

Third 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")**

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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.*

## 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 2015 together with comparable figures for the corresponding periods in 2014.

### Unaudited Condensed Consolidated Statement of Comprehensive Income

	Notes	Three months ended 30 September		Nine months ended 30 September	
		(Restated) 2015 (Unaudited) HK\$'000	(Restated) 2014 (Unaudited) HK\$'000	(Restated) 2015 (Unaudited) HK\$'000	(Restated) 2014 (Unaudited) HK\$'000
<b>Revenue</b>	3	<b>5,906</b>	14,349	<b>21,893</b>	40,594
Cost of sales		<b>(3,410)</b>	(11,454)	<b>(14,718)</b>	(30,855)
<b>Gross profit</b>		<b>2,496</b>	2,895	<b>7,175</b>	9,739
Other income	4	<b>17</b>	31	<b>33</b>	227
Other gains and losses	5	<b>(33)</b>	(54)	<b>(66)</b>	(170)
Staff costs	7(a)	<b>(2,714)</b>	(2,382)	<b>(7,968)</b>	(6,754)
Depreciation		<b>(371)</b>	(422)	<b>(1,085)</b>	(1,192)
Operating lease rental					
— land and buildings		<b>(306)</b>	(302)	<b>(909)</b>	(737)
Other operating expenses		<b>(882)</b>	(2,412)	<b>(3,507)</b>	(7,270)
<b>Loss before income tax</b>		<b>(1,793)</b>	(2,646)	<b>(6,327)</b>	(6,157)
Income tax expense	6	<b>—</b>	(14)	<b>—</b>	(42)
<b>Loss for the period</b>	7	<b>(1,793)</b>	(2,660)	<b>(6,327)</b>	(6,199)
<b>Loss attributable to owners of the Company</b>		<b>(1,793)</b>	(2,660)	<b>(6,327)</b>	(6,199)

## Unaudited Condensed Consolidated Statement of Comprehensive Income (Continued)

	Notes	Three months ended 30 September		Nine months ended 30 September	
		(Restated)		(Restated)	
		2015	2014	2015	2014
		(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
<b>Other comprehensive (expense)/income, net of income tax</b>					
<i>Item that may be subsequently reclassified to profit or (loss):</i>					
Exchange differences arising on translation		(12)	3	(22)	3
<b>Total comprehensive expense for the period attributable to owners of the Company</b>		(1,805)	(2,657)	(6,349)	(6,196)
<b>Loss per share attributable to owners of the Company</b>	9				
Basic and diluted (HK cents)		(0.52)	(1.09)	(2.02)	(2.57)



## Unaudited Condensed Consolidated Statement of Changes in Equity

	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
As 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)
As at 1 January 2014, as restated	24,000	20,437	17,941	—	—	1,745	64,123
Changes in equity for the period ended 30 September 2014:							
Loss for the period, as restated	—	—	—	—	—	(6,199)	(6,199)
Exchange differences arising on translation	—	—	—	—	3	—	3
Total comprehensive expense for the period, as restated	—	—	—	—	3	(6,199)	(6,196)
Issue of shares upon placing*	4,800	14,400	—	—	—	—	19,200
Expenses incurred in connection with the issue of shares	—	(560)	—	—	—	—	(560)
As at 30 September 2014, as restated	28,800	34,277	17,941	—	3	(4,454)	76,567
As at 1 January 2015	28,800	34,277	17,941	—	4	(5,945)	75,077
Changes in equity for the period ended 30 September 2015:							
Loss for the period	—	—	—	—	—	(6,327)	(6,327)
Exchange differences arising on translation	—	—	—	—	(22)	—	(22)
Total comprehensive expense for the period	—	—	—	—	(22)	(6,327)	(6,349)
Issue of shares upon placing <sup>#</sup>	5,760	13,824	—	—	—	—	19,584
Expenses incurred in connection with the issue of shares	—	(519)	—	—	—	—	(519)
As at 30 September 2015	34,560	47,582	17,941	—	(18)	(12,272)	87,793

\* On 24 September 2014, a total of 48,000,000 ordinary shares of HK\$0.10 each were issued by way of placing at a price of HK\$0.40 per share for cash consideration of HK\$19,200,000. The excess of the placing price over the par value of the shares issued was credited to the share premium account.

<sup>#</sup> On 3 June 2015, a total of 57,600,000 ordinary shares of HK\$0.10 each were issued by way of placing at a price of HK\$0.34 per share for cash consideration of HK\$19,584,000. 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

*For the nine months ended 30 September 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 quarterly financial information has not been audited.

