



ESPCO TECHNOLOGY HOLDINGS LIMITED

易盈科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report

▶▶ 2004

» Reliable Quality »

Professional Innovation

Excellent Performances

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. 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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Director”) of Espco Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

1. The Group has recorded an unaudited turnover of approximately HK\$196 million and HK\$94 million, respectively for the six months and three months ended 30th September 2004.
2. The Group has recorded a net profit attributable to shareholders for the six months ended 30th September 2004 of approximately HK\$4 million, representing a basic earnings per share of HK1.51 cents.
3. The Directors recommend the payment of an interim dividend of HK0.3 cents per share for the six months ended 30th September 2004.

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months and three months ended 30th September 2004 in condensed format, together with the comparative unaudited figures for the corresponding periods in 2003 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | Notes | (Unaudited) Six months ended 30th September, | | (Unaudited) Three months ended 30th September, | |
|---|-------|--|------------------|--|------------------|
| | | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Turnover | 2 | 196,299 | 213,197 | 93,932 | 119,513 |
| Cost of sales | | 186,054 | 200,581 | 88,242 | 112,135 |
| Gross profit | | 10,245 | 12,616 | 5,690 | 7,378 |
| Other revenues | 2 | 327 | 174 | 161 | 168 |
| Selling and distribution expenses | | (460) | (364) | (352) | (224) |
| General and administrative expenses | | (5,571) | (5,574) | (2,992) | (3,046) |
| Other operating expenses | | - | 24 | - | 24 |
| Operating profit | 4 | 4,541 | 6,876 | 2,507 | 4,300 |
| Finance costs | | (154) | (137) | (106) | (124) |
| Profit before taxation | | 4,387 | 6,739 | 2,401 | 4,176 |
| Taxation | 5 | (376) | (580) | (206) | (360) |
| Net profit attributable to Shareholders | | 4,011 | 6,159 | 2,195 | 3,816 |
| Dividend | 6 | 1,071 | - | - | - |
| Basic earnings per share | 7 | HK1.51 cents | HK2.36 cents | HK0.82 cents | HK1.46 cents |

CONDENSED CONSOLIDATED BALANCE SHEET

| | Note | (Unaudited) 30th September 2004 HK\$'000 | (Audited) 31st March 2004 HK\$'000 |
|--|------|---|---|
| Fixed assets | | 23,992 | 25,376 |
| Deferred tax assets | | 393 | 424 |
| Current assets | | | |
| Inventories | | 16,470 | 18,531 |
| Trade and other receivables | 8 | 31,095 | 30,834 |
| Deposits and prepayments | | 922 | 3,522 |
| Amount due from a director | | – | 2,122 |
| Deposits with bank – pledged | | 2,003 | 2,003 |
| Bank balances and cash | | 16,811 | 7,375 |
| | | 67,301 | 64,387 |
| Current Liabilities | | | |
| Trade and other payables | 9 | 10,333 | 26,113 |
| Current portion of interest-bearing borrowings | 11 | 3,844 | 3,817 |
| Tax payable | | 1,975 | 1,871 |
| | | 16,152 | 31,801 |
| Net current assets | | 51,149 | 32,586 |
| Total assets less current liabilities | | 75,534 | 58,386 |
| Non-current liabilities | | | |
| Non-current portion of interest-bearing borrowings | 11 | – | 2,737 |
| Deferred tax liabilities | | 1,161 | 1,161 |
| Total non-current liabilities | | 1,161 | 3,898 |
| Net assets | | 74,373 | 54,488 |
| Capital and reserves | | | |
| Share capital | 10 | 3,571 | – |
| Reserves | | 70,802 | 54,488 |
| | | 74,373 | 54,488 |

Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30th September 2004

| | Issued share capital | Share premium | Exchange reserve | Capital reserve | Revaluation reserve | Statutory surplus reserve | Statutory welfare fund | Statutory general reserve | Retained profits | Total |
|---|----------------------------|------------------|---------------------|--------------------|------------------------|---------------------------------|------------------------------|---------------------------------|---------------------|---------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Six months ended | | | | | | | | | | |
| 30th September 2004 | | | | | | | | | | |
| At 1st April 2004 | - | - | 25 | 16,463 | 9,652 | 325 | 162 | - | 27,861 | 54,488 |
| Capitalisation issue | 2,607 | (2,607) | - | - | - | - | - | - | - | - |
| Placing of shares | 964 | 26,036 | - | - | - | - | - | - | - | 27,000 |
| Expenses in connection with the listing of the shares of the Company | - | (7,607) | - | - | - | - | - | - | - | (7,607) |
| Appropriation | - | - | - | - | - | - | - | 487 | (487) | - |
| Exchange differences arising from translation of accounts of overseas subsidiaries | - | - | (19) | - | - | - | - | - | - | (19) |
| Profit for the period | - | - | - | - | - | - | - | - | 4,011 | 4,011 |
| Dividends (2004 final) | - | - | - | - | - | - | - | - | (3,500) | (3,500) |
| At 30th September 2004 | <u>3,571</u> | <u>15,822</u> | <u>6</u> | <u>16,463</u> | <u>9,652</u> | <u>325</u> | <u>162</u> | <u>487</u> | <u>27,885</u> | <u>74,373</u> |
| Six months ended | | | | | | | | | | |
| 30th September 2003 | | | | | | | | | | |
| At 1st April 2003 | - | - | 31 | 13,462 | 9,812 | 195 | 97 | - | 17,991 | 41,588 |
| Exchange differences arising from translation of accounts of overseas subsidiaries | - | - | (6) | - | - | - | - | - | - | (6) |
| Profit for the period | - | - | - | - | - | - | - | - | 6,159 | 6,159 |
| At 30th September 2003 | <u>-</u> | <u>-</u> | <u>25</u> | <u>13,462</u> | <u>9,812</u> | <u>195</u> | <u>97</u> | <u>-</u> | <u>24,150</u> | <u>47,741</u> |

Condensed Consolidated Cash Flow Statement

| | Unaudited Six months ended 30th September | |
|--|--|-----------------|
| | 2004 | 2003 |
| | HK\$'000 | <i>HK\$'000</i> |
| Net cash used in operating activities | (3,510) | (569) |
| Net cash used in investing activities | (218) | (174) |
| Net cash from/(used in) financing activities | 14,753 | (697) |
| Net increase/(decrease) in cash and cash equivalents | 11,025 | (1,440) |
| Cash and cash equivalents at beginning of the period | 5,807 | 6,833 |
| Effect of foreign exchange rate changes | (21) | (6) |
| Cash and cash equivalents at end of the period, representing bank balances and cash | 16,811 | 5,387 |

Notes to the Condensed Financial Statements

For the six months ended 30th September 2004

1. Group reorganisation and basis of preparation

The Company was incorporated in the Cayman Islands on 12th March 2003 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation completed on 6th September 2004 (the "Reorganisation") in preparation for the listing of the Company's shares on GEM of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of its subsidiaries. Further details of the Reorganisation was set out in the prospectus of the Company dated 14th September 2004 (the "Prospectus"). The Company's shares were listed on GEM on 23rd September 2004.

The Reorganisation is accounted for using merger accounting as permitted by Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Under this basis, the condensed financial statements for the six months and the three months ended 30th September 2004, including the comparative figures, are prepared as if the Company had been the holding company of the companies comprising the Group from the beginning of the earliest period presented.

The condensed financial statements have been prepared in accordance with SSAP No. 25 "Interim financial reporting" issued by the HKICPA and the applicable disclosure requirements of Chapter 18 of the GEM Listing Rules.

The accounting policies and methods of computation adopted in preparing the condensed financial statements are consistent with those followed in the preparation of the Group's accountants' report set out in the Prospectus.

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company.

