | 4 | 6,749 | 13,595 |
| Other net income/(loss) | 5 | 711 | (345) |
| Expenses | | | |
| License and subscription cost | | (444) | (454) |
| Internet services cost | | (780) | (816) |
| Employee benefit expenses | | (14,343) | (4,906) |
| Depreciation of property and equipment | | (468) | (486) |
| Depreciation of right-of-use assets | | (108) | (43) |
| Amortisation of intangible assets | | (1,572) | (1,377) |
| Impairment losses of financial and contract assets | | (1,758) | (23) |
| Other expenses | | (1,452) | (1,754) |
| Finance costs | | (3) | (2) |
| (Loss)/profit before income tax | | (13,468) | 3,389 |
| Income tax credit/(expense) | 6 | 1,620 | (721) |
| (Loss)/profit for the period | | (11,848) | 2,668 |
| Other comprehensive loss for the period, net of tax | | | |
| Item that may be reclassified to profit or loss | | | |
| – Exchange differences on translation of a foreign operation | | (8) | * |
| Total comprehensive (loss)/income attributable to owners of the Company for the period | | (11,856) | 2,668 |
| (Loss)/earnings per share attributable to owners of the Company for the period | | | |
| – Basic (expressed in HK cents per share) | 7 | (2.96) | 0.67 |
| – Diluted (expressed in HK cents per share) | 7 | (2.94) | 0.67 |

* Less than HK\$1,000

Unaudited Condensed Consolidated Statement of Changes in Equity

For the three months ended 30 June 2023

| | Attributable to owners of the Company | | | | |
|--|---------------------------------------|---------------|----------------|-------------------|----------------|
| | Share capital | Share premium | Other reserves | Retained earnings | Total equity |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | <i>(Note 9)</i> | | | | |
| Balance at 1 April 2022 (audited) | 4,000 | 34,992 | 10,111 | 75,698 | 124,801 |
| Total comprehensive income | | | | | |
| Profit for the period | – | – | – | 2,668 | 2,668 |
| Other comprehensive loss for the period | – | – | * | – | * |
| Transaction with owners in their capacity as owners | | | | | |
| Share options lapsed | – | – | (255) | 255 | – |
| Share-based payment expenses | – | – | 2 | – | 2 |
| Balance at 30 June 2022 (unaudited) | 4,000 | 34,992 | 9,858 | 78,621 | 127,471 |
| Balance at 1 April 2023 (audited) | 4,000 | 34,992 | 9,640 | 81,087 | 129,719 |
| Total comprehensive loss | | | | | |
| Loss for the period | – | – | – | (11,848) | (11,848) |
| Other comprehensive loss for the period | – | – | (8) | – | (8) |
| Transaction with owners in their capacity as owners | | | | | |
| Share options cancelled | – | – | (2,141) | 2,141 | – |
| Balance at 30 June 2023 (unaudited) | 4,000 | 34,992 | 7,491 | 71,380 | 117,863 |

* Less than HK\$1,000

Notes to the Unaudited Condensed Consolidated Financial Statements

1. GENERAL INFORMATION

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements for the three months ended 30 June 2023 have been prepared in accordance with HKFRSs and the applicable disclosure provisions of the GEM Listing Rules.

The unaudited condensed consolidated financial statements for the three months ended 30 June 2023 should be read in conjunction with the audited consolidated financial statements for the year ended 31 March 2023 and the notes thereto (the "**2023 Audited Consolidated Financial Statements**"). The significant accounting policies adopted in the preparation of the unaudited condensed consolidated financial statements for the three months ended 30 June 2023 are consistent with those followed in the preparation of the 2023 Audited Consolidated Financial Statements except for the new and revised standards, amendments and interpretations issued by the HKICPA that are adopted for the first time for the current period's financial statements. It should be noted that accounting estimates and assumptions were adopted in the preparation of the unaudited condensed consolidated financial statements for the three months ended 30 June 2023. Although the estimates are based on the management's best knowledge of and judgement on the present events and actions, the actual results may eventually differ from those estimates.

The unaudited condensed consolidated financial statements for the three months ended 30 June 2023 has not been audited or reviewed by the Company's external auditors, but has been reviewed by the Audit Committee.

