

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
2013



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

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

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 2013 together with comparable figures for the corresponding period in 2012.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 March 2013

	Notes	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Revenue	4	8,117	8,102
Cost of sales of integrated circuits and provision of integrated circuits packaging service		(5,819)	(5,026)
Gross profit		2,298	3,076
Other income	5	44	329
Staff costs		(1,414)	(1,342)
Depreciation		(295)	(301)
Operating lease rental — land and buildings		(106)	(92)
Other operating expenses		(1,460)	(1,579)
Expenses incurred in connection with Listing		—	(9,272)
Loss before income tax		(933)	(9,181)
Income tax expense	6	—	(106)
Loss for the period	7	(933)	(9,287)
Loss attributable to owners of the Company		(933)	(9,287)
Total comprehensive loss for the period		(933)	(9,287)
Loss per share attributable to owners of the Company	9		
Basic and diluted (cents)		HK\$(0.47) cents	HK\$(4.89) cents

Unaudited Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2013

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger revaluation reserve (Unaudited) HK\$'000	Assets revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Balance at 1 January 2012	380	—	17,941	173	24,817	43,311
Issue of shares upon capitalisation	14,620	(14,620)	—	—	—	—
Issue of shares upon placing	5,000	35,000	—	—	—	40,000
Expenses incurred in connection with the issue of shares for the period	—	(5,678)	—	—	—	(5,678)
Loss and total comprehensive loss for the period	—	—	—	—	(9,287)	(9,287)
Balance at 31 March 2012	20,000	14,702	17,941	173	15,530	68,346

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger revaluation reserve (Unaudited) HK\$'000	Assets revaluation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Balance at 1 January 2013	20,000	14,702	17,941	173	7,606	60,422
Disposal of property, plant and equipment	—	—	—	(1)	1	—
Loss and total comprehensive loss for the period	—	—	—	—	(933)	(933)
Balance at 31 March 2013	20,000	14,702	17,941	172	6,674	59,489



Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended 31 March 2013

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 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 Stock Exchange on 19 January 2012 (the "Listing").

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

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

This condensed consolidated financial information has not been audited.

2. Group Reorganisation

Through a reorganisation to rationalize the structure of the Group in preparation for the listing of the Company's shares (the "Reorganisation"), the Company has since 20 December 2011 become the holding company of its subsidiaries now comprising the Group. Details of the Reorganisation are fully explained in the paragraphs headed "The Reorganisation" of the section headed "History, Reorganisation and Corporate Structure" to the prospectus of the Company dated 30 December 2011 (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 2013 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 except for property, plant and equipment which is measured at revalued amounts. The accounting policies adopted are consistent with those applied in the Group's annual financial statements for the year ended 31 December 2012.

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	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Revenue from sale of ICs	7,204	4,625
Revenue from provision of IC packaging service	—	3,231
Revenue from provision of ASIC Service	913	246
	8,117	8,102

5. Other Income

	Three months ended 31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	38	1
Sundry income	6	328
	44	329

6. Income Tax Expenses

	Three months ended 31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax — Hong Kong Profits Tax provision	—	106
Total income tax expense recognized in profit or loss	—	106

6. Income Tax Expenses (Continued)

No provision for Hong Kong Profits Tax was made for the three months ended 31 March 2013 as the Group had sufficient tax losses brought forward to offset against the estimated assessable profit for the period. Hong Kong Profits Tax had been provided at a rate of 16.5% for the three months ended 31 March 2012 based on the estimated assessable profit for that 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.

7. Loss for the Period

	Three months ended 31 March	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss for the period has been arrived at after charging:		
Auditor's remuneration	95	100
Cost of inventories recognized as an expense*	5,819	5,026
Depreciation of property, plant and equipment	295	301
Net foreign exchange loss	10	76
Expenses incurred in connection with Listing	—	9,272
Staff costs including directors' emoluments		
— salaries, bonus and other benefits	1,368	1,300
— retirement benefits scheme contributions	41	35
— staff welfare	4	7
And after crediting:		
Bank interest income	38	1

* including reversal of provision for slow-moving and obsolete inventories of approximately HK\$550,000 (three months ended 31 March 2012: approximately HK\$76,000)

8. Dividends

No dividends was declared or paid during the three months ended 31 March 2013 (three months ended 31 March 2012: Nil).

9. Loss Per Share

The calculations of basic loss per share are based on the loss of approximately HK\$933,000 attributable to the owners of the Company for the three months ended 31 March 2013 (three months ended 31 March 2012: loss of approximately HK\$9,287,000) and the weighted average number of shares in issue during the three months ended 31 March 2013 of 200,000,000 (three months ended 31 March 2012: 190,109,890 shares in issue, being weighted average number of shares in issue immediately after the completion of capitalization issue throughout the period).

The Group did not have any dilutive potential ordinary shares during the three months ended 31 March 2013 and the corresponding period in 2012.

