

Megalogic Technology Holdings Limited

宏創高科集團有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 8242

Third Quarterly Report
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 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.

Third 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 and nine months ended 30 September 2013 together with comparable figures for the corresponding periods in 2012.

Unaudited Condensed Consolidated Statement of Comprehensive Income

| | Notes | Three months ended 30 September | | Nine months ended 30 September | |
|---|-------|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | | 2013 (Unaudited) HK\$'000 | 2012 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 | 2012 (Unaudited) HK\$'000 |
| Revenue | 4 | 11,936 | 7,643 | 28,667 | 23,578 |
| Cost of sales of integrated circuits and provision of integrated circuits packaging service | | (9,435) | (6,440) | (21,938) | (17,331) |
| Gross profit | | 2,501 | 1,203 | 6,729 | 6,247 |
| Other income | 5 | 233 | 1,079 | 575 | 1,462 |
| Staff costs | | (1,686) | (1,521) | (4,653) | (4,651) |
| Depreciation | | (335) | (335) | (948) | (960) |
| Operating lease rental | | | | | |
| — land and buildings | | (106) | (96) | (317) | (281) |
| Other operating expenses | | (2,293) | (2,429) | (6,027) | (6,072) |
| Expenses incurred in connection with Listing | | — | — | — | (9,272) |
| Loss before income tax | | (1,686) | (2,099) | (4,641) | (13,527) |
| Income tax credit | 6 | 12 | 321 | 12 | 525 |
| Loss for the period | 7 | (1,674) | (1,778) | (4,629) | (13,002) |
| Loss attributable to owners of the Company and total comprehensive loss for period | | (1,674) | (1,778) | (4,629) | (13,002) |
| Loss per share | 9 | | | | |
| Basic | | HK(0.78) cents | HK(0.89) cents | HK(2.26) cents | HK(6.61) cents |
| Diluted | | N/A | N/A | N/A | N/A |

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 | — | — | — | — | (13,002) | (13,002) |
| Balance at 30 September 2012 | 20,000 | 14,702 | 17,941 | 173 | 11,815 | 64,631 |

| | 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 | — |
| Issue of shares upon placing* | 4,000 | 6,000 | — | — | — | 10,000 |
| Expenses incurred in connection with the issue of shares for the period | — | (265) | — | — | — | (265) |
| Loss and total comprehensive loss for the period | — | — | — | — | (4,629) | (4,629) |
| Balance at 30 September 2013 | 24,000 | 20,437 | 17,941 | 172 | 2,978 | 65,528 |

* On 30 August 2013, 40,000,000 ordinary shares of HK\$0.10 each were issued by way of placing at a price of HK\$0.25 per share (the "Placing Price") for cash consideration of HK\$10,000,000. The excess of the Placing Price over the par value of the shares issued was credited to the share premium account.



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 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 GEM of the 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 "Reorganization"), 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 nine months ended 30 September 2013 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated 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 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.

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 30 September | | Nine months ended 30 September | |
|---|------------------------------------|---------------------------------|-----------------------------------|---------------------------------|
| | 2013 (Unaudited) HK\$'000 | 2012 (Unaudited) HK\$'000 | 2013 (Unaudited) HK\$'000 | 2012 (Unaudited) HK\$'000 |
| Revenue from sale of ICs | 11,388 | 7,543 | 26,048 | 17,979 |
| Revenue from provision of IC packaging service | — | — | — | 5,253 |
| Revenue from provision of ASIC Service | 548 | 100 | 2,619 | 346 |
| | 11,936 | 7,643 | 28,667 | 23,578 |

5. Other Income

| | Three months ended 30 September | | Nine months ended 30 September | |
|-----------------|------------------------------------|-------------|-----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Interest income | 55 | 235 | 127 | 290 |
| Sundry income | 178 | 844 | 448 | 1,172 |
| | 233 | 1,079 | 575 | 1,462 |

6. Income Tax Credit

Income tax credit recognized in profit or loss:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|-------------|-----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current tax — Hong Kong Profits Tax over-provision in the previous period | (12) | — | (12) | — |
| Deferred tax | — | (321) | — | (525) |
| Total income tax credit recognized in profit or loss for the period | (12) | (321) | (12) | (525) |

No provision for Hong Kong Profits Tax is required since the Group has no estimated assessable profit for the nine months ended 30 September 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.