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

### 2. Basis of Preparation

The unaudited condensed consolidated quarterly financial statements of the Group for the nine months ended 30 September 2015 have been prepared under historical cost convention and in accordance with accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of the GEM Listing Rules.

The accounting policies adopted are consistent with those applied in the Group’s annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), except the new and revised HKFRSs, which are effective for the financial year beginning from 1 January 2015. The application of these new and revised HKFRSs has not had material impact on the unaudited condensed consolidated quarterly financial statements of the Group.

## 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 30 September 2014 (Unaudited) HK\$'000
<b>Increase/(decrease) on items of unaudited condensed consolidated statement of changes in equity</b>	
Asset revaluation reserve	(174)
Accumulated losses	(203)
Total equity	29

	For the nine months ended 30 September 2014 (Unaudited) HK\$'000
<b>Increase/(decrease) on items of unaudited condensed consolidated statement of comprehensive income</b>	
Depreciation	(261)
Income tax expense	42
Loss and total comprehensive expense for the period	(219)
Loss per share attributable to owners of the Company — Basic and diluted (HK cents)	(0.09)

The Group has not early applied the new and revised HKFRSs that have been issued by the Hong Kong Institute of Certified Public Accountants 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.

### 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:

	Three months ended 30 September		Nine months ended 30 September	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Revenue from sale of ICs	3,803	13,910	17,562	38,172
Revenue from provision of application specific IC ("ASIC") service	268	438	844	2,421
Revenue from money lending business	1,835	1	3,487	1
	5,906	14,349	21,893	40,594

### 4. Other Income

	Three months ended 30 September		Nine months ended 30 September	
	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000	2015 (Unaudited) HK\$'000	2014 (Unaudited) HK\$'000
Bank interest income	—	26	14	215
Sundry income	17	5	19	12
	17	31	33	227



## 5. Other Gains and Losses

	Three months ended 30 September		Nine months ended 30 September	
	(Restated)		(Restated)	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Gain on disposal of trading securities	—	—	64	—
Loss on disposal of property, plant and equipment, net	(4)	—	(6)	(10)
Exchange loss	(29)	(54)	(124)	(160)
	(33)	(54)	(66)	(170)

## 6. Income Tax Expense

	Three months ended 30 September		Nine months ended 30 September	
	(Restated)		(Restated)	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax	—	—	—	—
Deferred tax expense	—	(14)	—	(42)
	—	(14)	—	(42)

No provision for Hong Kong Profits Tax is made since the Group has no estimated assessable profit for the nine months ended 30 September 2015 (nine months ended 30 September 2014: Nil). No provision for Enterprise Income Tax of the PRC is made since the PRC subsidiary has no estimated assessable profit for the nine months ended 30 September 2015 (nine months ended 30 September 2014: Nil).

No net deferred tax has been provided as the Group's deferred tax liability due to temporary differences approximated to its deferred tax asset in respect of tax losses recognized for the nine months ended 30 September 2015. Deferred tax expense of HK\$42,000 was recognized for the nine months ended 30 September 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 30 September		Nine months ended 30 September	
	(Restated)		(Restated)	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period has been arrived at after charging:				
(a) Staff costs including directors' emoluments				
— Salaries, bonus and benefits in kind	2,619	2,286	7,671	6,501
— Retirement benefits scheme contributions	86	71	243	191
— Staff welfare	9	25	54	62
	2,714	2,382	7,968	6,754
(b) Other items				
Auditor's remuneration	95	105	285	315
Cost of inventories recognized as an expense*	3,410	10,089	14,718	29,110
Legal and professional fee	274	1,154	1,232	2,013
Design and development costs	—	377	188	2,798

\* including a provision of HK\$249,000 for slow-moving and obsolete inventories (nine months ended 30 September 2014: HK\$483,000) and no write-downs recognized for scrapped inventories during the nine months ended 30 September 2015 (nine months ended 30 September 2014: HK\$67,000).

## 8. Dividends

No dividends was declared or paid during the nine months ended 30 September 2015 (nine months ended 30 September 2014: Nil).

## 9. Loss Per Share

The calculations of basic and diluted loss per share are based on the loss attributable to owners of the Company and the weighted average number of ordinary shares in issue during the periods.