10. Events after the Reporting Period

On 28 January 2013, the Company entered into a conditional sale and purchase agreement (the "S&P") for a proposed acquisition regarding major and connected transaction in relation to a securities and consultancy business (the "Proposed Acquisition"). Finally, the Proposed Acquisition was terminated by the Company on 8 April 2013 and the deposit of HK\$4,500,000 paid on 28 January 2013 under the S&P has been refunded to the Company. Details were disclosed in the Company's announcements dated 28 January 2013, 27 February 2013, 6 March 2013, 20 March 2013, 28 March 2013 and 8 April 2013.



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 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”).

Business Review

During the first quarter of 2013, the Group’s R&D teams completed and launched 1 new IC model as follows:

Section	Product Name	Period of development	Period of sale
ASIC	MP1201 Electronic Cigar IC	January 2012 to January 2013	January 2013 to present

In addition to 1 more new IC model deployed by our R&D team in the first quarter of 2013, the Group had 15 new IC models under development as at 31 March 2013. The completion of development of several new IC models had been extended as the process was prolonged due to customer evaluation, acceptance and modification work.

The Directors believe that developing IC products with suitable technology 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 Section

Under the ASIC Section, the major IC products are Electronic Cigarette ICs, CCD Surveillance System ICs and DVD Player ICs. There was 1 new IC model launched in the first quarter of 2013 and the increase in revenue for the new model was not sufficient to offset the decrease in revenue for the old model ICs. Despite the fact that the revenue from the provision of ASIC Service for the first quarter of 2013 was improved to HK\$0.9 million (three months ended 31 March 2012: approximately HK\$0.2 million), the poor market sentiment such that most of the customers took the prudent view in project investment by observing the market changes still prevails. With keen market competition and situations, the revenue of the ASIC Section in the first quarter of 2013 was improved by approximately HK\$0.3 million or 4.3% to approximately HK\$7.2 million (three months ended 31 March 2012: approximately HK\$6.9 million).

Standard IC Section

Under the Standard IC Section, the major IC products are Power Management ICs, LCD Driver ICs for instrument panel and LED Lighting Driver ICs. No new model IC was launched in the first quarter of 2013 due to poor market sentiment. In view of sluggish market demand, the revenue of the Standard IC Section in the first quarter of 2013 was decreased by approximately HK\$0.3 million or 25.0% to approximately HK\$0.9 million (three months ended 31 March 2012: approximately HK\$1.2 million).

Financial Review

The Group recorded a total revenue of approximately HK\$8.1 million for the first quarter of 2013 (three months ended 31 March 2012: approximately HK\$8.1 million), similar to the corresponding period of last year. Save as disclosed in the above Sections, the increased competition in the IC industry, slowing movement of the PRC economy and the on-going debt crisis in Europe had an impact on the demand for the Group's products and services.



Cost of Sales and Gross Profit

Cost of sales of the Group increased by 16.0% from approximately HK\$5.0 million for the first quarter of 2012 to approximately HK\$5.8 million for the first quarter of 2013.

The overall gross profit of the Group decreased from approximately HK\$3.1 million in the first quarter of 2012 to approximately HK\$2.3 million in the first quarter of 2013, representing a decrease of 25.8%. The gross profit of the ASIC Section declined by approximately HK\$0.7 million to approximately HK\$2.1 million in the first quarter of 2013 (three months ended 31 March 2012: approximately HK\$2.8 million), and gross profit margin of ASIC Segment was 29.3%, representing a drop of 11.0 percentage point from that of the first quarter of 2012, primarily due to the absence of revenue from higher margin's provision of IC packaging service and the decrease in gross profit of certain ASIC products in the first quarter of 2013. The gross profit of the Standard IC Section decreased by approximately HK\$0.1 million to approximately HK\$0.2 million in the first quarter of 2013 (three months ended 31 March 2012: approximately HK\$0.3 million), and the gross profit margin of Standard IC Section in the first quarter of 2013 was 21.0%, representing a drop of 3.7 percentage point from that of the first quarter of 2012.

Expenses

Staff costs for the first quarter of 2013 were approximately HK\$1.4 million (three month ended 31 March 2012: approximately HK\$1.3 million), representing a slight increase from that period in previous year, which was mainly due to the increase in general pay level to cope with the need of business development and listing.

Depreciation for the first quarter of 2013 was approximately HK\$0.3 million, similar to that period in previous year.

Other operating expenses for the first quarter of 2013 were approximately HK\$1.5 million (three month ended 31 March 2012: approximately HK\$1.6 million), representing a slight decrease from that period in previous year, despite certain outgoings generated from the Proposed Acquisition, the product development expenses and operating costs were relatively reduced.

Loss Attributable To Owners of the Company

The loss attributable to owners of the Company for the three months ended 31 March 2013 was approximately HK\$0.9 million. For the three months ended 31 March 2012, the loss attributable to owners of the Company was approximately HK\$9.3 million. The substantial decrease was mainly due to the non-recurrent expenses of approximately HK\$9.3 million incurred in connection with the Listing during the first quarter of 2012.

