



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

First Quarterly Report 2012

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

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This report, for which the directors (the “Directors”) of Megalogic Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (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.

First Quarterly Results

The board of Directors (the “Board”) of Megalogic Technology Holdings Limited hereby announces the following unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months ended 31 March 2012 together with comparable figures for the corresponding period in 2011.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 March 2012

	Notes	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Revenue	4	8,102	9,778
Cost of sales of integrated circuits and provision of integrated circuits packaging service		(5,026)	(5,880)
Gross profit		3,076	3,898
Other income	5	329	17
Staff costs		(1,342)	(1,274)
Depreciation		(301)	(273)
Operating lease rental — land and buildings		(92)	(92)
Other operating expenses		(1,579)	(503)
Expenses incurred in connection with Listing		(9,272)	—
Finance costs	6	—	(8)
(Loss)/profit before income tax		(9,181)	1,765
Income tax expense	7	(106)	(291)
(Loss)/profit for the period	8	(9,287)	1,474
(Loss)/profit attributable to owners of the Company and total comprehensive (loss)/income for period		(9,287)	1,474
(Loss)/earnings per share	10		
Basic		HK\$(4.89) cents	HK\$0.98 cents
Diluted		N/A	N/A

Unaudited Condensed Consolidated Statement of Changes in Equity*For the three months ended 31 March 2012*

	Share capital	Share premium	Merger revaluation reserve	Assets revaluation reserve	Retained profits	Total
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2011	6,249	2,073	—	173	14,021	22,516
Issue of shares of a subsidiary	1,402	8,598	—	—	—	10,000
Total comprehensive income for the period	—	—	—	—	1,474	1,474
At 31 March 2011	7,651	10,671	—	173	15,495	33,990

	Share capital	Share premium	Merger revaluation reserve	Assets revaluation reserve	Retained profits	Total
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
At 1 January 2012	380	—	17,941	173	24,817	43,311
Capitalisation issue	14,620	(14,620)	—	—	—	—
Placing of share	5,000	35,000	—	—	—	40,000
Share issue expenses	—	(5,678)	—	—	—	(5,678)
Total comprehensive loss for the period	—	—	—	—	(9,287)	(9,287)
At 31 March 2012	20,000	14,702	17,941	173	15,530	68,346

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended 31 March 2012

1. General Information

The Company was incorporated in the Cayman Islands on 31 March 2011, as an exempted company with limited liability. The address of its registered office is situated at Clifton House, 75 Fort Street, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands. The address of its principal place of business is located at Unit 508–509, 5th Floor, IC Development Centre, No. 6 Science Park West Avenue, Hong Kong Science Park, Pak Shek Kok, Shatin, New Territories, Hong Kong.

The Company's shares were listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited on 19 January 2012 (the "Listing").

The Company is an investment holding company. The principal activity of its subsidiaries is the provision of integrated circuit ("IC") solutions and is engaged in design, development and sales of ICs.

2. Group Reorganization

Pursuant to the group reorganization (the "Reorganization"), the Company has since 20 December 2011 become the holding company of its subsidiaries now comprising the Group. On 20 December 2011, the Company, Minilogic Investment Limited ("Minilogic BVI") and the then shareholders of MiniLogic Device Corporation Limited ("MiniLogic HK") entered into a share swap agreement, pursuant to which Minilogic BVI acquired the entire issued share capital of MiniLogic HK from the said shareholders in consideration of, (i) Minilogic BVI crediting as paid up the initial one nil paid share of Minilogic BVI held by the Company; (ii) the crediting as fully paid at par the initial one nil paid share of the Company and (iii) the issue and allotment of 3,799,999 shares to the said shareholders, all credited as fully paid. Further details of the Reorganization are also set out in the paragraphs headed "The Reorganisation" of the section headed "History, Reorganisation and Corporate Structure" to the prospectus of the Company dated 30 December 2010 (the "Prospectus") in connection with the Listing.

3. Basis of Preparation

The unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2012 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated quarterly financial statements have been prepared under historical cost convention. The accounting policies adopted are consistent with those applied in the Group's annual financial statements for the year ended 31 December 2011.

The Group has not yet applied new/revised HKFRSs that have been issued but not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new/revised HKFRSs would have a material impact on its results of operations.



