



2014

First Quarterly Report

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

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 2014 together with comparable figures for the corresponding period in 2013.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 March 2014

	Notes	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue	3	10,328	8,117
Cost of sales of integrated circuits and provision of integrated circuits packaging service		(7,417)	(5,819)
Gross profit		2,911	2,298
Other income	4	107	44
Staff costs		(1,915)	(1,414)
Depreciation		(447)	(295)
Operating lease rental — land and buildings		(151)	(106)
Other operating expenses		(2,759)	(1,460)
Loss before income tax		(2,254)	(933)
Income tax expense	5	—	—
Loss for the period	6	(2,254)	(933)
Loss attributable to owners of the Company		(2,254)	(933)
Total comprehensive expense for the period attributable to owners of the Company		(2,254)	(933)
Loss per share attributable to owners of the Company	8		
Basic and diluted (cents)		HK\$(0.94) cents	HK\$(0.47) cents

Unaudited Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2014

	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 expense for the period	—	—	—	—	(933)	(933)
Balance at 31 March 2013	20,000	14,702	17,941	172	6,674	59,489

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger revaluation reserve (Unaudited) HK\$'000	Assets revaluation reserve (Unaudited) HK\$'000	Retained profits/ (Accumulated losses) (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Balance at 1 January 2014	24,000	20,437	17,941	174	1,761	64,313
Loss and total comprehensive expense for the period	—	—	—	—	(2,254)	(2,254)
Balance at 31 March 2014	24,000	20,437	17,941	174	(493)	62,059

Notes to the Unaudited Condensed Consolidated Financial Statements

For the three months ended 31 March 2014

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 was 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 and is changed to Suite 2101, 21/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong from 18 February 2014.

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. Basis of Preparation

The unaudited condensed consolidated financial statements of the Group for the three months ended 31 March 2014 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 2013.

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/revised 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.

3. 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 reporting periods. An analysis of the Group's revenue recognized during the period as follows:

	Three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Revenue from sale of ICs	9,345	7,204
Revenue from provision of ASIC Service	983	913
	10,328	8,117

4. Other Income

	Three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest income	107	38
Sundry income	—	6
	107	44

5. Income Tax Expenses

	Three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Current tax — Hong Kong Profits Tax provision	—	—
Total income tax expense recognized in profit or loss	—	—

5. Income Tax Expenses (Continued)

No provision for Hong Kong Profits Tax is made since the Group has no estimated assessable profit for the three months ended 31 March 2014. 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.

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.

6. Loss for the Period

	Three months ended 31 March	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Loss for the period has been arrived at after charging:		
(a) Staff costs including directors' emoluments		
— salaries, bonus and other benefits	1,859	1,368
— retirement benefits scheme contributions	54	42
— staff welfare	2	4
(b) Other items		
Auditor's remuneration	105	95
Cost of inventories recognized as an expense*	7,417	5,819
Depreciation of property, plant and equipment	447	295
Loss on disposal of property, plant and equipment	10	—
Net foreign exchange loss	49	10
Legal and professional fee	465	814
Design and development costs	1,293	150
And after crediting:		
Bank interest income	107	38

- * including increase of provision for slow-moving and obsolete inventories of approximately HK\$14,000 for the three months ended 31 March 2014 (three months ended 31 March 2013: reversal of provision approximately HK\$534,000)

7. Dividends

No dividends was declared or paid during the three months ended 31 March 2014 (three months ended 31 March 2013: Nil).

8. Loss Per Share

The calculations of basic loss per share are based on the loss of approximately HK\$2,254,000 attributable to the owners of the Company for the three months ended 31 March 2014 (three months ended 31 March 2013: loss of approximately HK\$933,000) and the weighted average number of shares in issue during the three months ended 31 March 2014 of 240,000,000 (three months ended 31 March 2013: 200,000,000 shares weighted average number of shares in issue).

The Group did not have any dilutive potential ordinary shares during the three months ended 31 March 2013 and 2014.