	Three months ended 30 September		Nine months ended 30 September	
	(Restated)		(Restated)	
	2015	2014	2015	2014
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Loss for the period</b>				
Loss attributable to owners of the Company	<b>(1,793)</b>	(2,660)	<b>(6,327)</b>	(6,199)

  

Number of shares (thousands)				
<b>Shares</b>				
Weighted average number of ordinary shares in issue during the period	<b>345,600</b>	243,652	<b>313,319</b>	241,231

The Group did not have any dilutive potential ordinary shares during the three months and nine months ended 30 September 2015 and the corresponding periods in 2014.

## 10. Comparative Amounts

As a result of 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 three quarters 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 ICs 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 (“R&D”) team completed and launched 4 new IC models as follows:

Section	Product name	Period of development	Period of sale
ASIC	MP 1407 DVD Player PMU	July 2014 to May 2015	May 2015 to present
ASIC	MP 1402 PMU for Power Bank	July 2014 to September 2015	September 2015 to present
ASIC	MP 1408 Candle Light LED Driver	July 2014 to September 2015	September 2015 to present
ASIC	MP 1412 Bluetooth Speaker PMU	January 2015 to September 2015	September 2015 to present

The R&D team also deployed 6 more new IC models but terminated 1 during the period. As at 30 September 2015, the Group had 17 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. Four new IC models were launched during the first three quarters of 2015. Although the launch of a new model in the second half of 2014 was once beneficial to the revenue and margin of Power Management ICs, the effect was weakened since the second quarter of 2015. In addition, we faced downward pressure in both revenue and selling price for our DVD Player ICs due to fluctuating demand. Revenue from our Electronic Cigarette ICs was also significantly affected by the volatile industry landscape. Demand for our CCD Surveillance System ICs still remained weak in 2015.

Besides, due to the stagnant demand in the IC industry, revenue from the provision of ASIC Service decreased by 65.1% from approximately HK\$2.4 million for the first three quarters of 2014 to approximately HK\$0.8 million for that of 2015. Due to the substantial decrease in revenue from our ASIC Service and ASIC products, particularly Electronic Cigarette ICs, the overall revenue from the ASIC Section notably dropped by 56.1% from approximately HK\$33.8 million for the first three quarters of 2014 to approximately HK\$14.8 million for that 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 three quarters 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. With increasing competition, the market sentiment for our LCD Driver ICs for instrument panel and Power Management ICs was worsening during the period under review, leading to downward adjustment in selling prices and decline in revenue. Accordingly, the overall revenue from the Standard IC Section decreased by 47.2% from approximately HK\$6.8 million for the first three quarters of 2014 to approximately HK\$3.6 million for the first three quarters 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, such as secured and unsecured loans to customers comprising individuals and corporations to earn interest income since the third quarter of 2014. During the first three quarters of 2015, the Group put more efforts and resources to develop this business. With the provision of efficient customer service and variety loan products, we managed to achieve remarkable progress. The Group's loan receivables, which are repayable according to repayment schedules with contractual maturity ranged from 6 months to 12 years, increased significantly from approximately HK\$0.2 million as at 31 December 2014 to approximately HK\$61.5 million as at 30 September 2015. Accordingly, the Group recorded a revenue of approximately HK\$3.5 million for the first three quarters of 2015. The revenue for the corresponding period last year was insignificant as the money lending business was just commenced at that time.

### Risk Relating to Reliance on a Few Key Customers of the Group's Businesses

The Group's ability to maintain close relationships with its customers is important to its ongoing growth and profitability. Although the Group's revenues from specific customers vary from period to period, a significant portion of the Group's total revenue was derived from a few major customers for the nine months ended 30 September 2015 and the corresponding period last year. The five largest customers accounted for approximately 62.1% and 78.9% of the Group's revenue while the largest customer accounted for approximately 24.4% and 38.0% of the Group's revenue for the nine months ended 30 September 2015 and 2014 respectively. The Group has established its business relationship with the largest customer, which is an independent third party (as defined in the GEM Listing Rules) principally engaged in sales and production of electronic devices and components, since 2006. However, as the Group does not enter into long term or master sales contracts with its major customers, there is no assurance that they will continue to purchase products from the Group at the same level as they have done in the past.

## Financial Review

### Revenue, Cost of Sales and Gross Profit

The total revenue of the Group decreased significantly by 46.1% from approximately HK\$40.6 million for the first three quarters of 2014 to approximately HK\$21.9 million for that of 2015. The decline was mainly due to the abovementioned drop in revenues from the IC business, partially offset by the revenue contributed by the money lending business.