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

Certain new and revised HKFRSs have been issued. The Directors considered that the adoption of those new HKFRSs which are effective for the accounting periods beginning on 1 April 2023 will not have any material impact on the preparation and presentation of the results and financial conditions of the current period and previous periods. For the HKFRSs that are not yet effective nor have not been early adopted, the Group is in the process of making an assessment of the potential impact of the newly issued HKFRSs.

4. REVENUE AND SEGMENT INFORMATION

| | Three months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2023 HK\$'000 (unaudited) | 2022 HK\$'000 (unaudited) |
| Licensing and maintenance services | 3,634 | 10,649 |
| Initial set up and customisation services | 3,115 | 2,946 |
| | 6,749 | 13,595 |

Notes to the Unaudited Condensed Consolidated Financial Statements

4. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Disaggregation of revenue from contracts with customers

During the three months ended 30 June 2023, all sources of revenue were recognised over time (2022: same).

(b) Segment information

The executive Directors have been identified as the chief operating decision-makers of the Group who review the Group's internal reporting in order to assess performance and allocate resources. For the three months ended 30 June 2023, the Directors considered that the Group's operations were operated and managed as a single segment and no separate segment information was presented for the financial period (2022: same).

The Group domiciles and operates in Hong Kong and the PRC. During the three months ended 30 June 2023, all revenue of the Group was generated in Hong Kong (2022: same). As at 30 June 2023, non-current assets of the Group were located in Hong Kong and the PRC (2022: non-current assets of the Group were located in Hong Kong only).

(c) Information about major customers

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

| | Three months ended 30 June | |
|------------|---------------------------------|---------------------------------|
| | 2023 HK\$'000 (unaudited) | 2022 HK\$'000 (unaudited) |
| Customer A | N/A | 1,974 |
| Customer B | 3,153 | 1,478 |
| Customer C | 1,185 | N/A |
| Customer D | 1,094 | 1,596 |

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

5. OTHER NET INCOME/(LOSS)

| | Three months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2023 HK\$'000 (unaudited) | 2022 HK\$'000 (unaudited) |
| Change in fair value of financial assets at FVTPL | 262 | (1,158) |
| Dividend from fund investments | 42 | 39 |
| Gain on disposals of financial assets at FVTPL | – | 7 |
| Government grant (Note) | – | 672 |
| Interest income on bank deposits | 21 | – |
| Interest income on time deposits | 385 | 93 |
| Other income | 1 | 2 |
| | 711 | (345) |

Note: For the three months ended 30 June 2023, no wages subsidies were granted from the Hong Kong Government's Employment Support Scheme under Anti-epidemic Fund (2022: approximately HK\$672,000).

Notes to the Unaudited Condensed Consolidated Financial Statements

6. INCOME TAX CREDIT/(EXPENSE)

Under the two-tiered profits tax rates regime, the first HK\$2,000,000 of profits of qualifying group entity in Hong Kong will be taxed at 8.25%, and profits above HK\$2,000,000 will be taxed at 16.5%. Accordingly, the Hong Kong profits tax is calculated at 8.25% on the first HK\$2,000,000 of the estimated assessable profits for the Group's qualifying entity and at 16.5% on the estimated assessable profits above HK\$2,000,000 for the three months ended 30 June 2023 (2022: same). The profits of other group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5% (2022: same).

Under the relevant regulations of the Enterprise Income Tax ("EIT") Law, for eligible enterprise which meet the criteria of small low-profit enterprise, the annual taxable income that is not more than RMB1,000,000 shall be recognised at 12.5% of income and be subject to a EIT rate of 20%; the annual taxable income that is more than RMB1,000,000 but less than RMB3,000,000 shall be recognised at 25% of income and be subject to a EIT rate of 20%. No provision was made for the three months ended 30 June 2023 and 2022 as the subsidiary of the Company in the PRC had no estimated assessable profits for both periods.

