

First Quarterly Report 2015

# 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")**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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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 2015 together with comparable figures for the corresponding period in 2014.

### Unaudited Condensed Consolidated Statement of Comprehensive Income

For the three months ended 31 March 2015

	Notes	2015 (Unaudited) HK\$'000	(Restated) 2014 (Unaudited) HK\$'000
<b>Revenue</b>	3	<b>10,173</b>	10,328
Cost of sales		<b>(7,345)</b>	(7,417)
<b>Gross profit</b>		<b>2,828</b>	2,911
Other income	4	<b>14</b>	107
Other gains and losses	5	<b>(8)</b>	(59)
Staff costs		<b>(2,547)</b>	(1,915)
Depreciation		<b>(350)</b>	(361)
Operating lease rental — land and buildings		<b>(302)</b>	(151)
Other operating expense		<b>(1,586)</b>	(2,700)
<b>Loss before income tax</b>		<b>(1,951)</b>	(2,168)
Income tax expense	6	<b>—</b>	(14)
<b>Loss for the period</b>	7	<b>(1,951)</b>	(2,182)
<b>Loss attributable to owners of the Company</b>		<b>(1,951)</b>	(2,182)
<b>Other comprehensive expense, net of income tax</b>			
<i>Item that may be subsequently reclassified to profit or loss:</i>			
Exchange differences arising on translation		<b>(10)</b>	—
<b>Total comprehensive expense for the period attributable to owners of the Company</b>		<b>(1,961)</b>	(2,182)
<b>Loss per share attributable to owners of the Company</b>	9		
Basic and diluted (HK cents)		<b>(0.68)</b>	(0.91)

## Unaudited Condensed Consolidated Statement of Changes in Equity

For the three months ended 31 March 2015

	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Merger reserve (Unaudited) HK\$'000	Asset revaluation reserve (Unaudited) HK\$'000	Exchange reserve (Unaudited) HK\$'000	Retained profits/ (Accumulated losses) (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
At 1 January 2014, as previously reported	24,000	20,437	17,941	174	—	1,761	64,313
Change in accounting policy	—	—	—	(174)	—	(16)	(190)
At 1 January 2014, as restated	24,000	20,437	17,941	—	—	1,745	64,123
Changes in equity for the period ended 31 March 2014							
Loss and total comprehensive expense for the period, as restated	—	—	—	—	—	(2,182)	(2,182)
At 31 March 2014, as restated	24,000	20,437	17,941	—	—	(437)	61,941
<b>At 1 January 2015</b>	<b>28,800</b>	<b>34,277</b>	<b>17,941</b>	<b>—</b>	<b>4</b>	<b>(5,945)</b>	<b>75,077</b>
<b>Changes in equity for the period ended 31 March 2015</b>							
Exchange differences arising on translation	—	—	—	—	(10)	—	(10)
Loss for the period	—	—	—	—	—	(1,951)	(1,951)
<b>Total comprehensive expense for the period</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(10)</b>	<b>(1,951)</b>	<b>(1,961)</b>
<b>At 31 March 2015</b>	<b>28,800</b>	<b>34,277</b>	<b>17,941</b>	<b>—</b>	<b>(6)</b>	<b>(7,896)</b>	<b>73,116</b>



## Notes to the Unaudited Condensed Consolidated Financial Statements

*For the three months ended 31 March 2015*

### 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 190 Elgin Avenue, George Town, Grand Cayman KY1-9005 Cayman Islands. The address of its principal place of business was located at Suite 2101, 21/F., Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

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

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 2015 have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with Hong Kong Financial Reporting Standards ("HKFRSs") issued by Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the GEM Listing Rules.

The unaudited condensed consolidated quarterly financial statements have been prepared under historical cost convention. The accounting policies adopted are consistent with those applied in the Group's annual financial statements for the year ended 31 December 2014.