Cost of sales of the Group solely related to the IC business. It decreased by 52.3% from approximately HK\$30.9 million for the first three quarters of 2014 to approximately HK\$14.7 million for that of 2015.

The gross profit of the ASIC Section dropped by 64.4% from approximately HK\$6.8 million for the first three quarters of 2014 to approximately HK\$2.4 million for that of 2015, and the gross profit margin of ASIC Section was 16.2% for 2015, representing a drop of 3.8 percentage points from 20.0% for 2014. The drop in gross profit margin of ASIC Section was mainly due to the abovementioned decline in revenue from ASIC Service, which had a higher margin, and the downward pressure in selling prices of ASIC products. The gross profit of the Standard IC Section dropped by 56.7% from approximately HK\$3.0 million for the first three quarters of 2014 to approximately HK\$1.3 million for that of 2015, and the gross profit margin of Standard IC Section was 35.8% for 2015, representing a drop of 7.8 percentage points from 43.6% for 2014. The drop in gross profit margin of Standard IC Section was mainly attributable to the aforesaid downward adjustment in selling prices and decline in revenue from certain higher margin Standard IC products. The overall gross profit of the Group decreased by 26.3% from approximately HK\$9.7 million for the first three quarters of 2014 to approximately HK\$7.2 million for that of 2015, and the overall gross profit margin of the Group was 32.8%, representing an increase of 8.8 percentage points from 24.0% for 2014. The overall gross profit margin improved as the drop in margin of IC business, including the ASIC Section and Standard IC Section, was more than offset by the money lending business, which had a higher margin.

## Expenses

Staff costs increased by 18.0% from approximately HK\$6.8 million for the first three quarters of 2014 to approximately HK\$8.0 million for that 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 increased by 23.3% from approximately HK\$0.7 million for the first three quarters of 2014 to approximately HK\$0.9 million for that of 2015. The increase was mainly due to the opening of new offices in Hong Kong and the PRC since mid-2014.

Depreciation decreased by 9.0% from approximately HK\$1.2 million for the first three quarters of 2014 to approximately HK\$1.1 million for that of 2015. The decrease was mainly because certain old instruments had been fully depreciated in 2014, partially offset by the depreciation of newly acquired instruments.

Other operating expenses substantially decreased by 51.8% from approximately HK\$7.3 million for the first three quarters of 2014 to approximately HK\$3.5 million for that of 2015. The drop was mainly attributable to less spending on design and development costs and related expenses.

## Loss Attributable to Owners of the Company

The consolidated loss attributable to owners of the Company for the nine months ended 30 September 2015 was approximately HK\$6.3 million. For the nine months ended 30 September 2014, the loss attributable to owners of the Company was approximately HK\$6.2 million. The slight increase in loss was mainly due to the aforesaid fall in gross profit and increase in staff costs were substantially offset by the drop in other operating expenses.



## Fund Raising Activities and Change in Use of Proceeds

On 3 June 2015, a total of 57,600,000 new ordinary shares of the Company of HK\$0.1 each were successfully issued under the general mandate from shareholders and placed to not less than six placees at the placing price of HK\$0.34 per share. The directors had considered various ways of raising funds and believed that the placing represented an opportunity to raise capital for the Company while broadening the shareholder's base and capital base of the Company. The net proceeds from this placing were approximately HK\$19.1 million, which had been intended to be used by the Company for general working capital of the Group and/or financing future investment opportunities. As at 30 June 2015, all of the net proceeds was utilized in accordance with the intended use.

On 7 August 2015, the Company has changed its allocation of use of net proceeds in relation to the placing as set out in the prospectus of the Company dated 30 December 2011. Approximately HK\$12.3 million of the net placing proceeds has been reallocated for working capital of the Group. Details of the change in allocation of use of net placing proceeds were disclosed in the announcement of the Company dated 7 August 2015.

## Proposed Open Offer

The Company proposes to raise approximately HK\$207.4 million (before costs and expenses) by way of an open offer of 1,036,800,000 offer shares at the subscription price of HK\$0.20 per offer share on the basis of three offer shares for every one share held on the record date, 24 November 2015, on the terms pursuant to the underwriting agreement dated 25 August 2015 (the "Underwriting Agreement") entered into among the Company, China Rise (as defined in below) and Metro Classic Limited relating to the underwriting and other arrangement in respect of the open offer (the "Open Offer"). The estimated net proceeds from the Open Offer, after deducting relevant costs and expenses, will be approximately HK\$199 million. The Board intends to apply the net proceeds from the Open Offer as to (i) approximately HK\$169 million to fund the expansion of the money lending business of the Group; (ii) approximately HK\$20 million for the development of the IC business; and (iii) approximately HK\$10 million for the general working capital for the other existing businesses of the Group. Details of the Open Offer were disclosed in the Company's announcements dated 1 September 2015, 21 September 2015, 29 September 2015 and 9 October 2015 and the Company's circular dated 16 October 2015 respectively.