7. Loss for the Period

Loss for the period has been arrived at after charging:

| | Three months ended 30 September | | Nine months ended 30 September | |
|---|------------------------------------|-------------|-----------------------------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Auditor's remuneration | 95 | 100 | 285 | 300 |
| Cost of inventories recognized as an expense* | 10,226 | 6,440 | 22,499 | 16,893 |
| Depreciation of property, plant and equipment | 335 | 335 | 948 | 960 |
| Net foreign exchange loss | 23 | 20 | 42 | 111 |
| Expenses incurred in connection with Listing | — | — | — | 9,272 |
| Staff costs including directors' emoluments | | | | |
| — salaries, bonus and other benefits | 1,640 | 1,473 | 4,515 | 4,516 |
| — retirement benefits scheme contributions | 45 | 45 | 130 | 121 |
| — staff welfare | 1 | 3 | 8 | 14 |
| And after crediting: | | | | |
| Bank interest income | 55 | 236 | 127 | 291 |

* including net reversal of provision for slow moving and obsolete inventories of approximately HK\$523,000 (nine months ended 30 September 2013: HK\$18,000).

8. Dividends

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



9. Loss Per Share

The calculations of basic earnings per share for the three months and nine months ended 30 September 2013 are based on the loss of approximately HK\$1,674,000 and HK\$4,629,000 attributable to the owners of the Company (three months and nine months ended 30 September 2012: loss of approximately HK\$1,778,000 and HK\$13,002,000) and the weighted average number of 213,913,043 and 204,688,645 shares in issue for the three months and nine months ended 30 September 2013 (three months and nine months ended 30 September 2012: 200,000,000 shares and 196,715,328 shares in issue, being weighted average number of share 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 nine months ended 30 September 2013 and the corresponding periods in 2012.

10. 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 in the market under the MiniLogic Brand IC business Section (the "Standard IC Section").

Business Review

During the first three quarters of 2013, the Group's R&D teams completed and launched 3 new IC models 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 |
| ASIC | MP1212 Electronic Lighter IC | January 2013 to August 2013 | August 2013 to present |

In addition to development of 3 more new IC models deployed by our R&D team in the first three quarters of 2013, we had 14 new IC models under development as at 30 September 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. 2 new IC models were launched and there was an overall increase in demand in the first three quarters of 2013. Despite the fact that the revenue from the provision of ASIC Service for the first three quarters of 2013 increased to HK\$2.6 million (nine months ended 30 September 2013: approximately HK\$0.3 million), most of the customers took the prudent view in project investment by observing the market changes and the poor market sentiment still prevails. With keen market competition and environment, the revenue of the ASIC Section in the first three quarters of 2013 increased by approximately HK\$6.2 million or 32.5% to approximately HK\$25.3 million (nine months ended 30 September 2012: approximately HK\$19.1 million).

As compared with the corresponding period of last year, the revenue of Electronic Cigarette ICs recorded growth despite downward clash in selling price due to keen competition. The demand from the United States market for Electronic Cigarette had a remarkable expansion. The demand of DVD Players ICs improved slightly. Nevertheless, the demand and selling price for CCD Surveillance System ICs was still weak due to market environment 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. 1 new IC model was launched in the first three quarters of 2013. Due to uncertain economic outlook in Europe causing significant drop in volume demand of LCD Driver ICs for instrument panel, the revenue of the Standard IC Section for the first three quarters of 2013 decreased by HK\$1.1 million or 25.0% to approximately HK\$3.3 million (nine months ended 30 September 2012: approximately HK\$4.4 million).

As compared with the corresponding period of last year, the demand of 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 in the near future.

Financial Review

The Group recorded a total revenue of approximately HK\$28.7 million for the first three quarters of 2013 (nine months ended 30 September 2012: approximately HK\$23.6 million), representing an increase of approximately 21.6% as compared to the corresponding period of last year. Save as disclosed in the above Sections, the increased competition in the IC industry and 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 26.6% from approximately HK\$17.3 million for the first three quarters of 2012 to approximately HK\$21.9 million for the first three quarters of 2013.