9. Comparative Amounts

Certain comparative amounts have been reclassified to conform to 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 quarter of 2014, the Group’s R&D teams completed and launched 2 new IC models as follows:

Section	Product Name	Period of development	Period of sale
ASIC	MP1213 Motor Driver IC	November 2012 to March 2014	March 2014 to present
ASIC	MP1304 MR16 LED Driver IC	July 2013 to March 2014	March 2014 to present

In addition to 2 more new IC models deployed by our R&D team in the first quarter of 2014, the Group had 14 new IC models under development as at 31 March 2014. 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 2 new IC models launched in the first quarter of 2014 and there was an overall increase in demand in the first quarter of 2014. As the market sentiment in project investment has been improving, the revenue from the provision of ASIC Service for the first quarter of 2014 was improved to HK\$1.0 million (three months ended 31 March 2013: approximately HK\$0.9 million). Although the market is still under keen competition, the revenue of the ASIC Section in the first quarter of 2014 was improved by approximately HK\$1.4 million or 19.4% to approximately HK\$8.6 million (three months ended 31 March 2013: approximately HK\$7.2 million).

As compared with that of the same period of 2013, the demand of Electronic Cigarette ICs was decreased due to the deferment of delivery of certain orders to the second quarter of 2014; the demand of CCD Surveillance System ICs deteriorated due to keen competition; however, the demand of DVD Players ICs improved due to better atmosphere in the DVD market.

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 IC model was launched in the first quarter of 2014 due to market situations. With improving market sentiment, the revenue of the Standard IC Section in the first quarter of 2014 was increased by approximately HK\$0.8 million or 88.9% to approximately HK\$1.7 million (three months ended 31 March 2013: approximately HK\$0.9 million).

As compared with that of the same period of 2013, the demand for Power Management ICs was decreased due to keen competition. With improving economic atmosphere in Europe, the demand for LCD Driver ICs for instrument panel was being improved. 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\$10.3 million for the first quarter of 2014 (three months ended 31 March 2013: approximately HK\$8.1 million), representing an increase of approximately 27.2% as compared with that of the same period of 2013. Save as disclosed in the above Sections, the competition in the IC industry and the on-going debt crisis in Europe still have 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 27.6% from approximately HK\$5.8 million for the first quarter of 2013 to approximately HK\$7.4 million for the first quarter of 2014.

The overall gross profit of the Group increased from approximately HK\$2.3 million in the first quarter of 2013 to approximately HK\$2.9 million in the first quarter of 2014, representing an increase of 26.1%. The gross profit of the ASIC Section increased by approximately HK\$0.1 million to approximately HK\$2.2 million in the first quarter of 2014 (three months ended 31 March 2013: approximately HK\$2.1 million), and gross profit margin of ASIC Segment was 25.6%, representing a drop of 3.7 percentage point from that of the first quarter of 2013, primarily due to the decrease in sales of higher margin of certain ASIC products in the first quarter of 2014. The gross profit of the Standard IC Section increased by approximately HK\$0.5 million to approximately HK\$0.7 million in the first quarter of 2014 (three months ended 31 March 2013: approximately HK\$0.2 million), and the gross profit margin of Standard IC Section in the first quarter of 2014 was 41.2%, representing an increase of 20.2 percentage point from that of the first quarter of 2013, primarily due to the increase in sales of higher margin of certain Standard IC products.

Expenses

Staff costs for the first quarter of 2014 were approximately HK\$1.9 million (three month ended 31 March 2013: approximately HK\$1.4 million), representing increase by 35.7% from that period in previous year, which was mainly due to the increase in general pay level and more employees recruited to cope with the need of development.

Depreciation for the first quarter of 2014 was approximately HK\$0.4 million (three month ended 31 March 2013: approximately HK\$0.3 million), representing increase by 33.3% from that period in previous year, which was mainly due to the increase of acquisition of property, plant and equipment for the need of business development and new office.

Other operating expenses for the first quarter of 2014 were approximately HK\$2.8 million (three month ended 31 March 2013: approximately HK\$1.5 million), representing increase by 86.6% from that period in previous year. The increase was mainly due to the improvement of market sentiment resulting in more spending on design and development costs and related expenses, which outweighed the decrease in legal and professional fee.

Loss Attributable To Owners of the Company

The loss attributable to owners of the Company for the three months ended 31 March 2014 was approximately HK\$2.3 million. For the three months ended 31 March 2013, the loss attributable to owners of the Company was approximately HK\$0.9 million. The increase was mainly due to the rise in design and development costs and related expenses, staff costs, depreciation and operating lease rental.