The amount of tax charged to the consolidated statement of comprehensive income represents:

| | Three months ended 30 June | |
|-----------------------------|--|---------------------------------|
| | 2023 HK\$'000 (unaudited) | 2022 HK\$'000 (unaudited) |
| Hong Kong profits tax | | |
| – Current period | (608) | (698) |
| Deferred income tax | 2,228 | (23) |
| Income tax credit/(expense) | 1,620 | (721) |

7. (LOSS)/EARNINGS PER SHARE

(a) Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period.

| | Three months ended 30 June | |
|---|---------------------------------------|---------------------|
| | 2023 (unaudited) | 2022 (unaudited) |
| (Loss)/Profit attributable to owners of the Company (HK\$'000) | (11,848) | 2,668 |
| Weighted average number of ordinary shares in issue (thousands) | 400,000 | 400,000 |
| Basic (loss)/earnings per share (HK cents) | (2.96) | 0.67 |

Notes to the Unaudited Condensed Consolidated Financial Statements

7. (LOSS)/EARNINGS PER SHARE (Continued)

(b) Diluted

In calculating the diluted (loss)/earnings per share, the weighted average number of shares is adjusted to assume conversion of all dilutive potential shares from share options. For the three months ended 30 June 2023 and 2022, adjustment has been made to determine the number of shares that could have been acquired at fair value (according to the average annual market price of the shares of the Company) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated below is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | Three months ended 30 June | |
|--|-------------------------------|---------------------|
| | 2023 (unaudited) | 2022 (unaudited) |
| (Loss)/profit attributable to owners of the Company (HK\$'000) | (11,848) | 2,668 |
| Weighted average number of ordinary shares in issue (thousands) (Note) | 402,935 | 400,144 |
| Diluted (loss)/earnings per share (HK cents) | (2.94) | 0.67 |

Note:

| | Three months ended 30 June | |
|--|-------------------------------|-----------------------------|
| | 2023 '000 (unaudited) | 2022 '000 (unaudited) |
| Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share | 400,000 | 400,000 |
| Adjustments for calculation of diluted earnings per share: | | |
| Share options | 2,935 | 144 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | 402,935 | 400,144 |

8. DIVIDEND

The Directors do not recommend the payment of interim dividend for the three months ended 30 June 2023 (2022: nil).

9. SHARE CAPITAL

| | Number of Shares '000 | Nominal value HK\$'000 |
|---|-----------------------------|------------------------------|
| Authorised: | | |
| Ordinary shares of HK\$0.01 each | | |
| At 1 April 2022 (audited), 30 June 2022 (unaudited), 1 April 2023 (audited) and 30 June 2023 (unaudited) | 10,000,000 | 100,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.01 each | | |
| At 1 April 2022 (audited), 30 June 2022 (unaudited), 1 April 2023 (audited) and 30 June 2023 (unaudited) | 400,000 | 4,000 |

Management Discussion and Analysis

BUSINESS REVIEW

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

For the three months ended 30 June 2023, the Group recorded a revenue of approximately HK\$6.7 million, representing a significant decrease of approximately 50% from approximately HK\$13.6 million recorded for the three months ended 30 June 2022. Loss attributable to owners of the Company for the three months ended 30 June 2023 amounted to approximately HK\$11.9 million, as compared to profit of approximately HK\$2.7 million for the three months ended 30 June 2022.

The change from net profit to net loss was mainly due to (i) the increase in employee benefit expenses primarily due to payment of a one-off staff bonus in May 2023 of approximately HK\$8.8 million; (ii) the decrease in revenue of approximately HK\$6.8 million; and (iii) the increase in impairment losses of financial and contract assets of approximately HK\$1.7 million for the three months ended 30 June 2023. It was partially offset by increase in other income by approximately HK\$1.0 million and the decrease in income tax expense by approximately HK\$2.3 million.

Excluding the impact of the one-off bonus paid during the three months ended 30 June 2023, the loss attributable to owners of the Company for the three months ended 30 June 2023 would amount to approximately HK\$3.0 million.

