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

Interim Report 2013

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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.

Interim 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 and six months ended 30 June 2013 together with comparable figures for the corresponding period in 2012.

Unaudited Condensed Consolidated Statement of Comprehensive Income

		Three months ended 30 June		Six months ended 30 June	
		2013	2012	**2013**	2012
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	Notes	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue	5	**8,614**	7,833	**16,731**	15,935
Cost of sales of integrated circuits and provision of integrated circuits packaging service		**(6,684)**	(5,865)	**(12,503)**	(10,891)
Gross profit		**1,930**	1,968	**4,228**	5,044
Other income	6	**298**	54	**342**	383
Staff costs		**(1,553)**	(1,788)	**(2,967)**	(3,130)
Depreciation		**(318)**	(324)	**(613)**	(625)
Operating lease rental — land and buildings		**(105)**	(93)	**(211)**	(185)
Other operating expenses		**(2,274)**	(2,064)	**(3,734)**	(3,643)
Expenses incurred in connection with Listing		**—**	—	**—**	(9,272)
Loss before income tax		**(2,022)**	(2,247)	**(2,955)**	(11,428)
Income tax credit/(expense)	7	**—**	310	**—**	204
Loss for the period	8	**(2,022)**	(1,937)	**(2,955)**	(11,224)
Loss attributable to owners of the Company and total comprehensive loss for period		**(2,022)**	(1,937)	**(2,955)**	(11,224)
Loss per share	10				
Basic and diluted (cents)		**HK(1.01) cents**	HK(0.97) cents	**HK(1.48) cents**	HK(5.75) cents

Unaudited Condensed Consolidated Statement of Financial Position

	Notes	As at 30 June 2013 (Unaudited) HK$'000	As at 31 December 2012 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	11	3,442	3,118
Current assets			
Inventories	12	8,106	6,566
Trade receivables	13	7,930	8,041
Deposits and prepayments		930	1,406
Tax recoverable		991	991
Bank balances and cash		40,507	43,901
		58,464	60,905
Current liabilities			
Trade payables	14	2,331	1,524
Other payables and accruals		2,108	2,077
		4,439	3,601
Net current assets		54,025	57,304
Total assets less current liabilities		57,467	60,422
Net assets		57,467	60,422
Capital and reserves			
Share capital	15	20,000	20,000
Share premium		14,702	14,702
Reserves		22,765	25,720
Total equity		57,467	60,422

Unaudited Condensed Consolidated Statement of Changes In Equity

	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	—	—	—	—	(11,224)	(11,224)
Balance at 30 June 2012	20,000	14,702	17,941	173	13,593	66,409

	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	**—**	**—**	**—**	**—**	**(2,955)**	**(2,955)**
Balance at 30 June 2013	**20,000**	**14,702**	**17,941**	**172**	**4,652**	**57,467**

Unaudited Condensed Consolidated Statement of Cash Flows

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Net cash (used in)/from operating activities	**(2,528)**	3,125
Net cash used in investing activities	**(866)**	(994)
Net cash from financing activities	**—**	34,322
Net(decrease)/increase in cash and cash equivalents	**(3,394)**	36,453
Cash and cash equivalents at beginning of the period	**43,901**	7,635
Cash and cash equivalents at end of the period	**40,507**	44,088
Analysis of cash and cash equivalents at end of the period		
Bank balances and cash	**40,507**	44,088

Notes to the Unaudited Condensed Consolidated Financial Statements

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 interim 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 and Accounting Policies

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2013 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the GEM Listing Rules. The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2012, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The unaudited condensed consolidated interim financial statements have been prepared under historical cost convention, except for property, plant and equipment which is measured at revalued amounts.

3. **Basis of Preparation and Accounting Policies (Continued)**

Except as for the adoption of new and revised HKFRSs issued by the HKICPA, which are effective for the Group's financial year beginning from 1 January 2013, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2012, as described in the annual financial statements. The Directors anticipate that the application of these new and revised HKFRSs will not have material impact on the condensed consolidated interim financial information of the Group.

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

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2012.

4. **Segment Information**

The chief operating decision maker considers that the Group's activities constitute one operating segment as all of the Group's operation relate to the design, development and sales of integrated circuits. The management of the Group makes decisions about resource allocation and performance assessment on a group basis. It was determined that the Group has only one single reporting segment, being the design, development and sales of integrated circuits. As a result, no segment information other than the entity-wide disclosure is presented.