Outlook

The global economic activity has broadly strengthened in the first quarter of 2014 and is expected to improve further. With putting effort on certain new IC models in penetrating the market, and improving demand on Electronic Cigarette ICs and LCD Driver ICs for instrument panel, we believe that the Group's business will continue to grow.

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 on-going debt crisis in Europe and prolonged 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 31 March 2014, 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. 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 31 March 2014, 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 2014, 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
Mr. Wong Siu Piu	Interest of a controlled company and spouse (<i>Notes 1 & 2</i>)	33,955,000	14.15%
Ms. Yang Min	Beneficial owner and interest of spouse (<i>Notes 1 & 2</i>)	33,955,000	14.15%
Vital Apex Group Limited	Beneficial owner (<i>Notes 1 & 2</i>)	22,580,000	9.41%
Mr. Cheng Tun Nei	Interest of a controlled company (<i>Note 3</i>)	27,489,276	11.45%
Richly Global Investments Limited	Beneficial owner (<i>Note 3</i>)	27,489,276	11.45%
Mr. Ye Jian	Interest of a controlled company (<i>Note 4</i>)	21,800,000	9.08%
Metro Classic Limited	Beneficial owner (<i>Note 4</i>)	21,800,000	9.08%

Notes:

- (1) Mr. Wong Siu Piu is the beneficial owner of all of the issued share capital of Vital Apex Group Limited, and is therefore deemed to be interested in the 22,580,000 ordinary shares of the Company in which Vital Apex Group Limited is beneficially interested. His spouse, Ms. Yang Min, is the beneficial owner of 11,375,000 ordinary shares, therefore Mr. Wong Siu Piu is also deemed to be interested in the 11,375,000 ordinary shares of the Company. As a result, Mr. Wong Siu Piu is deemed to be interested in an aggregate of 33,955,000 ordinary shares of the Company.
- (2) Ms. Yang Min is the beneficial owner of 11,375,000 ordinary shares of the Company. Her spouse, Mr. Wong Siu Piu, is the beneficial owner of all the issued share capital of Vital Apex Group Limited, and therefore her spouse, Mr. Wong Siu Piu, is deemed to be interested in the 22,580,000 ordinary shares of the Company in which Vital Apex Group Limited is beneficially interested and accordingly, Ms. Yang Min is also deemed to be interested in the 22,580,000 ordinary shares of the Company. As a result, Ms. Yang Min is beneficially interested and deemed to be interested in an aggregate of 33,955,000 ordinary shares of the Company.
- (3) Mr. Cheng Tun Nei is the beneficial owner of all of the issued share capital of Richly Global Investments Limited, and is therefore deemed to be interested in the 27,489,276 ordinary shares of the Company in which Richly Global Investments Limited is beneficially interested.
- (4) Mr. Ye Jian is the beneficial owner of all of the issued share capital of Metro Classic Limited, and is therefore deemed to be interested in the 21,800,000 ordinary shares of the Company in which Metro Classic Limited is beneficially interested.

Save as disclosed above, as at 31 March 2014, 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 2014.

Interest in a Competing Business

During the three months ended 31 March 2014, 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.

Directors' Securities Transactions

The Company has 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. Upon the 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 2014.

Interests of the Compliance Adviser

As notified by the compliance adviser of the Company, Ample Capital Limited, as at 31 March 2014, except for (i) the compliance adviser agreement entered into between the Company and Ample Capital Limited dated 29 December 2011 and (ii) the financial adviser agreement entered into between the Company and Ample Capital Limited dated 21 January 2013 in respect of a proposed acquisition regarding major and connected transaction in relation to a securities and consultancy business, neither Ample Capital Limited or its directors, employees or associates had any interest in relation to the Group.

Corporate Governance Practices

The Group has committed to upholding 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 Group.

The Company has adopted the Corporate Governance Code (the "CG Code") contained in Appendix 15 to the GEM Listing Rules as its own code and has complied with the CG Code for the three months ended 31 March 2014. The Board has continued to monitor and review the corporate governance principles and practices to ensure compliance.

Audit Committee

The Audit Committee is currently composed of the 3 independent non-executive Directors, namely Mr. Chan Sun Kwong, Mr. Chiu Yu Wang and Mr. Ko Yin Wai, 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 2014, 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, 8 May 2014

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