OUTLOOK

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

Looking forward, the Group believes that providing good products and services to our customers is our key to success. The Group will continue focusing on R&D in innovative IT products and services and providing stable and reliable financial trading solutions. Besides, the Group is dedicated to exploring new business opportunities to diversify the Group's business and broaden the Group's sources of income, including exploring the fintech market. Two Hong Kong incorporated companies were established in May 2023 with an intention to develop trading activities involving bullion and blockchain-based trading activities, in order to maintain our competitiveness and capture business opportunities in the market.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

The Group derives its revenue primarily from the provision of financial trading solutions which can be classified into (i) licensing and maintenance services; (ii) initial set up and customisation services; and (iii) sales of computer hardware and software. For the three months ended 30 June 2023, the Group recorded revenue of approximately HK\$6.7 million, representing a significant decrease of approximately 50% as compared to approximately HK\$13.6 million for the corresponding period in 2022. The following table sets forth the breakdown of our revenue by source of revenue:

| | Three months ended 30 June | | | |
|---|----------------------------|------------|-------------------------|------------|
| | 2023 | | 2022 | |
| | HK\$'000 (unaudited) | % | HK\$'000 (unaudited) | % |
| Licensing and maintenance services | 3,634 | 54 | 10,649 | 78 |
| Initial set up and customisation services | 3,115 | 46 | 2,946 | 22 |
| Total | 6,749 | 100 | 13,595 | 100 |

The decrease in revenue was attributable to the decrease in revenue from licensing and maintenance services. Revenue from licensing and maintenance services decreased significantly by approximately 66% from approximately HK\$10.6 million for the three months ended 30 June 2022 to approximately HK\$3.6 million for the three months ended 30 June 2023. The decrease was primarily due to the decrease in services provided to existing customers, especially the termination of service contracts with several overseas customers, which amounted to approximately HK\$6.9 million.

On the other hand, revenue from initial set up and customisation services increased by approximately 6% from approximately HK\$2.9 million for the three months ended 30 June 2022 to approximately HK\$3.1 million for the three months ended 30 June 2023. No revenue was generated from sales of computer hardware and software for the three months ended 30 June 2023 and 2022. Both initial set up and customisation services and sales of computer hardware and software are generally provided on an on-demand basis, depending on our customers' business needs.

Other Net Income/(Loss)

The Group's other net income was approximately HK\$0.7 million and other net loss was approximately HK\$0.3 million for the three months ended 30 June 2023 and 2022 respectively. The increase in other net income/(loss) by approximately HK\$1.0 million was mainly due to the increase in change in fair value of financial assets at fair value through profit or loss ("FVTPL") from loss of approximately HK\$1.2 million for the three months ended 30 June 2022 to gain of approximately HK\$0.3 million for the three months ended 30 June 2023. Such net gain has been partially offset by the absence of government grant for the three months ended 30 June 2023 (2022: approximately HK\$0.7 million).

License and Subscription Cost

For the three months ended 30 June 2023, the Group's license and subscription cost was approximately HK\$0.44 million, representing a slight decrease of approximately 2% compared to the license and subscription cost of approximately HK\$0.45 million for the three months ended 30 June 2022. No material change is noted.

Management Discussion and Analysis

Internet Services Cost

For the three months ended 30 June 2023, the Group's internet services cost was approximately HK\$0.78 million, representing a slight decrease of approximately 4% compared to the internet services cost of approximately HK\$0.82 million for the three months ended 30 June 2022. Such slight decrease was primarily because of the reduced subscription of services by the Group during the three months ended 30 June 2023 as part of its cost control measures.

Intangible Assets

For the three months ended 30 June 2023 and 2022, our R&D expenses (which were mostly included in employee benefit expenses) amounted to approximately HK\$8.3 million and HK\$3.9 million, respectively. The increase in R&D expenses of approximately HK\$4.4 million was primarily due to payment of a one-off staff bonus in May 2023. Out of the total R&D costs, approximately HK\$1.0 million and HK\$1.4 million for the three months ended 30 June 2023 and 2022, respectively, was capitalised as intangible assets.

Employee Benefit Expenses

For the three months ended 30 June 2023, the Group's employee benefit expenses were approximately HK\$14.3 million, representing a significant increase of approximately 192% compared to the employee benefit expenses of approximately HK\$4.9 million for the three months ended 30 June 2022. Such increase is primarily due to the payment of a one-off staff bonus of approximately HK\$8.8 million in May 2023 and increase in staff costs by approximately HK\$0.6 million because of the increase in number of employees.