2. Turnover

The Group is principally engaged in the design, manufacture and distribution of desktop PC components. Revenues recognised in the periods are as follows:

| | (Unaudited) Six months ended 30th September, | | (Unaudited) Three months ended 30th September, | |
|---|--|------------------|--|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Turnover | | | | |
| Sales of own-manufactured goods at invoiced value, net of returns and discounts | 149,444 | 154,808 | 75,878 | 88,050 |
| Trading of PC components | 45,401 | 51,908 | 17,491 | 26,591 |
| Processing fee income | 1,454 | 6,481 | 563 | 4,872 |
| | <u>196,299</u> | <u>213,197</u> | <u>93,932</u> | <u>119,513</u> |
| Other revenues | | | | |
| Interest income | – | 17 | – | 17 |
| Sundry income | 327 | 157 | 161 | 151 |
| | <u>327</u> | <u>174</u> | <u>161</u> | <u>168</u> |
| Total revenues | <u>196,626</u> | <u>213,371</u> | <u>94,093</u> | <u>119,681</u> |

3. Segmental information

Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

No segment information by business segment is presented as the Group primarily operates in a single business segment which is the manufacturing and distribution of desktop PC components throughout the periods.

Secondary reporting format – geographical segments

| | (Unaudited) Six months ended 30th September, | | (Unaudited) Three months ended 30th September, | |
|-------------------------------------|--|------------------|--|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| PRC, excluding Hong Kong and Taiwan | 121,758 | 118,751 | 59,246 | 69,829 |
| Taiwan | 20,003 | 40,832 | 10,332 | 21,570 |
| Hong Kong | 20,575 | 9,783 | 4,933 | 6,118 |
| Singapore | 14,614 | 16,217 | 8,473 | 7,955 |
| Australia | 1,563 | 5,559 | 542 | 2,859 |
| Other Asia-Pacific regions | 10,924 | 11,698 | 6,735 | 5,412 |
| Europe | 1,879 | 4,599 | 907 | 2,326 |
| Other regions | 4,983 | 5,758 | 2,764 | 3,444 |
| | <u>196,299</u> | <u>213,197</u> | <u>93,932</u> | <u>119,513</u> |

4. Operating profit

Operating profit is arrived at after charging the following:

| | Six months ended 30th September, | | Three months ended 30th September, | |
|---|-------------------------------------|------------------|---------------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Cost of inventories sold | 180,991 | 195,272 | 85,559 | 109,315 |
| Depreciation of fixed assets | | | | |
| – owned assets | 1,326 | 1,420 | 644 | 670 |
| – assets held under finance leases | 276 | 276 | 138 | 138 |
| Operating lease rentals in respect of land and buildings | 396 | 637 | 198 | 321 |
| Research and development cost | 617 | 413 | 314 | 205 |
| Staff costs including directors' emoluments | 5,096 | 5,098 | 2,636 | 2,595 |
| | <u>5,096</u> | <u>5,098</u> | <u>2,636</u> | <u>2,595</u> |

5. Taxation

| | Six months ended 30th September, | | Three months ended 30th September, | |
|-----------------------|-------------------------------------|------------------|---------------------------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Hong Kong profits tax | 315 | 517 | 153 | 331 |
| Overseas taxation | 61 | 63 | 53 | 29 |
| | <u>376</u> | <u>580</u> | <u>206</u> | <u>360</u> |

Hong Kong profits tax has been calculated at 17.5% (2003: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong for the periods.

Overseas taxation represented tax charge on the estimated assessable profits of subsidiaries operating overseas including the PRC, calculated at rates prevailing in the respective areas.

One subsidiary which operates in the PRC is subject to the preferential foreign income tax ("FEIT") of 15% on its assessable profit. In accordance with the relevant income tax laws and regulations in the PRC, it has been granted full exemption from the enterprise income tax for two years from its first profit-making year, followed by a 50% reduction in tax rate for the next three years. Pursuant to the preferential tax exemptions described above, the applicable income tax rate for the three years from 2003 to 2005 is 7.5%, representing 50% of the full FEIT rate to which the subsidiary is subject.