An analysis of the Group's revenue from major products and services is set out in note 5 below.

Information about major customers

The Group's revenue from customers which accounted for 10% or more of the Group's total revenue are as follows:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Customer A	**8,181***	8,123
Customer B	**2,561**	N/A#
Customer C	**1,673**	N/A#
	12,415	8,123

The corresponding revenue did not contribute over 10% of the total revenue of the Group.

* The group of entities known to the Group to be under common control had been considered a single customer.

4. Segment Information (Continued)

Geographical information

The Group's operations are located in Hong Kong. The geographical location of customers is based on the location of the customers, irrespective of the origin of the goods or services. The geographical location of the non-current assets is based on the physical location of the assets, in the case of property, plant and equipment. The Group's revenue from external customers and information about its non-current assets by geographical location of the assets are set out below:

Revenue from external customers

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Hong Kong (place of domicile)	**1,935**	2,585
The PRC, excluding Hong Kong and Taiwan	**11,732**	12,061
Germany	**146**	122
Korea	**752**	661
Russia	**—**	13
Taiwan	**493**	493
United States of America	**1,673**	—
	16,731	15,935

Non-current assets

	As at 30 June 2013	As at 31 December 2012
	(Unaudited)	(Audited)
	HK$'000	HK$'000
Hong Kong (place of domicile)	**548**	690
The PRC, excluding Hong Kong and Taiwan	**204**	225
Taiwan	**2,690**	2,203
	3,442	3,118

5. **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 30 June		Six months ended 30 June	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Revenue from sale of ICs	**7,456**	5,811	**14,660**	10,436
Revenue from provision of IC packaging service	**—**	2,022	**—**	5,253
Revenue from provision of ASIC Service	**1,158**	—	**2,071**	246
	8,614	7,833	**16,731**	15,935

6. **Other Income**

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Interest income	**34**	54	**72**	55
Sundry income	**264**	—	**270**	328
	298	54	**342**	383

7. Income Tax (Credit)/Expense

Income tax (credit)/expense recognized in profit or loss

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Current tax — Hong Kong Profits Tax provision for the period	**—**	(106)	**—**	—
Deferred tax	**—**	(204)	**—**	(204)
Total income tax (credit)/expense recognized in profit or loss for the period	**—**	(310)	**—**	(204)

No provision for Hong Kong Profits Tax is required since the Group has no estimated assessable profit for the six months ended 30 June 2013 and the corresponding periods in 2012.

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 for the Period

Loss for the period has been arrived at after charging:

	Three months ended 30 June		Six months ended 30 June	
	2013	2012	**2013**	2012
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$'000	HK$'000	**HK$'000**	HK$'000
Auditor's remuneration	**95**	100	**190**	200
Cost of inventories recognized as an expense	**6,570**	5,483	**12,273**	10,453
Depreciation of property, plant and equipment	**318**	324	**613**	625
Net foreign exchange loss	**9**	15	**19**	91
Expenses incurred in connection with Listing	**—**	—	**—**	9,272
Staff costs including directors' emoluments				
— salaries, bonus and other benefits	**1,507**	1,743	**2,875**	3,043
— retirement benefits scheme contributions	**44**	41	**85**	76
— staff welfare	**3**	4	**7**	11
And after crediting:				
Bank interest income	**34**	54	**72**	55

9. Dividends

No dividends was declared or paid during the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

10. Loss Per Share

The calculations of basic loss per share are based on the loss of approximately HK$2,022,000 and HK$2,955,000 attributable to the owners of the Company for the three months and six months ended 30 June 2013 respectively (three months and six months ended 30 June 2012: loss of approximately HK$1,937,000 and HK$11,224,000) and the weighted average number of shares in issue during the three months and six months ended 30 June 2013 of 200,000,000 shares (three months and six months ended 30 June 2012: 200,000,000 shares and 195,054,945 shares in issue, being weighted average number of shares in issue after the completion of capitalization issue throughout the periods).

The Group did not have any dilutive potential ordinary shares during the three months and six months ended 30 June 2013 and the corresponding periods in 2012.