4. Revenue

The Group is principally engaged in the design, development and sales of ICs. Revenue represents the amount received and receivable for goods sold and services provided by the Group at invoiced value, net of returns and discounts, during the period. An analysis of the Group's revenue recognized during the period as follows:

	Three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from sale of ICs	4,625	6,804
Revenue from provision of IC packaging service	3,231	1,694
Revenue from provision of ASIC Service	246	1,280
	8,102	9,778

5. Other Income

	Three months ended 31 March	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	1	1
Reversal of allowance for impairment on trade receivable	—	17
Sundry income	328	—
	329	18

6. Finance Costs

Three months ended 31 March

	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Interests on:		
Bank borrowings wholly repayable within five years	—	8

7. Income Tax Expenses

Three months ended 31 March

	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Current tax — Hong Kong Profits Tax provision for the period	106	291
Total income tax expense recognized in profit or loss for the period	106	291

Hong Kong Profits Tax has been provided at a rate of 16.5% (three months ended 31 March 2011: 16.5%) based on the estimated assessable profit for the period.

No deferred tax has been provided as the Group did not have any material temporary differences which gave rise to a deferred tax assets or liability for the period.

8. (Loss)/Profit for the Period**Three months ended 31 March**

	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
(Loss)/profit for the period has been arrived at after charging:		
Auditor's remuneration	100	100
Cost of inventories recognized as an expense	5,026	5,880
Depreciation of property, plant and equipment	301	273
Net foreign exchange loss	76	20
Expenses incurred in connection with Listing	9,272	—
Staff costs including directors' emoluments		
— salaries, bonus and other benefits	1,300	1,236
— retirement benefits scheme contributions	35	32
— staff welfare	7	6
And after crediting:		
Bank interest income	1	1
Reversal of allowance for impairment on trade receivables	—	17

9. Dividends

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2012 (three months ended 31 March 2011: Nil).

10 (Loss)/Earnings Per Share

The calculations of basic (loss)/earnings per share for the three months ended 31 March 2012 are based on the loss of approximately HK\$9,287,000 attributable to the owners of the Company (three months ended 31 March 2011: profit of approximately HK\$1,474,000) and the weighted average number of 190,109,890 shares in issue for the three months ended 31 March 2012 (weighted average number of share in issue for the three months ended 31 March 2011: 150,000,000 shares) on the assumption that they have been in issue throughout the periods.

Diluted (loss)/earnings per share for the three months ended 31 March 2012 and the corresponding period in 2011 are not disclosed as no dilutive events existed during these periods.

Management Discussion and Analysis

The Group is a fabless semiconductor company specializing in provision of IC solutions and is engaged in design, development and sales of ICs. The Group sells IC under its own brand name "MiniLogic" and provides application specific IC service ("ASIC Service") in design and development of tailor-made IC to its customers. The Group provides tailor-made IC solutions and sells tailor-made ICs to customers under the ASIC Service business segment (the "ASIC Segment"); and independently develops and sells generically-applicable ICs for sale in the market under the MiniLogic Brand IC business segment (the "Standard IC Segment").

Business Review

In addition to 2 more new IC models deployed by our R&D team in the first quarter of 2012, we had 15 new IC models under development as at 31 March 2012. The completion of development of several new IC models would have been extended as the process was prolonged due to customer evaluation, acceptance and modification work.

The Directors believe that developing IC products with suitable technology and that appeal to the market is the key to the Group's long-term success. Hence, developing new IC products and expanding the range of the Group's products as well as broadening the customer base are essential for growth of the Group's IC solutions and design, development and sales of ICs business.

ASIC Segment

Under the ASIC Segment, the major IC products are Electronic Cigarette ICs, CCD Surveillance System ICs and DVD Player ICs. In view of sluggish market demand resulted in the decrease of AISC service income in the first quarter of 2012, the revenue of the ASIC Segment for the first quarter of 2012 dropped by HK\$0.4 million at 5.5% to approximately HK\$6.9 million (three months ended 31 March 2011: approximately HK\$7.3 million).

Standard IC Segment

Under the Standard IC Segment, the major IC products are Power Management ICs, LCD Driver ICs for instrument panel and LED Lighting Driver ICs. Due to significant drop in volume demand of LCD Driver ICs for instrument panel, the revenue of the Standard IC Segment for the first quarter of 2012 decreased by HK\$1.3 million at 52.0% to approximately HK\$1.2 million (three months ended 31 March 2011: approximately HK\$2.5 million).