Depreciation of Property and Equipment

The Group's depreciation of property and equipment was approximately HK\$0.47 million for the three months ended 30 June 2023, representing a slight decrease of approximately 4% from approximately HK\$0.49 million for the three months ended 30 June 2022. The decrease was primarily due to the fact that certain office equipment and computers were fully depreciated during the year ended 31 March 2023 and thus no depreciation was recognised for those assets during the three months ended 30 June 2023.

Depreciation of Right-of-use Assets

The Group's depreciation of right-of-use assets was approximately HK\$0.11 million for the three months ended 30 June 2023, representing an increase of approximately 151% from approximately HK\$43,000 for the three months ended 30 June 2022. The increase was primarily due to the lease agreement entered into by the Group in May 2022 leading to recognition of right-of-use asset and the depreciation has been fully reflected in the three months ended 30 June 2023.

Amortisation of Intangible Assets

The Group's amortisation of intangible assets was approximately HK\$1.6 million for the three months ended 30 June 2023, representing an increase of approximately 14% from approximately HK\$1.4 million for the three months ended 30 June 2022. The increase was primarily due to additions of computer software systems mainly contributed from staff costs capitalised in the year ended 31 March 2023.

Impairment Losses of Financial and Contract Assets

For the three months ended 30 June 2023, impairment losses of financial and contract assets of approximately HK\$1.8 million (2022: approximately HK\$23,000) was recognised. Due to the ongoing impact of the COVID-19 pandemic and rise in US interest rate, many business activities and the payment chains were significantly affected which led to extension of debt collection periods and increase in loss allowances for trade receivables and contract assets.

Management Discussion and Analysis

Other Expenses

The Group's other expenses mainly include (i) legal and professional fees; (ii) auditors' remuneration; (iii) computer and internet expenses; (iv) insurance expenses and (v) consultancy fees. The Group's other expenses for the three months ended 30 June 2023 were approximately HK\$1.5 million, representing a decrease of approximately 17% from approximately HK\$1.8 million for the three months ended 30 June 2022. The decrease was primarily attributable to the decrease in legal and professional fee and telephone and utilities of approximately HK\$0.2 million and HK\$0.1 million respectively.

Finance Costs

The finance cost represents the finance cost for lease liability. For the three months ended 30 June 2023, the Group's finance costs were approximately HK\$3,000, representing an increase of approximately 50% from approximately HK\$2,000 for the three months ended 30 June 2022. The increase was mainly contributed by finance cost for lease liability arising from lease agreement effective since May 2022.

(Loss)/Profit before Income Tax

The Group recorded loss before income tax of approximately HK\$13.5 million for the three months ended 30 June 2023 and profit before income tax of approximately HK\$3.4 million for the three months ended 30 June 2022.

The change from profit before income tax to loss before income tax was mainly contributed by (i) the increase in employee benefit expenses primarily due to payment of a one-off staff bonus in May 2023 of approximately HK\$8.8 million; (ii) the decrease in revenue of approximately HK\$6.8 millions; and (iii) the increase in impairment losses of financial and contract assets of approximately HK\$1.7 million. It was partially offset by increase in other income by approximately HK\$1.0 million.

Income Tax Credit/(Expense)

The Group recorded income tax credit of approximately HK\$1.6 million for the three months ended 30 June 2023 and income tax expense of approximately HK\$0.7 million for the three months ended 30 June 2022. Such change was mainly due to the change from profit before income tax to loss before income tax as above-mentioned. The effective income tax rate of the Group, which equals to the income tax expense divided by profit before tax, was approximately 21.3% for the three months ended 30 June 2022 (2023: Not applicable). If the non-deductible corporate expenses after the Listing were excluded, the effective income tax rate would be approximately 16.9% for the three months ended 30 June 2022 (2023: Not applicable).

(Loss)/Profit for the Period Attributable to Owners of the Company

Loss attributable to owners of the Company for the three months ended 30 June 2023 amounted to approximately HK\$11.9 million, as compared to profit of approximately HK\$2.7 million for the three months ended 30 June 2022. Such change from net profit to net loss was due to the above-mentioned reasons under "(Loss)/Profit before Income Tax" and partially offset by the increase in income tax credit/(expense) of approximately HK\$2.3 million.

Management Discussion and Analysis

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES BY THE COMPANY AND ITS SUBSIDIARIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities, and there was no exercise of any conversion or subscription rights under any convertible securities, options, warrants or similar rights issued or granted at any time by the Company or any of its subsidiaries, during the three months ended 30 June 2023 and up to the date of this report (the “**Relevant Period**”).