11. Property, Plant and Equipment

(a) Acquisition

During the six months ended 30 June 2013, the Group acquired items of plant and machinery with a cost of approximately HK$938,000 (six months ended 30 June 2012: approximately HK$1,048,000).

(b) Valuation

The Group's property, plant and equipment were revalued as at 31 December 2010 by an independent firm of surveyors, Norton Appraisals Limited, by reference to market evidence of recent transactions for similar assets.

12. Inventories

During six months ended 30 June 2013, approximately HK$407,000 (six months ended 20 June 2012: HK$2,000) has been recorded, being the amount of net reversal of provision for slow-moving and obsolete inventories, in which included approximately HK$522,000 for reversal of provision and approximately HK$115,000 for increase of provision.

During six months ended 30 June 2013, approximately HK$16,000 (six months ended 20 June 2012: nil) has been recognized as the write-down of inventories to net realisable value.

13. Trade Receivables

The Group normally allows a credit period ranging from "cash on delivery" to 90 days to its trade customers as at 30 June 2013 and 31 December 2012. The following is an aged analysis of trade receivables at the end of each period, presented based on the invoice date:

	As at 30 June 2013 (Unaudited) HK$'000	As at 31 December 2012 (Audited) HK$'000
0–30 days	**3,270**	1,827
31–60 days	**1,978**	1,858
61–90 days	**1,519**	1,891
More than 90 days	**1,163**	2,465
	7,930	8,041

The aging analysis of the Group's trade receivables which are past due but not impaired is as follows:

	As at 30 June 2013 (Unaudited) HK$'000	As at 31 December 2012 (Audited) HK$'000
0–30 days	**70**	274
31–60 days	**805**	611
61–90 days	**607**	680
More than 90 days	**1,163**	2,465
	2,645	4,030

14. Trade Payables

An aging analysis of the Group's trade payables presented based on the invoice date at the end of each period, is as follows:

	As at 30 June 2013 (Unaudited) HK$'000	As at 31 December 2012 (Audited) HK$'000
0–30 days	**1,699**	833
31–60 days	**541**	428
61–90 days	**—**	172
More than 90 days	**91**	91
	2,331	1,524

15. Share Capital

	Number of shares '000	**Nominal value** HK$'000
Ordinary shares of HK$0.1 each		
Authorized:		
At 31 December 2012 and 30 June 2013	10,000,000	1,000,000
Issued and fully paid:		
At 31 January 2012	3,800	380
Issue of shares upon Capitalisation on 19 January 2012	146,200	14,620
Issue of shares upon Placing on 19 January 2012	50,000	5,000
At 31 December 2012 and 30 June 2013	200,000	20,000

16. Capital Commitment

The Group did not have any significant capital commitment as at 30 June 2013 and 31 December 2012.

17. Contingent Liabilities

As at 30 June 2013 and 31 December 2012, respectively 7 and 6 employees of the Group have completed the required number of years of service under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the circumstances specified in the Ordinance.

If the termination of all such employees met the circumstances set out in the Ordinance, the Group's liability as at 30 June 2013 and 31 December 2012 would be approximately HK$123,000 and HK$84,000 respectively. No provision has been made for these amounts in the condensed consolidated financial statements as the directors of the Company are of the view that these amounts are not expected to crystallize in the foreseeable future.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 June 2013 and 31 December 2012.

18. Material Related Party Transactions

The Group entered into the following material related party transactions during the period.

Key management compensation

Remuneration for key management personnel of the Group, including the Company's directors and other members of key management, is as follows:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Salaries and other short term employee benefits	**1,663**	1,568
Contribution to Mandatory Provident Fund	**34**	22
	1,697	1,590

19. Comparative Figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

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 half year of 2013, the Group's R&D teams completed and launched 2 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
Standard	MP1105 Static LCD COG Driver IC	September 2011 to May 2013	May 2013 to present

In addition to development of 1 more new IC models deployed by our R&D team in the first half year of 2013, we had 14 new IC models under development as at 30 June 2013. The completion of development of several new IC models has 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 half year 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 half year of 2013 was improved to HK$2.1 million (six months ended 30 June 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 conditions, the revenue of the ASIC Section in the first half year of 2013 was improved by approximately HK$1.6 million or 12.2% to approximately HK$14.7 million (six months ended 30 June 2012: approximately HK$13.1 million).