Financial Review

The Group recorded a total revenue of approximately HK\$8.1 million for the first quarter of 2012 (three months ended 31 March 2011: approximately HK\$9.8 million), representing a decrease of approximately 17.3% as compared from the corresponding period of last year. On top of the reasons stated above, the increased competition in the IC industry and the debt crisis in Europe had an impact on the demand for the Group's products and on the drop in revenue of the Group for the first quarter of 2012.

Cost of Sales and Gross Profit

Cost of sales of the Group decreased by 15.3% from approximately HK\$5.9 million for the first quarter of 2011 to approximately HK\$5.0 million for the first quarter of 2012.

The overall gross profit of the Group decreased from approximately HK\$3.9 million in the first quarter of 2011 to approximately HK\$3.1 million in the first quarter of 2012, representing a decrease of 20.5%. The gross profit of the ASIC Segment declined by approximately HK\$0.5 million to approximately HK\$2.8 million in the first quarter of 2012 (three months ended 31 March 2011: approximately HK\$3.3 million), and gross profit margin of ASIC Segment was 40.3%, representing a drop of 4.4% from that of the first quarter of 2011, primarily due to the decrease in ASIC Service income in the first quarter of 2012. The gross profit of the Standard IC Segment decreased by approximately HK\$0.3 million to approximately HK\$0.3 million in the first quarter of 2012 (three months ended 31 March 2011: approximately HK\$0.6 million), and the gross profit margin of Standard IC Segment in the first quarter of 2012 was 24.7%, representing a slightly drop of 1.1% from that of the first quarter of 2011.

Expenses

Staff costs for the first quarter of 2012 were approximately HK\$1.3 million, gradually increased from that period in previous year, which was mainly due to the increase in headcount and general pay level to cope with the need of business development and listing.

Depreciation for the first quarter of 2012 was approximately HK\$0.3 million, similar to that period in previous year.

Other operating expenses for the first quarter of 2012 were approximately HK\$1.6 million (three month ended 31 March 2011: approximately HK\$0.5 million), representing an increase of approximately HK\$1.1 million from that period in previous year, which was mainly incurred in other on-going administrative expenses for listing.

Expenses incurred in connection with Listing for the first quarter of 2012 were approximately HK\$9.3 million (three month ended 31 March 2011: Nil), which are non-recurrent in nature, to be charged to the Group's profit and loss account upon of the completion of the listing on 19 January 2012.

(Loss)/Profit Attributable To Owners

The loss attributable to owners of the Company for the three months ended 31 March 2012 was approximately HK\$9.3 million, as apposed to a profit of approximately HK\$1.5 million for the three months ended 31 March 2011.

Outlook

The Group was listed on the GEM of the Stock Exchange on 19 January 2012. The funds raised from the Listing have helped lay a solid foundation for the future development of the Group.

The Group is optimistic and cautiously confident that the economy will show slow growth momentum over the coming year. Nevertheless, the profit margin of the Group's IC products may be pressurized due to the anticipated increasing competition in the IC industry. Meanwhile, the Group is facing production capacity shortage problem of IC packaging factories and taking customer orders in a prudent way, which should have a negative effect on the sales of the Group's IC products. The management is actively seeking for solutions in this regard, including sourcing for other IC packaging factories.

The Group will focus its future development on IC products for "green energy" devices. One example is LED Lighting Driver ICs for energy saving lighting appliances. Other than LED Lighting Driver ICs, the Group will continue to explore other potential green energy products. Besides the green energy products, the Group will explore other new ASIC products that will be demanded by its existing and new customers in order to expand its product and customer base.

Looking forward, the Group will remain committed to the development of our core business. Apart from enhancing product development and strengthening R&D capabilities, the Group aims to expand its customer base and sales network in the PRC. We would actively make substantial progress to enhance growth and strive for potential business opportunities to synergize with our existing businesses and products.



Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or any Associated Corporation

At 31 March 2012, the interest of the Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules were as follows:

Long positions

Ordinary Shares of the Company

Name of Director	Capacity/ Nature of Interest	Number of issued ordinary Shares held	Approximate percentage of the issued share capital of the Company
Mr. Hui King Chun	Interest of a controlled company (<i>Note</i>)	78,018,829	39.01%
Mr. Li Kwei Chung	Beneficial owner	11,762,842	5.88%

Note: These shares are beneficially owned by Kith Technologies Limited, which is wholly owned by Kith Enterstand Limited; Kith Enterstand Limited is a wholly owned subsidiary of Kith Limited, which is wholly owned by Kith Holdings Limited; Mr. Hui King Chun has an indirect interest of 61.58% in Kith Holdings Limited.

Substantial Shareholders Interests in Shares

At 31 March 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the Securities and Futures Ordinance shows that, other than the interests disclosed above in respect of certain Directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company.

Long positions

Ordinary Shares of the Company

Name of shareholder	Capacity/ Nature of Interest	Number of issued ordinary Shares held	Approximate percentage of the issued share capital of the Company
Kith Technologies Limited	Beneficial owner (<i>Note 1</i>)	78,018,829	39.01%
Kith Enterstand Limited	Interest of a controlled company (<i>Note 1</i>)	78,018,829	39.01%
Kith Limited	Interest of a controlled company (<i>Note 1</i>)	78,018,829	39.01%
Kith Holdings Limited	Interest of a controlled company (<i>Note 1</i>)	78,018,829	39.01%
Richly Global Investments Limited	Beneficial owner (<i>Note 2</i>)	27,489,276	13.74%
Mr. Cheng Tun Nei	Interest of a controlled company (<i>Note 2</i>)	27,489,276	13.74%
China Angel Fund	Beneficial owner	12,500,000	6.25%
Ms. Tong Suk Fun Sabrina	Beneficial owner	11,762,842	5.88%

Notes:

- (1) These shares are beneficially owned by Kith Technologies Limited, which is wholly owned by Kith Enterstand Limited; Kith Enterstand Limited is a wholly owned subsidiary of Kith Limited, which is wholly owned by Kith Holdings Limited.
- (2) These shares are beneficially owned by Richly Global Investments Limited, which is wholly owned by Mr. Cheng Tun Nei.

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 three months ended 31 March 2012.

Interest in a Competing Business

The Directors are not aware of any business or interest of the directors of the Company, the controlling shareholder of the Company and their respective associates (as defined under GEM Listing Rules) that compete or may compete with the business of the Group and any other conflict of interest which any such person has or may have with the Group during the three months ended 31 March 2012.

Directors Securities Transactions

The Company adopted a code of conduct regarding securities transactions by 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 effective from 19 January 2012 upon the listing of the Company. On specific enquiry made, all the Directors have confirmed compliance with the Model Code during the three months ended 31 March 2012.

Interests of the Compliance Adviser

As notified by the compliance adviser of the Company, Ample Capital Limited, as at 31 March 2012, except for the compliance adviser agreement entered into between the Company and Ample Capital Limited dated 29 December 2011, neither Ample Capital Limited or its directors, employees or associates had any interest in relation to the Group.

Corporate Governance Practices

The Group is committed to uphold 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 Company.

The Company adopted the provision of Appendix 15 Code on Corporate Governance Practices of the GEM Listing Rules as its own code (the "CG Code") effective from 19 January 2012 upon the listing of the Company and had complied with the CG Code since then and up to the date of this report.

Audit Committee

The Audit Committee is currently composed of the four independent non-executive Directors, namely Mr. Chan Sun Kwong, Mr. Chan Chi Kwong Dickson, Mr. Ko Yin Wai and Mr. Sung Tak Wing Leo, and chaired by Mr. Chan Sun Kwong, 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 three months ended 31 March 2012, and is of the opinion that such statements comply with the applicable accounting standards and requirement, and that adequate disclosure have been made.

By Order of the Board
Megalogic Technology Holdings Limited
Mr. Hui King Chun
Chairman

Hong Kong, 11 May 2012

As at the date of this report, the non-executive director of the Company is Mr. Hui King Chun; the executive directors of the Company are Mr. Li Kwei Chung, Mr. Liu Kam Lung and Mr. Liu Loi Ying; and the independent non-executive directors of the Company are Mr. Chan Sun Kwong, Mr. Chan Chi Kwong, Dickson, Mr. Ko Yin Wai and Mr. Sung Tak Wing, Leo.