Proposed and Terminated Major and Connected Transaction in relation to Acquisition of a Securities and Consultancy Business

On 28 January 2013, the Company entered into a conditional sale and purchase agreement (the "S&P") for a proposed acquisition regarding major and connected transaction in relation to a securities and consultancy business. Finally, the Proposed Acquisition was terminated by the Company on 8 April 2013 and the deposit of HK\$4,500,000 paid on 28 January 2013 under the S&P has been refunded to the Company. Details were disclosed in the Company's announcements dated 28 January 2013, 27 February 2013, 6 March 2013, 20 March 2013, 28 March 2013 and 8 April 2013.

Change in Directors or of Important Executive Functions or Responsibilities

- (a) On 10 April 2013, Mr. Hui King Chun resigned as the chairman of the Board and non-executive director of the Company due to his business commitments in Kith Holdings Limited which requires more of his dedication.
- (b) Since 22 April 2013, Mr. Lee Cheung Ming, being an executive director of the Company, has been appointed as the chairman of the Board.
- (c) In accordance with the articles of association of the Company, Mr. Liu Loi Ying, an executive director of the Company, and Mr. Chan Chi Kwong Dickson ("Mr. Chan"), an independent non-executive director of the Company, who did not seek for re-election, had retired by rotation at the annual general meeting of the Company held on 30 April 2013. At the same time, Mr. Chan ceased to be a member of the audit committee, the remuneration committee and the nomination committee of the Company.

Disposal of Shares by Controlling Shareholder

Kith Technologies Limited (“Kith Technologies”), being the controlling shareholder of the Company at that time, had disposed of an aggregate of 78,000,000 shares of the Company at an average price of approximately HK\$0.141 on the market on 16 April 2013. Such disposal represented 39% of the issued share capital of the Company. Before the disposal, Kith Technologies owned 78,018,829 shares of the Company, representing 39.01% of the issued share capital of the Company. Immediately after the disposal, Kith Technologies owned 18,829 shares of the Company, representing 0.01% of the issued share capital of the Company.

Outlook

The atmosphere of global economy is still uncertain. The Group is optimistic and cautiously confident that the economy will show slow growth momentum over the current year. The business prospect of the Group, in particular for revenue from provision of ASIC Service, is likely to be optimistic. 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.

Nevertheless, we need to pay attention to the fact that on-going debt crisis in Europe and slowing movement of the PRC economy may further increase competition and prolong the stagnant demand in the IC industry, which would adversely affect the performance of the Group. Hence, we would also look for other business opportunities that will improve the Group’s profitability.

Looking forward, the Group will remain committed to the development of our core business. Apart from enhancing IC 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 and new business opportunities

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

As at 31 March 2013, the interests and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 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 (Note)	78,018,829	39.01%
Mr. Li Kwei Chung	Beneficial owner	11,762,842	5.88%
Mr. Lee Cheung Ming	Beneficial owner	2,500,000	1.25%

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.

Save as disclosed above, as at 31 March 2013, none of the Directors and chief executive of the Company had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rule 5.46 of the GEM Listing Rules.

Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares of the Company

As at 31 March 2013, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Long 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%

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.

Save as disclosed above, as at 31 March 2013, no other interests or short positions in the shares or underlying shares of the Company were recorded in the register required to be kept by the Company under section 336 of the SFO.

Purchase, Sale or Redemption of Listed Securities of the Company

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 2013.

Interest in a Competing Business

During the three months ended 31 March 2013, none of the Directors, the controlling shareholders of the Company and their respective associates (as defined under 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 or any other conflict of interest with the Group's business.

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. On specific enquiry made to all the Directors, the Company was not aware of any non-compliance with the Model Code regarding securities transactions by Directors during the three months ended 31 March 2013.

Interests of the Compliance Adviser

As notified by the compliance adviser of the Company, Ample Capital Limited, as at 31 March 2013, except for (i) Ample Capital Limited's participation as the sponsor and its affiliated company, Ample Orient Capital Limited as one of the joint lead managers in relation to the Listing; (ii) the compliance adviser agreement entered into between the Company and Ample Capital Limited dated 29 December 2011 and (iii) the financial adviser agreement entered into between the Company and Ample Capital Limited dated 21 January 2013 in respect of the Proposed Acquisition, 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 Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code and had complied with the CG Code for the three months ended 31 March 2013.

Audit Committee

The Audit Committee is currently composed of the 3 independent non-executive Directors, namely Mr. Chan Sun Kwong, 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 2013, which is of the opinion that such statements comply with the applicable accounting standards, the GEM Listing Rules and legal requirements, and that adequate disclosure have been made.

By Order of the Board
Megalagic Technology Holdings Limited
Mr. Lee Cheung Ming
Chairman

Hong Kong, 7 May 2013

As at the date of this report, the executive directors of the Company are Mr. Lee Cheung Ming, Mr. Li Kwei Chung and Mr. Liu Kam Lung; and the independent non-executive directors of the Company are Mr. Chan Sun Kwong, Mr. Ko Yin Wai and Mr. Sung Tak Wing Leo.