As compared with the corresponding period of last year, the revenue of Electronic Cigarette ICs recorded growth despite a downward clash in selling prices due to keen competition. Besides, the demand and selling prices for CCD Surveillance System ICs and DVD Players ICs were still weak due to market conditions and keen competition.

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. Due to uncertain economic outlook in Europe leading to the significant drop in volume demand of LCD Driver ICs for instrument panel, the revenue of the Standard IC Section for the first half year of 2013 decreased by HK$0.7 million or 25.0% to approximately HK$2.1 million (six months ended 30 June 2012: approximately HK$2.8 million).

As compared with the corresponding period of last year, the demand for Power Management ICs deteriorated. Besides, the demand for LCD Driver ICs for instrument panel remained sluggish. For LED Lighting Driver ICs, we were in the process of developing more series of LED Lighting Driver ICs with the expectation to attracting more customers' order in LED Lighting market for the near future.

Financial Review

The Group recorded a total revenue of approximately HK$16.7 million for the first half year of 2013 (six months ended 30 June 2012: approximately HK$15.9 million), representing slight improvement of approximately 5.0% as compared from the corresponding period of last year. Save as disclosed in the above Sections, the increased competition in the IC industry, slowing down 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 14.7 % from approximately HK$10.9 million for the first half year of 2012 to approximately HK$12.5 million for the first half year of 2013.

The overall gross profit of the Group decreased from approximately HK$5.0 million in the first half year of 2012 to approximately HK$ 4.2 million in the first half year of 2013, representing a decrease of 16.0%. The gross profit of the ASIC Section declined by approximately HK$0.4 million to approximately HK$4.0 million in the first half year of 2013 (six months ended 30 June 2012: approximately HK$4.4 million), and gross profit margin of ASIC Section was 27.2%, representing a drop of 6.7 percentage point from that of the first half year 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 half year of 2013. The gross profit of the Standard IC Section decreased by approximately HK$0.4 million to approximately HK$0.2 million in the first half year of 2013 (six months ended 30 June 2012: approximately HK$0.6 million), and the gross profit margin of Standard IC Section in the first half year of 2013 was 11.7%, representing a drop of 9.5 percentage point from that of the first half year of 2012, primarily due to drop in sales margin of products and an impairment provision of inventories made in the first half year of 2013.

Expenses

Staff costs for the first half year of 2013 were approximately HK$3.0 million (six months ended 30 June 2012: approximately HK$3.1 million), representing an slight decrease of approximately HK$0.1 million with that period in previous year, which was mainly due to the impact of decrease in headcount overweighting the effect of increase in general pay level.

Depreciation for the first half year of 2013 was approximately HK$0.6 million, which was similar with that for the same period in previous year.

Other operating expenses for the first half year of 2013 were approximately HK$3.7 million (six months ended 30 June 2012: approximately HK$3.6 million), representing an increase of approximately HK$0.1 million with that period in previous year, despite certain outgoings generated from the Proposed and Terminated Acquisition, the product development expenses and operating costs were relatively reduced.

Loss Attributable to Owners

The loss attributable to owners of the Company for the six months ended 30 June 2013 was approximately HK$3.0 million. For the six months ended 30 June 2012, the loss attributable to owners of the Company was approximately HK$11.2 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 six months ended 30 June 2012.

Liquidity, Financial Resources and Capital Structure

The Group generally financed its daily operations from internally generated cash flows. As at 30 June 2013, the Group had bank and cash balances of approximately HK$40.5 million (31 December 2012: approximately HK$43.9 million) and did not have any borrowings, banking facilities or any loan arrangement containing any covenant (31 December 2012: nil). The gearing ratio calculated as the ratio of total interesting being debt to total asset was nil as at 30 Jun 2013 (31 December 2012: nil). The Group's financial position is healthy, enabling the Group to expand its core business and to achieve its business objectives.

Charges on Assets

As at 30 June 2013 and 31 December 2012, the Group did not have any charges on its assets.

Foreign Exchange Exposure

The Group's transactions are mainly denominated in United States dollars, Hong Kong dollars and RMB. Therefore, the Group is exposed to foreign currency exchange risk. The Group has not implemented any foreign currency hedging policy at the moment. However, continuous monitoring on the foreign exchange exposure is carried out by the management and the management will consider hedging the foreign exchange exposure if it is significant to the Group.