Another subsidiary has been registered as an "Offshore Commercial Services Institution" with the Macao Trade and Investment Promotion Institute. In accordance with the Macao Special Administrative Region's Offshore Law, the subsidiary is exempted from Macau income tax derived from its offshore business.

No provision for deferred taxation has been recognised as the amount involved is insignificant.

6. Dividends

The Directors recommend the payment of an interim dividend of HK0.3 cents per share for the six months ended 30th September 2004 (six months ended 30th September 2003: nil).

7. Earnings per share

Basic earnings per share for the six months and the three months ended 30th September 2004 are calculated based on the unaudited consolidated net profit of HK\$4,011,000 and HK\$2,195,000 respectively (2003: HK\$6,159,000 and HK\$3,816,000 respectively) and on the weighted average number of 264,919,807 and 269,089,591 ordinary shares respectively (2003: 260,704,200 and 260,704,200 ordinary shares) in issue during the periods.

In determining the weighted average number of shares in issue, the 100 shares issued on incorporation of the Company and as consideration for the acquisition by the Company of the issued share capital of Eagle Up Holdings Limited ("Eagle Up"), and the capitalisation issue of 260,704,100 shares upon listing on GEM on 23rd September 2004 were also deemed to have been in issue on 1st April 2003 for the purpose of the calculation of basic earnings per share.

Dilutive earnings per share amounts have not been presented as the Company did not have any dilutive potential ordinary shares during the periods.

8. Trade and other receivables

The credit terms granted by the Group to its customers normally range from COD (cash-on-delivery) to 60 days, except for sales made to certain credit worthy customers to which a longer credit period of up to 90 days may be granted at the discretion of the Directors.

The following is an aged analysis of trade receivables from third parties at the respective balance sheet dates:

| | As at 30th September 2004 (Unaudited) HK\$'000 | As at 31st March 2004 (Audited) HK\$'000 |
|-------------------|---|---|
| 0 – 30 days | 24,648 | 24,776 |
| 31 – 60 days | 4,481 | 3,382 |
| 61 – 90 days | 783 | 756 |
| Over 90 days | 1,090 | 1,912 |
| | <hr/> | <hr/> |
| | 31,002 | 30,826 |
| Other receivables | 93 | 8 |
| | <hr/> | <hr/> |
| | 31,095 | 30,834 |
| | <hr/> <hr/> | <hr/> <hr/> |

9. Trade and other payables

The following is an aged analysis of trade payables at the respective balance sheet dates:

| | As at 30th September 2004 (Unaudited) HK\$'000 | As at 31st March 2004 (Audited) HK\$'000 |
|----------------|---|---|
| 0 – 30 days | 3,298 | 15,860 |
| 31 – 60 days | 2,138 | 4,187 |
| 61 – 90 days | 1,934 | 1,610 |
| Over 90 days | 1,202 | 2,002 |
| | <hr/> | <hr/> |
| Other payables | 8,572 | 23,659 |
| | 1,761 | 2,454 |
| | <hr/> | <hr/> |
| | 10,333 | 26,113 |
| | <hr/> <hr/> | <hr/> <hr/> |

10. Share Capital

| | Number of shares | HK\$'000 |
|---|-----------------------------|-----------------|
| <i>Ordinary shares of HK\$0.01 each Authorised:</i> | | |
| On incorporation (Note a) | 35,000,000 | 350 |
| | <hr/> | <hr/> |
| At 1st April 2004 | 35,000,000 | 350 |
| Increase during the period (Note b) | 465,000,000 | 4,650 |
| | <hr/> | <hr/> |
| At 30th September 2004 | 500,000,000 | 5,000 |
| | <hr/> <hr/> | <hr/> <hr/> |
| <i>Issued and fully paid:</i> | | |
| Issue of share upon incorporation (Note a) | 1 | – |
| | <hr/> | <hr/> |
| At 1st April 2004 | 1 | – |
| Issue of shares on Reorganisation (Note b(ii)) | 99 | – |
| Capitalisation issue (Note c) | 260,704,100 | 2,607 |
| Placing of shares (Note c) | 96,432,000 | 964 |
| | <hr/> | <hr/> |
| At 30th September 2004 | 357,136,200 | 3,571 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes:

- (a) The Company was incorporated on 12th March 2003 with an authorised share capital of HK\$350,000 divided into 35,000,000 ordinary shares of HK\$0.01 each, of which one share of HK\$0.01 each was allotted and issued at par for cash on 19th March 2003.