CORPORATE GOVERNANCE PRACTICES

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

The Company has adopted the principles of good corporate governance and code provisions in Part 2 of the CG Code contained in Appendix 15 to the GEM Listing Rules as the basis of the Company's corporate governance practices.

The Board is of the view that during the Relevant Period, save for deviation from code provision D.2.5 in relation to internal audit function as detailed in the “Corporate Governance Report” in the annual report of the Company dated 26 June 2023, the Company has complied with all applicable code provisions as set out in the CG Code.

SHARE OPTIONS

The Company has adopted the Share Option Scheme on 29 March 2019. The purpose of the Share Option Scheme is to enable the Group to grant options to the eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high-calibre employees and attract human resources that are valuable to the Group or any entity in which any member of the Group holds any equity interest.

(i) 2019 share option

On 15 August 2019, the Company has granted a total number of 36,400,000 share options (the “**2019 Share Option**”) to certain eligible participants (the “**Grantee(s)**”) under the Share Option Scheme which would entitle the Grantees to subscribe for a total number of 36,400,000 Shares. The details of the 2019 Share Option are summarised as follows:

| | % of the total share options | 2019 Share Option Vesting period | Exercise period |
|-----------|---------------------------------|-------------------------------------|----------------------------------|
| Tranche 1 | 50% | 15 August 2019 to 14 August 2020 | 15 August 2020 to 14 August 2029 |
| Tranche 2 | 50% | 15 August 2019 to 14 August 2021 | 15 August 2021 to 14 August 2029 |

Among the 36,400,000 share options granted above, 4,800,000 share options were granted to two Grantees who are a Director and an associate of a Director and substantial shareholder of the Company (the “**Connected Grantee(s)**”).

Management Discussion and Analysis

The movements of the share options outstanding under the 2019 Share Option during the three months ended 30 June 2023 are as follows:

| Name and position/ capacity of participant | Date of Grant | Exercise price (HK\$) | Number of shares represented by share options outstanding as at 1 April 2023 (Audited) | Number of share options granted during the period | Number of share options exercised during the period | Number of share options cancelled during the period | Number of share options lapsed during the period | Number of shares represented by share options outstanding as at 30 June 2023 (Unaudited) |
|--|----------------|-----------------------------|--|--|--|--|---|--|
| | | | | | | | | |
| Connected Grantees | | | | | | | | |
| Mr. Wong Wing Hoi (Mr. Wong) (Executive Director) | 15 August 2019 | 0.178 | 4,000,000 | - | - | (4,000,000) | - | - |
| Mr. Wei Chun Pong Benjamin (Associate of a non-executive Director and substantial shareholder of the Company) | 15 August 2019 | 0.178 | 800,000 | - | - | (800,000) | - | - |
| Employees | 15 August 2019 | 0.178 | 17,600,000 | - | - | (17,600,000) | - | - |
| Consultant | 15 August 2019 | 0.178 | 4,000,000 | - | - | (4,000,000) | - | - |
| Total number of share options | | | 26,400,000 | - | - | (26,400,000) | - | - |

The 2019 Share Option was measured at fair value at grant date using Black-Scholes model with following key assumptions:

| | 2019 Share Option | |
|---------------------------------------|-------------------|-----------|
| | Tranche 1 | Tranche 2 |
| Fair value at grant date (per share) | HK\$0.078 | HK\$0.082 |
| Share price at grant date (per share) | HK\$0.162 | HK\$0.162 |
| Exercise price (per share) | HK\$0.178 | HK\$0.178 |
| Expected life (years) | 5.5 | 6.0 |
| Expected volatility | 55.89% | 56.23% |
| Expected dividend yield | 0.00% | 0.00% |
| Risk-free interest rate | 1.15% | 1.15% |

For the three months ended 30 June 2023, no share-based payment expenses (2022: Nil) was charged to the unaudited condensed consolidated statement of comprehensive income.

No share options (2022: 29,200,000 share options) were exercisable as at 30 June 2023.