## 2. Basis of Preparation (Continued)

### Change in accounting policy

As disclosed in details in the Group's annual financial statements for the year ended 31 December 2014, the Group changed its accounting policy on property, plant and equipment from revaluation model to cost model since the financial year ended 31 December 2014. This change in accounting policy has been applied retrospectively and the comparative figures for the corresponding period have been restated as follows:

	As at 31 March 2014 (unaudited) HK\$'000
<b>Increase/(decrease) on items of unaudited condensed statement of changes in equity</b>	
Asset revaluation reserves	(174)
Accumulated losses	(56)
Total equity	(118)

	For the three months ended 31 March 2014 (unaudited) HK\$'000
<b>Increase/(decrease) on items of unaudited condensed statement of comprehensive income</b>	
Depreciation	(86)
Income tax expense	14
Loss and total comprehensive expense for the period	(72)
Loss per share attributable to owners of the Company	
— Basic and diluted (HK cents)	(0.03)

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 and money lending business. Revenue represents the amount received and receivable for goods sold and services provided by the Group at invoiced value, net of returns and discounts, and interest income from money lending business is recognized using the effective interest method, during the reporting periods. An analysis of the Group's revenue recognized during the period is as follows:

	<b>Three months ended 31 March</b>	
	<b>2015</b>	2014
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Revenue from sale of ICs	<b>9,305</b>	9,345
Revenue from provision of application specific IC service	<b>426</b>	983
Revenue from money lending business	<b>442</b>	—
	<b>10,173</b>	10,328

### 4. Other Income

	<b>Three months ended 31 March</b>	
	<b>2015</b>	2014
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Bank interest income	<b>12</b>	107
Sundry income	<b>2</b>	—
	<b>14</b>	107

## 5. Other Gains and Losses

	Three months ended 31 March	
		(Restated)
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Gain on disposal of trading securities	64	—
Loss on disposal of property, plant and equipment, net	(2)	(10)
Exchange loss	(70)	(49)
	(8)	(59)

## 6. Income Tax Expense

	Three months ended 31 March	
		(Restated)
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Current tax	—	—
Deferred tax expense	—	(14)
	—	(14)

No provision for Hong Kong Profits Tax is made since the Group has no estimated assessable profit for the three months ended 31 March 2015 (2014: Nil). No provision for Enterprise Income Tax of the People's Republic of China (the "PRC") is made since the PRC subsidiary has no estimated accessible profit for the period ended 31 March 2015. No subsidiary operated in the PRC for the period ended 31 March 2014.

No deferred tax has been provided as the Group did not have any material temporary differences which gave rise to a deferred tax asset or liability for the three months ended 31 March 2015. Deferred tax expense of approximately HK\$14,000 was recognized for the three months ended 31 March 2014 in respect of accelerated tax depreciation due to change in accounting policy on property, plant and equipment.



## 7. Loss for the Period

	Three months ended 31 March	
	(Unaudited)	(Restated)
	2015 HK\$'000	2014 HK\$'000
Loss for the period has been arrived at after charging:		
(a) Staff costs including directors' emoluments		
— salaries, bonus and other benefits	2,419	1,859
— retirement benefits scheme contributions	83	54
— staff welfare	45	2
	2,547	1,915
(b) Other items		
Auditor's remuneration	98	105
Cost of inventories recognized as an expense*	7,345	7,417
Depreciation of property, plant and equipment	350	361
Legal and professional fee	675	465
Design and development costs	188	1,293

\* including provision for slow-moving and obsolete inventories of approximately HK\$28,000 for the three months ended 31 March 2015 (2014: HK\$14,000)

## 8. Dividends

No dividends was declared or paid during the three months ended 31 March 2015 (2014: Nil).

**9. Loss Per Share**

The calculations of basic loss per share are based on the loss of approximately HK\$1,951,000 attributable to the owners of the Company for the three months ended 31 March 2015 (2014: HK\$2,182,000) and the weighted average number of shares in issue during the three months ended 31 March 2015 of 288,000,000 (2014: 240,000,000).

The Group did not have any dilutive potential ordinary shares during the three months ended 31 March 2014 and 2015.

**10. Comparative Amounts**

As a result of the change in accounting policy as disclosed in note 2, certain comparative figures have been adjusted accordingly. In addition, certain comparative amounts have been reclassified to conform to the current period's presentation.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the first quarter of 2015, the Group continues to engage in integrated circuit (“IC”) business, specialized in design, development and sales of ICs, as well as the provision of IC solutions. Following the acquisition of a money lending company in mid-2014, the Group is also involved in the money lending business in Hong Kong.