The overall gross profit of the Group increased from approximately HK\$6.2 million in the first three quarters of 2012 to approximately HK\$ 6.7 million in the first three quarter of 2013, representing an increase of 8.0%. The gross profit of the ASIC Section increased by approximately HK\$0.8 million to approximately HK\$6.0 million in the first three quarter year of 2013 (nine months ended 30 September 2012: approximately HK\$5.2 million), and gross profit margin of ASIC Section in the first three quarter was 23.7%, representing a drop of 3.7 percentage point from that of the first three quarters 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 three quarters of 2013. The gross profit of the Standard IC Section decreased by approximately HK\$0.3 million to approximately HK\$0.7 million in the first three quarters of 2013 (nine months ended 30 September 2012: approximately HK\$1.0 million), and the gross profit margin of Standard IC Section in the first three quarters of 2013 was 20.9%, representing a drop of 1.8 percentage point from that of the first three quarters of 2012, primarily due to drop in sales margin of products and an impairment provision of inventories made in the first three quarters of 2013.

Expenses

Staff costs for the first three quarters of 2013 were approximately HK\$4.7 million (nine months ended 30 September 2012: approximately HK\$4.7 million), which was similar to that of the same period in previous year.

Depreciation for the first three quarters of 2013 was approximately HK\$0.9 million (nine months ended 30 September 2012: approximately HK\$1.0 million), which was similar to that of the same period in previous year.

Other operating expenses for the first three quarters of 2013 were approximately HK\$6.0 million (nine months ended 30 September 2012: approximately HK\$6.1 million), representing a decrease 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 nine months ended 30 September 2013 was approximately HK\$4.6 million, as compared to a loss of approximately HK\$13.0 million for the nine months ended 30 September 2012. The substantial decreased was mainly due to the non-recurrent expenses of approximately HK\$9.3 million incurred in connection with the Listing during the nine months ended 30 September 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 (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.

Placing of Shares and Connected Transaction

On 30 August 2013, 40,000,000 ordinary shares of HK\$0.10 each were issued by way of placing at a price of HK\$0.25 per share for cash consideration of HK\$10,000,000 under general mandate. The Placing Agent, China Rise Securities Company Limited, is beneficially owned by Mr. Cheng Tun Nei. Mr. Cheng Tun Nei is a substantial shareholder of the Company and is therefore, a connected person of the Company (as defined in the GEM Listing Rules). Accordingly, the placing commission of HK\$250,000 paid by the Company to the Placing Agent is a connected transaction (as defined in the GEM Listing Rules).

Interim Dividend

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

Outlook

The Global economy seemed bound for a cloudy start in 2013. The Group has started to provide the ASIC Service in the United States market and the prospect of ASIC Service business is likely to be optimistic, and the demand from the United States market for Electronic Cigarette is expanding. Hence, the Group is optimistic and cautiously confident that the business will show growth over the remaining of this year.

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 may further increase competition and prolong stagnant demand in the IC industry, which would adversely affect the performance of the Group. Hence, we will 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 will actively make 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 September 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 Future 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 | Approximate percentage of the issued share capital of the Company | |
|---------------------|-----------------------------|---|-------|
| | | Number of issued ordinary shares held | |
| Mr. Li Kwei Chung | Beneficial owner | 11,762,842 | 4.90% |
| Mr. Lee Cheung Ming | Beneficial owner | 2,500,000 | 1.04% |

Save as disclosed above, as at 30 September 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 Shares and Underlying Shares of the Company

As at 30 September 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 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 | 11.45% |
| Mr. Cheng Tun Nei | Interest of a controlled company (Note 1) | 27,489,276 | 11.45% |
| China Angel Fund | Beneficial owner | 15,700,000 | 6.54% |

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 September 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 nine months ended 30 September 2013.

Interest in a Competing Business

During the nine months ended 30 September 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 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 nine months ended 30 September 2013.

Interests of the Compliance Adviser

As notified by the compliance adviser of the Company, Ample Capital Limited, as at 30 September 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 associated 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 nine months ended 30 September 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 nine months ended 30 September 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 November 2013

As at the date of this report, the executive directors of the Company is 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.