## Outlook

The crash of the PRC stock market and the shock devaluation of Renminbi in the third quarter of 2015 fueled more uncertainty in the economy of the PRC and casted greater doubts on whether its economy had bottomed out. The PRC economic growth slide to 6.9% in the third quarter, its weakest quarterly growth in 6 years. There were raising concerns that the sluggish PRC economy could spill over to the regional economy and even disrupt the recovery of the United States and Europe. Triggered by such significant uncertainties in macro environment, market demand for our IC Service and products becomes more and more fluctuating and volatile. This in turn exerts a downward pressure on our IC business. Looking ahead, we will continue to closely monitor the development of our IC business and optimize our resources to cope with the challenging environment.

We understand prolonged stagnant demand in the IC business could adversely affect the performance of the Group. As such, the Group has put more effort to develop our money lending business to diversify our sources of revenue and mitigate the impact of downward pressure in the IC business. Leveraged on the experience of newly recruited staff, we have achieved remarkable progress in our money lending business and our loan portfolio and customer base are notably expanded during the period under review. Going forward, we will continue to divert more attention and resources to develop the money lending business. We believe that the successful completion of the Open Offer could equip ourselves for enlarging its operation across a broader customer base and expanding the business portfolio of the Group. The management will prudently look for any suitable business opportunities in future to broaden the sources of our revenues and cash inflows, taking into account the funding requirement and associated business risk.

## 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 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 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/ underlying shares held	Approximate percentage of the issued share capital of the Company
Ye Jian	Interest in a controlled corporation (Note 2)	400,800,000(L)	28.99% <sup>#</sup>

Notes:

1. The letter "L" denotes long positions in the shares and underlying shares of the Company.
2. Metro Classic Limited, whose entire issued share capital is held by Mr. Ye Jian, is interested in a total of 400,800,000 issued and unissued ordinary shares of the Company. These shares comprise (i) 21,800,000 ordinary shares of the Company held, (ii) 65,400,000 unissued ordinary shares of the Company, being the number of open offer shares be allotted upon the completion of the Open Offer assuming all qualifying shareholders, as defined in the circular of the Company dated 16 October 2015, take up their entitlement under the Open Offer, and (iii) 313,600,000 unissued ordinary shares of the Company to be underwritten by Metro Classic Limited pursuant to the Underwriting Agreement of the Open Offer. As such, Mr. Ye Jian is deemed interested in a total of 400,800,000 issued and unissued ordinary shares of the Company.

<sup>#</sup> The calculation for the percentage of the issued share capital of the Company is derived after taking into the effect of total 1,036,800,000 unissued ordinary shares of the Company to be issued upon the completion of the Open Offer (the "Offer Shares"). Details of the Open Offer have been set out in the circular of the Company dated 16 October 2015.

Save as disclosed above, as at 30 September 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 30 September 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 and Short Positions

#### Ordinary shares of the Company

Name of shareholder	Capacity/Nature of interest	Number of issued ordinary shares/ underlying shares held	Approximate percentage of the issued share capital of the Company
Wong Siu Piu	Interest in a controlled corporation (Note 2)	73,395,342(L)(S)	21.24%*
Vital Apex Group Limited ("Vital Apex")	Beneficial owner (Note 2)	73,395,342(L)(S)	21.24%*
China Rise Finance Company Limited ("China Rise Finance")	Security interest (Note 2)	73,395,342(L)	21.24%*
China Rise Securities Asset Management Company Limited ("China Rise")	Beneficial owner (Note 3)	657,800,000(L)	47.58%#
China Rise Finance Group Company Limited	Interest in a controlled corporation (Notes 4 and 5)	731,195,342(L)	52.90%#
Jin Dragon Holdings Limited	Interest in a controlled corporation (Notes 4 and 5)	731,195,342(L)	52.90%#
Essential Holdings Limited	Interest in a controlled corporation (Notes 4 and 5)	731,195,342(L)	52.90%#
Cosmo Group Holdings Limited	Interest in a controlled corporation (Notes 4 and 5)	731,195,342(L)	52.90%#
Symphony Holdings Limited	Interest in a controlled corporation (Notes 4 and 5)	731,195,342(L)	52.90%#
Metro Classic Limited	Beneficial owner (Note 6)	400,800,000(L)	28.99%#
Zhang Yuncheng	Beneficial owner	27,489,276(L)	7.95%*
Liao Weisheng	Beneficial owner	20,000,000(L)	5.79%*