### Business Review

#### IC Business

Through its indirect wholly-owned fabless semiconductor subsidiary, MiniLogic Device Corporation Limited, 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 also 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”).

During the period under review, the research and development teams deployed 4 more new IC models but there were no new IC models completed and launched. As at 31 March 2015, the Group had 20 new IC models under development and customer evaluation. 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. Developing IC products with suitable technology that appeal to the market is essential for the growth of IC business. This can also expand the range of the IC products and maintain our competitiveness.

#### ASIC Section

Under the ASIC Section, the major products are DVD Player ICs, Electronic Cigarette ICs, Power Management ICs and CCD Surveillance System ICs. No new IC models were launched during the period under review. We faced greater downward pressure in both revenue and selling price for our Electronic Cigarette ICs due to increasing competition. Demand for our CCD Surveillance System ICs continued to fall in 2015. Nevertheless, the aforesaid drop in revenue was substantially mitigated by the increased revenue from Power Management ICs and DVD Player ICs. With the launch of new model in the second half 2014, revenue and margin of Power Management ICs notably increased when compared to the same period last year. Revenue from DVD Player ICs also further improved due to demand from our customers remained strong during the period.

However, due to the stagnant demand in the IC industry, revenue from the provision of ASIC Service decreased from approximately HK\$1.0 million for the first quarter of 2014 to approximately HK\$0.4 million for the first quarter of 2015. Accordingly, the overall revenue from the ASIC Section decreased by 7.9% from approximately HK\$8.6 million for the first quarter of 2014 to approximately HK\$7.9 million for the first quarter of 2015.

### Standard IC Section

Under the Standard IC Section, the major products are LCD Driver ICs for instrument panel, Power Management ICs and LED Lighting Driver ICs. No new IC model was launched in the first quarter of 2015 as demand for new type of standard IC products remained weak. For LED Lighting Driver ICs, the Group is developing more series of LED Lighting Driver ICs with the expectation to attract more customers' order in LED Lighting market for the near future. Yet, despite downward adjustment in selling prices, the Group achieved growth in revenue from LCD Driver ICs for instrument panel and Power Management ICs as the demands for these products improved. Accordingly, the overall revenue from the Standard IC Section increased by 4.9% from approximately HK\$1.7 million for the first quarter of 2014 to approximately HK\$1.8 million for the first quarter of 2015.

### Money Lending Business

Through its indirect wholly-owned subsidiary, Easy Loan Finance Limited, which owned a money lender license in Hong Kong, the Group engages in the money lending business and provides loans to earn interest income since the third quarter of 2014. While the industry competition is quite keen, the Group managed to make progress in developing this business during the first quarter of 2015. Accordingly, the Group recorded a revenue of approximately HK\$0.4 million for the first quarter of 2015. No revenue was recorded for the first quarter of 2014 as the money lending business was not yet commenced.



## Financial Review

### Revenue, Cost of Sales and Gross Profit

The total revenue of the Group for the first quarter decreased slightly by 1.5% from approximately HK\$10.3 million in 2014 to approximately HK\$10.2 million in 2015. It was because the abovementioned drop in revenues from ASIC Section was substantially offset by the additional revenue contributed by the newly developed money lending business.

Cost of sales of the Group solely related to the IC business. It decreased by 1.0% from approximately HK\$7.4 million for the first quarter of 2014 to approximately HK\$7.3 million for the first quarter of 2015.