Management Discussion and Analysis

(ii) 2020 share option

On 3 November 2020, the Company has granted a total number of 1,600,000 share options (the “2020 Share Option”) to the Grantees under the Share Option Scheme which would entitle the Grantees to subscribe for a total number of 1,600,000 Shares. The details of the 2020 Share Option are summarised as follows:

| | % of the total share options | | 2020 Share Option | |
|-----------|------------------------------|------------------------------------|------------------------------------|-----------------|
| | | | Vesting period | Exercise period |
| Tranche 1 | 50% | 3 November 2020 to 2 November 2021 | 3 November 2021 to 2 November 2030 | |
| Tranche 2 | 50% | 3 November 2020 to 2 November 2022 | 3 November 2022 to 2 November 2030 | |

Among the 1,600,000 share options granted above, 800,000 share options were granted to one Connected Grantee who is a Director.

The movements of the share options outstanding under the 2020 Share Option during the three months ended 30 June 2023 are as follows:

| Name and position/ capacity of participant | Date of Grant | Exercise price (HK\$) | Number of Shares represented by share options outstanding as at 1 April 2023 (Audited) | Number of share options granted during the period | Number of share options exercised during the period | Number of share options cancelled during the period | Number of share options lapsed during the period | Number of Shares represented by share options outstanding as at 30 June 2023 (Unaudited) |
|---|-----------------|--------------------------|--|--|--|--|---|--|
| | | | | | | | | |
| Connected Grantees | | | | | | | | |
| Mr. Wong (Executive Director) | 3 November 2020 | 0.095 | 800,000 | - | - | (800,000) | - | - |
| Total number of share options | | | 800,000 | - | - | (800,000) | - | - |

The 2020 Share Option was measured at fair value at grant date using Black-Scholes model with following key assumptions:

| | 2020 Share Option | |
|---------------------------------------|-------------------|-----------|
| | Tranche 1 | Tranche 2 |
| Fair value at grant date (per share) | HK\$0.046 | HK\$0.046 |
| Share price at grant date (per share) | HK\$0.095 | HK\$0.095 |
| Exercise price (per share) | HK\$0.095 | HK\$0.095 |
| Expected life (years) | 5.5 | 6.0 |
| Expected volatility | 55.27% | 54.01% |
| Expected dividend yield | 0.20% | 0.20% |
| Risk-free interest rate | 0.29% | 0.29% |

For the three months ended 30 June 2023, no share-based payment expenses (2022: approximately HK\$2,000) was charged to the unaudited condensed consolidated statement of comprehensive income.

No share options (2022: 400,000 share options) were exercisable as at 30 June 2023.

Management Discussion and Analysis

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

As at 30 June 2023, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

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

Notes:

- (1) The 210,000,000 Shares were held by Essential Strategy which is wholly owned by Mr. Wei. As such, Mr. Wei was deemed to be interested in all the Shares held by Essential Strategy pursuant to Part XV of the SFO.
- (2) The 90,000,000 Shares were held by Expert Wisdom which is wholly owned by Mr. Chung. As such, Mr. Chung was deemed to be interested in all the Shares held by Expert Wisdom pursuant to Part XV of the SFO.
- (3) The letter "L" denotes "long position" in such shares or underlying shares.

Save as disclosed above, as at 30 June 2023, none of the Directors or chief executive of the Company had interest or short position in any Shares, underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they are taken or deemed to have under such provisions of the SFO) or that was required to be recorded in the register kept by the Company pursuant to section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

Management Discussion and Analysis

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

As at 30 June 2023, the following persons (other than the Directors or chief executive of the Company) had interests and short positions in the Shares or underlying Shares of the Company which were required to be notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

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

Notes:

- (1) Mr. Wei held 210,000,000 Shares through a company wholly-owned by him, Essential Strategy.
- (2) Ms. Wong is the spouse of Mr. Wei. Under the SFO, Ms. Wong is deemed to be interested in the same number of Shares in which Mr. Wei is interested.
- (3) Mr. Chung held 90,000,000 Shares through a company wholly-owned by him, Expert Wisdom.
- (4) Ms. Yip is the spouse of Mr. Chung. Under the SFO, Ms. Yip is deemed to be interested in the same number of Shares in which Mr. Chung is interested.
- (5) The letter "L" denotes "long position" in such shares or underlying shares.