Notes:

1. The letter "L" denotes long positions in the shares and underlying shares of the Company and the letter "S" denotes short positions in the shares and underlying shares of the Company.
2. Mr. Wong Siu Piu is the beneficial owner of all of the issued share capital of Vital Apex, and is therefore deemed to be interested in the 73,395,342 ordinary shares of the Company in which Vital Apex is beneficially interested. Vital Apex has pledged the 73,395,342 ordinary shares of the Company in favour of China Rise Finance as security for a term loan facility provided to Vital Apex. As such, China Rise Finance is deemed interested in the 73,395,342 ordinary shares of the Company to which Vital Apex has pledged.
3. China Rise is interested in 657,800,000 unissued ordinary shares of the Company to be underwritten pursuant to the Underwriting Agreement of the Open Offer.
4. China Rise is wholly owned by China Rise Finance Group Company Limited which is in turn wholly owned by Jin Dragon Holdings Limited. Jin Dragon Holdings Limited is the wholly owned subsidiary of Essential Holdings Limited which is wholly owned by Cosmo Group Holdings Limited. Cosmo Group Holdings Limited is wholly owned by Symphony Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 1223.HK). Accordingly, each of China Rise Finance Group Company Limited, Jin Dragon Holdings Limited, Essential Holdings Limited, Cosmo Group Holdings Limited and Symphony Holdings Limited is deemed to be interested in the 657,800,000 unissued ordinary shares of the Company to be underwritten by China Rise (as mentioned in Note 3) pursuant to the Underwriting Agreement of the Open Offer.
5. As China Rise Finance is the indirect wholly owned subsidiary of Symphony Holdings Limited, Symphony Holdings Limited is deemed interested in the 73,395,342 ordinary shares of the Company which Vital Apex has pledged to China Rise Finance. Accordingly, Symphony Holdings Limited and its wholly owned subsidiaries, Cosmo Group Holdings Limited, Essential Holdings Limited, Jin Dragon Holdings Limited and China Rise Finance Group Company Limited (together with 657,800,000 unissued ordinary shares of the Company as stated in Note 4) is deemed to be interested in a total of 731,195,342 issued and unissued ordinary shares of the Company.
6. Metro Classic Limited, whose entire issued share capital is held by Mr. Ye Jian (a non-executive director of the Company), is interested in a total of 400,800,000 issued and unissued ordinary shares of the Company. These shares comprise (i) 21,800,000 ordinary shares of the Company held, (ii) 65,400,000 unissued ordinary shares of the Company, being the number of open offer shares to be allotted upon the completion of the Open Offer assuming all qualifying shareholders, as defined in the circular of the Company dated 16 October 2015, take up their entitlement under the Open Offer, and (iii) 313,600,000 unissued ordinary shares of the Company to be underwritten by Metro Classic Limited pursuant to the Underwriting Agreement of the Open Offer.
- \* The calculation for the percentage of issued share capital of the Company did not take into effect of the Open Offer.
- # The calculation for the percentage of the issued share capital of the Company is defined after taking into the effect of the Offer Shares. Details of the Open Offer have been set out in the circular of the Company dated 16 October 2015.

Save as disclosed above, as at 30 September 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.

## 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 2015.

## INTEREST IN A COMPETING BUSINESS

During the nine months ended 30 September 2015, none of the directors, the controlling shareholders of the Company and their respective close 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.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the directors of the Company (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 specific enquiry made to all the directors of the Company, the Company was not aware of any non-compliance with the Model Code regarding securities transactions by the directors of the Company during the nine months ended 30 September 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 is 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 Company.

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 during the nine months ended 30 September 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 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 nine months ended 30 September 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  
**Megalogic Technology Holdings Limited**  
**Mr. Zhang Qing**  
*Chairman*

Hong Kong, 6 November 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.*

*This report will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its publication and on the Company's website at [www.megalogic.com.hk](http://www.megalogic.com.hk).*