The gross profit of the ASIC Section decreased by 22.3% from approximately HK\$2.2 million for the first quarter of 2014 to approximately HK\$1.7 million for the first quarter of 2015, and the gross profit margin of ASIC Section was 21.2% for 2015, representing a decrease of 3.9 percentage points from 25.1% for 2014. The decrease in gross profit margin of ASIC Section was mainly due to the abovementioned drop in revenue from ASIC Service, which had a higher margin. The gross profit of the Standard IC Section decreased by 5.9% from approximately HK\$0.8 million for the first quarter of 2014 to approximately HK\$0.7 million for the first quarter of 2015, and the gross profit margin of Standard IC Section was 38.8% for 2015, representing a decrease of 4.4 percentage points from 43.2% for 2014. The decrease in gross profit margin of Standard IC Section was mainly attributable to the aforesaid downward adjustment in selling prices. The overall gross profit of the Group decreased by 2.9% from approximately HK\$2.9 million for the first quarter of 2014 to approximately HK\$2.8 million for the first quarter of 2015, and the overall gross profit margin of the Group was 27.8% for 2015, representing a decrease of 0.4 percentage point from 28.2% for 2014. The overall gross profit margin only decreased slightly as the drop in margin of IC business, including ASIC Section and Standard IC Section, was largely mitigated by the newly developed money lending business, which had a higher margin.

## Expenses

Staff costs notably increased by 33.0% from approximately HK\$1.9 million for the first quarter of 2014 to approximately HK\$2.5 million for the first quarter of 2015. The increase was primarily attributable to general pay rise and that more experienced and senior staff recruited to cope with the business development, as compared to the corresponding period last year.

Operating lease rentals was doubled to approximately HK\$0.3 million for the first quarter of 2015, when compared to that of 2014. The significant increase was mainly due to the opening of new offices in Hong Kong and the PRC since mid-2014.

Depreciation for the first quarter of 2015 was approximately HK\$0.4 million, which remained at a similar level compared to the corresponding period of 2014.

Other operating expenses decreased by 41.3% from approximately HK\$2.7 million for the first quarter of 2014 to approximately HK\$1.6 million for the first quarter of 2015. The drop was mainly attributable to less spending on design and development costs and related expenses as a result of volatile industry landscape and fluctuating demand in IC market.

## Loss Attributable to Owners of the Company

The consolidated loss attributable to owners of the Company for the three months ended 31 March 2015 was approximately HK\$2.0 million. For the three months ended 31 March 2014, the loss attributable to owners of the Company was approximately HK\$2.2 million. The decrease was approximately HK\$0.2 million, or 10.6%. It was mainly because the drop in gross profit and the increase in overhead for business expansion and development, such as staff costs, operating rentals and legal and professional fees, was more than offset by the aforesaid reduction of other operating expenses.

## Change of Directors

On 30 April 2015, Mr. Li Kwei Chung retired as the executive director of the Company and ceased to be the chief executive officer, the compliance officer and an authorized representative of the Company. Following Mr. Li's retirement, he also ceased to act as the director of all of the subsidiaries of the Company except for the director of MiniLogic Device Corporation Limited and Minilogic Investment Limited and continued to be the chief executive officer of integrated circuit business responsible for daily operations, research and development activities, procurement and quality control. On the same day, Mr. Chan Sun Kwong retired as the independent non-executive director of the Company and ceased to be the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. At the same time, Mr. Cheung Chi Man, Dennis was elected as an independent non-executive director of the Company and appointed as the chairman of the audit committee, the remuneration committee and the nomination committee of the Company. Dr. Sung Tak Wing Leo was promoted from chief financial officer to chief executive officer of the Company. Mr. Zhang Qing was appointed as the compliance officer of the Company.

## Termination of Memorandum of Understanding

On 26 September 2014, Megalogic China Development Limited ("Megalogic China"), a wholly owned subsidiary of the Company, entered into a memorandum of understanding (the "MOU") with Sichuen Hengrong Logistics Company Limited ("Sichuen Hengrong"), and Chengdu Jinchenghang Logistics Company Limited (the "Target Company"), a wholly owned subsidiary of Sichuen Hengrong principally engaged in the business of logistics in the PRC, pursuant to which Megalogic China intended to acquire equity interest of the Target Company by way of capital injection (the "Proposed Capital Injection").

As disclosed in the Company's announcements dated 27 April 2015, Megalogic China was unable to obtain sufficient materials and information for the due diligence exercise. After several rounds of communication between Megalogic China and Sichuen Hengrong, the said parties have determined not to proceed with the Proposed Capital Injection. On 27 April 2015, Megalogic China, Sichuen Hengrong and the Target Company agreed to terminate the MOU with immediate effect. Upon termination of the MOU, Megalogic China will have no obligation to proceed with the Proposed Capital Injection. The Board considers that the termination of the MOU has no material impact on the existing business operations and financial position of the Company and its subsidiaries.