Save as disclosed above, as at 30 June 2023, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were required, pursuant to section 336 of the SFO, to be recorded in the register referred to therein.

DIRECTORS' SECURITIES TRANSACTIONS

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

Specific enquiry has been made with all the Directors and each of the Directors has confirmed that they have complied with the Securities Transactions Code throughout the Relevant Period.

During the Relevant Period, the Company is not aware of any incident of non-compliance of the Securities Transactions Code by the Directors.

Management Discussion and Analysis

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Save as disclosed in the paragraphs headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Options" above, at no time during the Relevant Period were there any rights to acquire benefits by means of the acquisition of Shares in or debentures of the Company granted to any Directors or chief executive of the Company or their respective associates or were there any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company or their respective associates to acquire such rights in any other body corporate.

COMPETING INTEREST

During the Relevant Period, none of the Directors or the controlling shareholders of the Company or their respective close associates had any business or interest which competed or might compete, either directly or indirectly, with the business of the Group nor did any such person have or may have any conflicts of interest with the Group.

REVIEW OF FINANCIAL STATEMENTS

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

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

The Group's unaudited condensed consolidated financial statements for the three months ended 30 June 2023, the accounting policies and practices adopted by the Group, and this report have been reviewed by the Audit Committee.

By Order of the Board

Wei Ming

Chairman and Non-executive Director

Hong Kong, 4 August 2023

Definitions

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

| | |
|------------------------------|--|
| "associate(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Audit Committee" | the audit committee of the Board |
| "Board" | the board of Directors |
| "CG Code" | Corporate Governance Code set out in Appendix 15 to the GEM Listing Rules |
| "Chairman" | the chairman of the Board, as appointed and designated from time to time |
| "Chief Executive Officer" | the chief executive officer of the Company, as appointed and designated from time to time |
| "close associate(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Company" | Novacon Technology Group Limited (連成科技集團有限公司), a company incorporated as an exempted company with limited liability in the Cayman Islands on 7 February 2018 |
| "controlling shareholder(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "Director(s)" | the director(s) of the Company |
| "Essential Strategy" | ESSENTIAL STRATEGY INVESTMENTS LIMITED, a company incorporated in the British Virgin Islands with limited liability on 4 January 2016, which is wholly-owned by Mr. Wei Ming, the Chairman, a non-executive Director and one of the Controlling Shareholders |
| "Expert Wisdom" | EXPERT WISDOM HOLDINGS LIMITED, a company incorporated in the British Virgin Islands with limited liability on 21 December 2017, which is wholly-owned by Mr. Chung Chau Kan |
| "GEM" | GEM operated by the Stock Exchange |
| "GEM Listing Rules" | Rules Governing the Listing of Securities on GEM of the Stock Exchange, as amended, supplemented or otherwise modified from time to time |

Definitions

| | |
|------------------------------------|--|
| "Group" | the Company and its subsidiaries, or any of them or, where the context so requires, in respect of the period before the Company became the holding company of its present subsidiaries, such subsidiaries as if they were subsidiaries of the Company at that time |
| "HK\$" | Hong Kong dollars, the lawful currency of Hong Kong |
| "HKFRS(s)" | Hong Kong Financial Reporting Standards issued by the HKICPA |
| "HKICPA" | Hong Kong Institute of Certified Public Accountants |
| "Hong Kong" or "HK" | the Hong Kong Special Administrative Region of the People's Republic of China |
| "Listing" | the listing of the Shares on GEM of the Stock Exchange on 2 May 2019 |
| "Listing Date" | 2 May 2019, the date on which the Shares were listed on GEM of the Stock Exchange |
| "OTC-traded financial instruments" | over-the-counter-traded financial instruments, which are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary |
| "PRC" | the People's Republic of China, which for the purpose of this report shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time |
| "Share(s)" | ordinary share(s) of nominal value of HK\$0.01 each in the share capital of the Company |
| "Share Option Scheme" | the share option scheme of the Company adopted by the Shareholders on 29 March 2019 |
| "Shareholder(s)" | holder(s) of the Shares |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "substantial shareholder(s)" | has the meaning ascribed to it under the GEM Listing Rules |
| "%" | per cent |