- (b) In preparation for the listing of the Company's shares on GEM, the following changes in authorised and issued share capital of the Company took place on 6th September 2004:
- (i) the authorised share capital of the Company was increased from HK\$350,000 to HK\$5,000,000 by the creation of an additional 465,000,000 ordinary shares of HK\$0.01 each;
 - (ii) as consideration for the acquisition by the Company of the entire issued share capital of Eagle Up, the holding company of other members of the Group prior to the Reorganisation, an aggregate of 99 ordinary shares of the Company were issued and credited as fully paid to the then shareholders of Eagle Up.
- (c) On 23rd September 2004, 96,432,000 ordinary shares of HK\$0.01 each were issued by way of placing (the "Placing") at a price of HK\$0.28 per share for cash consideration of HK\$27,000,960. The excess of the placing price over the par value of the shares issued was credited to the share premium account. On the same date, an aggregate of 260,704,100 ordinary shares of HK\$0.01 each were allotted, issued at par and fully paid to the shareholders whose names appeared on the register of members of the Company as at the close of business on 6th September 2004 by way of capitalisation of a total sum of HK\$2,607,041 out of the share premium account of the Company arising from the Placing.
- (d) The share capital of HK\$1 presented in the condensed consolidated balance sheet as at 31st March 2004 represented the share capital of the Company arising from the transactions as described in notes (a) and (b) above, which is deemed to have been in issue throughout the periods presented in these accounts in accordance with the basis of preparation as set out in note 1.

11. Interest-bearing borrowings

| | As at 30th September 2004 (Unaudited) HK\$'000 | As at 31st March 2004 (Audited) HK\$'000 |
|--|--|--|
| Bank overdraft | – | 1,568 |
| Bank loans: | | |
| Secured | 979 | 1,092 |
| Unsecured | 1,267 | 1,653 |
| | <u>2,246</u> | <u>4,313</u> |
| Obligations under finance leases | 1,598 | 2,241 |
| | <u>3,844</u> | 6,554 |
| Current portion of interest-bearing borrowings | (3,844) | (3,817) |
| | <u>–</u> | <u>2,737</u> |
| Non-current portion of interest-bearing borrowings | – | – |

12. Commitments

(a) *Capital commitments*

The Group had capital commitments in respect of acquisition of fixed assets as follows:

| | As at 30th September 2004 (Unaudited) HK\$'000 | As at 31st March 2004 (Audited) HK\$'000 |
|---|---|---|
| Capital expenditure contracted but not provided for in the accounts | 727 | 727 |
| Capital expenditure authorised but not contracted for | <u>1,000</u> | <u>–</u> |
| | <u><u>1,727</u></u> | <u><u>727</u></u> |

(b) *Operating lease commitments*

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

| | As at 30th September 2004 (Unaudited) HK\$'000 | As at 31st March 2004 (Audited) HK\$'000 |
|--|---|---|
| Within one year | 240 | 631 |
| In the second to fifth year, inclusive | <u>–</u> | <u>5</u> |
| | <u><u>240</u></u> | <u><u>636</u></u> |

13. RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions during the periods:

| | (Unaudited) Six months ended 30th September, | | (Unaudited) Three months ended 30th September, | |
|---|---|--------------------------|---|--------------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Easely Investments Limited – Rentals of a director's quarter paid by the Group | <u>150</u> | <u>210</u> | <u>75</u> | <u>105</u> |

Notes:

- (i) Easely Investment Limited ("Easely") is a company in which Mr Chan Hing Yin, a director of the Company, has beneficial interest as a director and shareholder.
- (ii) During the periods, the Group entered into lease arrangements with Easely for leasing of a director's quarter. The lease in force as at 30th September 2004 has expired on 31st October 2004 and has been renewed with a monthly rental of HK\$25,000 for 12 months period commencing 1st November 2004.