## Outlook

Significant uncertainties in global economy remained in the first quarter of 2015. The PRC's economic growth slowed to 7% in this quarter, its slowest quarterly growth since 2009, pointing to a further loss of momentum for its economy. The ongoing Greek government debt crisis and geo-political crisis over Ukraine still troubled Europe. The economy of the United States is expected to further improve. Nevertheless, the market competition there became quite keen. Looking ahead, the Group will closely monitor the development of the IC business and optimize our resources to cope with the volatile industry landscape and fluctuating market demand.

We understand prolonged stagnant demand in the IC industry could adversely affect the performance of the Group. As such, the Group will also endeavour to develop the money lending business to diversify our sources of revenue and mitigate the impact of downward pressure in the IC business. Subsequent to the period under review, the Group made further progress in the business by expanding its loan portfolio and customer base.

Although the abovementioned MOU was terminated, and the proposed acquisition has not materialized, the management will still consider any other suitable business opportunities in future to broaden the sources of revenues and cash inflows of the Group, taking into account the funding requirement and associated business risk. In order to strengthen the general working capital base for business development, the Group will continue to consider to carry out fund raising activities when and where necessary and appropriate.



## 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 2015, 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. Ye Jian	Interest of a controlled company (Note)	21,800,000	7.57%

Note: 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 2015, 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 2015, 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 (Notes 1 & 2)	73,395,342	25.48%
Ms. Yang Min	Beneficial owner and interest of spouse (Notes 1 & 2)	73,395,342	25.48%
Vital Apex Group Limited	Beneficial owner (Notes 1 & 2)	62,020,342	21.53%
Zhang Yuncheng	Beneficial owner	27,489,276	9.54%
Metro Classic Limited	Beneficial owner (Note 3)	21,800,000	7.57%

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 62,020,342 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 73,395,342 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 62,020,342 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 62,020,342 ordinary shares of the Company. As a result, Ms. Yang Min is beneficially interested and deemed to be interested in an aggregate of 73,395,342 ordinary shares of the Company.
- (3) 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 2015, 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.

## ADVANCE TO AN ENTITY AND CONNECTED TRANSACTION

On 15 January 2015, Easy Loan Finance Limited, an indirect wholly-owned subsidiary of the Company, entered into a loan agreement with Mr. Wong Siu Piu, a substantial shareholder of the Company, which constituted an advance to an entity and a connected transaction of the Company under Rule 17.15 and Chapter 20 of the GEM Listing Rules respectively. The unsecured loan has a term of 6 months and for a principal amount of HK\$8.7 million at interest rate of 24% per annum. As at 31 March 2015, the outstanding unsecured loan principal was HK\$8.7 million, representing approximately 11.4% of total assets of the Group.

## 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 2015.

## INTEREST IN A COMPETING BUSINESS

During the three months ended 31 March 2015, 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 2015.

## INTERESTS OF THE COMPLIANCE ADVISER

As notified by Ample Capital Limited ("Ample"), the Company's former compliance adviser, except for the compliance adviser agreement entered into between the Company and Ample dated 29 December 2011, neither Ample nor its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in relation to the Group from 1 January 2015 to 27 March 2015. The term of the compliance adviser agreement with Ample was completed on 27 March 2015, following the issuance of the Company's annual report for the year ended 31 December 2014.

## 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 2015. 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. Cheung Chi Man Dennis, Mr. Chiu Yu Wang and Mr. Ko Yin Wai, and chaired by Mr. Cheung Chi Man Dennis, 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 2015, 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. Zhang Qing**  
*Chairman*

Hong Kong, 8 May 2015

*As at the date of this report, the executive directors of the Company are Mr. Zhang Qing and Dr. Sung Tak Wing Leo; the non-executive directors of the Company are Mr. Ye Jian and Mr. Liu Kam Lung and the independent non-executive directors of the Company are Mr. Cheung Chi Man Dennis, Mr. Chiu Yu Wang and Mr. Ko Yin Wai.*