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 (the "Proposed and Terminated Acquisition"). Finally, the Proposed and Terminated 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.

Significant Investments held, Material Acquisitions and Disposals of Subsidiaries, and Future Plans for Material Investments or Capital Assets

Save for those disclosed in this report, there were neither significant investments held as at 30 June 2013 nor material acquisitions and disposals of subsidiaries during the six months ended 30 June 2013. There is no plan for material investments or capital assets as at the date of this report.

Interim Dividend

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: nil).

Employees and Remuneration Policies

The Group had approximately 14 employees as at 30 June 2013. The Group's remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee.

We recognize the importance of a good relationship with our employees. The remuneration payable to our employees includes salaries and allowances. Other benefits include training and discretionary bonus.

Share Option Scheme

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

For the six months ended 30 June 2013, no share option was granted, exercised, expired or lapsed and there is no outstanding share option under the Scheme.

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Company's prospectus dated 30 December 2011 ("Prospectus") for the period from 23 December 2011, being the latest practicable date as defined in the Prospectus ("LPD") to 30 June 2013 (the "Review Period") with the Group's actual business progress for the Review Period is set out as follows:

Business Objective for the Review Period	Actual Business Progress for the Review Period
Enhancing product development by diversifying into new IC products and improving existing IC products	
Develop and launch 10 new MiniLogic Brand IC models	5 new MiniLogic Brand IC models were still under development, including (i) ML1370 LED Light Tube Driver IC, (ii) MP1110 24V LED Backlight Driver with dimming control IC which was sold to ASIC customer with its development work in progress, (iii) ML1361 MR16 LED Lighting Driver with Buck/Boost Feature IC, (iv) ML1372 E27 LED Light Bulb Driver IC and (v) MP1205 USB Backup Power Supply IC, during the Review Period. The completion of development of these new IC models had been extended as the process was prolonged due to customer evaluation, acceptance and modification work. As to LED Light Bulb Driver with PFC feature IC and four more new MiniLogic Brand IC models under the category of LED Lighting Driver ICs, the projects had not been deployed due to the specification of market demand being unclear.

Enhancing product development by diversifying into new IC products and improving existing IC products (Continued)

Develop and launch 11 new ASIC products	7 new ASIC products were still under development, including (i) MP1103 18V Dual Channel Buck Converter IC, (ii) MP1113 Class-D Stereo and Subwoofer Audio Power Amplifier IC, (iii) Ai9123 Low Voltage Video Amplifier with Low Pass Filter IC, (iv) Ai8149 Power Management Unit for CCD Camera ICs and (v) MP1017 Portable Electronic Charger IC, (vi) MP1209 Linear LED Driver IC and (vii) MP1212 Electronic Lighter IC, during the Review Period. The completion of development of these new IC models had been extended as the process was prolonged due to customer evaluation, acceptance and modification work. Nevertheless, 4 new IC models of ASIC products, namely (i) MP1204 LDO and Tray Driver IC, (ii) MP1109 Portable DVD Power Management Unit IC, (iii) MP1202 Single Time Electronic Cigarette with blue LED IC, and (iv) MP1201 Electronic Cigar IC, were developed and launched in July 2012, September 2012, September 2012 and January 2013 respectively.
Improve and launch 8 modified existing IC models	2 modified existing IC models were still under improvement, including (i) MP1203 Rechargeable Electronic Cigarette IC and (ii) MP1213 Motor Driver IC for portable DVD player, during the Review Period. The completion of development of these new IC models had been extended as the process was prolonged due to customer evaluation, acceptance and modification work. Nevertheless, 1 new modified IC model of existing IC models, namely MP1105 Static LCD COG Driver IC, was developed and launched in May 2013. As to five more modified IC models of existing IC models, the project had not been deployed due to the specification of market demand being unclear.

Strengthening R&D capabilities by establishing a research and development centre and sales office in Suzhou, the PRC

Establish Suzhou office	Visits had been made to Suzhou Industrial Park, Suzhou, the PRC by the management of the Group during the Review Period. However, in view of uncertain economic outlook in the PRC market, the establishment of Suzhou office would be delayed until the market becomes positive.
Recruit 10 new employees with engineering expertise	Not yet commenced
Provide supporting services to Hong Kong R&D team	Not yet commenced
Explore new opportunities to cooperate with local universities in Suzhou, PRC	Not yet commenced
Develop into a full-fledged R&D centre	Not yet commenced
Collaborate with at least one PRC university on one R&D project	Not yet commenced
Further develop two new IC products for new customers in the ASIC Section and provide mutual support to Hong Kong R&D team	Not yet commenced

Expanding the customer base and sales network in the PRC

Formulate an marketing plan	In view of uncertain economic outlook in the PRC market, the formulation of a marketing plan would be delayed until the market becomes positive.
Recruit 7 new sales and marketing staff	Not yet commenced
Explore and develop new sales and marketing network in Suzhou and Wuxi regions	Not yet commenced
Extend sales and marketing activities to Shanghai and Kuzhan region	Not yet commenced

Use of Proceeds

The net proceeds from the issue of new shares of the Company under the placing as set out in the Prospectus were approximately HK$24.3 million, which was different from the estimated net proceeds of approximately HK$33.8 million (estimated on the assumption that the placing price would be the mid-point of the stated range as stated in the Prospectus). We adjusted the amount of the use of proceeds in the same manner and in the same proportion as shown in the Prospectus, and approximately HK$11.9 million, HK$10.7 million, HK$1.6 million and HK$0.1 million were adjusted for (i) enhancing product development by diversifying into new IC products and improving existing IC products, (ii) establishing a research and development centre and sales office in Suzhou, the PRC, (iii) expanding PRC customer base and sales network and (iv) working capital of the Group respectively. As at the date of this report, we do not anticipate any change to the plan. During the Review Period, the Group has applied the net proceeds as follows:

	Notes	**Adjusted use of proceeds in the same manner and proportion as stated in Prospectus** HK$' million	**Actual usage** HK$' million
Enhancing product development by diversifying into new IC products and improving existing IC products	1	9.5	6.4
Strengthening R&D capabilities by establishing a research and development centre and sales office in Suzhou, the PRC	2	7.2	—
Expanding the customer base and sales network in the PRC	2	1.1	—
Working capital		0.1	0.1
		17.9	6.5

Notes:

1. Comparatively, there were less new IC product development projects deployed due to the specification of market demand being unclear, resulting in less actual spending. However, 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, resulting in more actual spending. After offsetting, the actual use of proceed was less than the expected amount as stated in the Prospectus.

2. Visits had been made to Suzhou Industrial Park, Suzhou, the PRC by the management of the Group during the Review Period. However, in view of uncertain economic outlook in the PRC market, the establishment of Suzhou office would be delayed until the market becomes positive.

The remaining unused net proceeds as at 30 June 2013 were placed as interest bearing deposits with licensed bank in Hong Kong and is expected to be used as stated in the Prospectus.

Outlook

The Global economy seemed bound for a cloudy start in 2013. The Group is optimistic and cautiously confident that the economy will show slow growth momentum over the remaining year. The Group has deployed the ASIC Service in United States of America market and the prospect of ASIC Service Section is likely 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 down of the PRC economy may further increase competition and prolong 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 30 June 2013, the interest and short position of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

Long 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. Li Kwei Chung	Beneficial owner	11,762,842	5.88%
Mr. Lee Cheung Ming	Beneficial owner	2,500,000	1.25%

Save as disclosed above, as at 30 June 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 30 June 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
Richly Global Investments Limited	Beneficial owner *(Note 1)*	27,489,276	13.74%
Mr. Cheng Tun Nei	Interest of a controlled company *(Note 1)*	27,489,276	13.74%
China Angel Fund	Beneficial owner	15,700,000	7.85%
Mr. Lee Cheung Chun	Beneficial owner	11,530,342	5.77%

Note:

1. 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 30 June 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.

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 six months ended 30 June 2013.

Interest in a Competing Business

During the six months ended 30 June 2013, none of the Directors, the controlling shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in any business which competes or is likely to compete, directly or indirectly, with the business of the Group and any other conflicts of interest with the Group'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 six months ended 30 June 2013.

Interests of the Compliance Adviser

As notified by the compliance adviser of the Company, Ample Capital Limited, as at 30 June 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 and Terminated 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 during the six months ended 30 June 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 six months ended 30 June 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
Megalogic Technology Holdings Limited
Mr. Lee Cheung Ming
Chairman

Hong Kong, 7 August 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.