14. CONTINGENT LIABILITIES

As at 30th September 2004 and 31st March 2004, seven employees of the Group have completed the required number of years of services under the Hong Kong Employment Ordinance (the "Ordinance") to be eligible for long service payments on termination of their employment. The Group is only liable to make such payments where the termination meets the circumstances specified in the Ordinance.

If the termination of all such employees meet the circumstances set out in the Ordinance, the Group's liability as at 30th September 2004 would be approximately HK\$543,000 (as at 31st March 2004: HK\$524,000). No provision has been made in this respect.

Save as disclosed above, the Group and the Company did not have any significant contingent liabilities as at 30th September 2004.

INTERIM DIVIDEND

The Board recommends the payment of an interim dividend of HK0.3 cents per share for the six months ended 30th September 2004 (2003: nil). The dividend will be payable on 30th December 2004 to shareholders whose names appear on the Register of Members of the Company at the close of business on 6th December 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 3rd December to 6th December 2004, both days inclusive, during which period no share transfers will be registered. All transfers of shares accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Tricor Investor Services Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:30 p.m. on 2nd December 2004.

FINANCIAL REVIEW

Total turnover of the Group for the six months ended 30th September, 2004 amounted to approximately HK\$196,299,000, representing a 7.9% decrease from that of approximately HK\$213,197,000 generated in the corresponding period in 2003. Profit attributable to shareholders of the Group for the six months ended 30th September 2004 was approximately HK\$4,011,000 while that of the corresponding period in 2003 was approximately HK\$6,159,000. In addition to the general decline in the Group's turnover during the period, the decrease in net profit attributable to the shareholders also stemmed from the significant decrease in the sales generated from the Group's processing services rendered, which dropped from approximately HK\$6,481,000 from the six months ended 30th September 2003 to approximately HK\$1,454,000 for the six months ended 30th September 2004. The substantial reduction in the sales generated

from the Group's processing services was mainly due to the change in the purchasing mode of one of the Group's customers in Taiwan. Since processing services have traditionally been generating a higher gross profit margin for the Group, the drop in turnover from the provision of processing services also led to a decrease in the gross profit margin to 5.2% for the six months ended 30th September 2004 from 5.9% for the corresponding period in previous year.

However, it is expected that such drop on the turnover is temporary and orders from new and existing clients are gradually building up.

The selling and distribution expenses of the Group for the six months ended 30th September 2004 amounted to approximately HK\$460,000, representing a 26% increase as compared to the corresponding period last year. The increase was mainly due to the increase in advertising expenses for the promotion of the Group's own brand name products in Hong Kong and overseas market.

The general and administrative expenses of the Group for the six months ended 30th September 2004 amounted to approximately HK\$5,571,000, representing a slight decrease compared to the corresponding period last year.

The finance cost of the Group for the six months ended 30th September 2004 amounted to approximately HK\$154,000, representing an increase of approximately 12% as compared to the corresponding period last year.

Although there was a slight decrease on the overall expenditures of the Group when comparing the corresponding period last year to approximately HK\$5,905,000 for the six months ended 30th September 2004 from HK\$6,075,000 for the six months ended 30th September 2003, the savings in expenditures were unable to offset the drop in the gross profit. As a result, the net profit attributable to shareholders decreased by 34.9% when compared with the corresponding period last year.

The Group operates a conservative set of investment policies to ensure that no unnecessary risks are taken with the Company's assets. During the period, the Group has not made any significant investment or acquisition other than short-term bank deposits.

BUSINESS REVIEW AND PROSPECT

For the six months ended 30th September 2004, the proportion of turnover from sales of the Group's own-manufactured goods, trading of PC components and provision of processing service were 76%, 23% and 1% of the Group's total turnover respectively. Although the turnover of the Group during the six months period had decreased, the sales orders from new and existing customers for the subsequent months were gradually picking up.

In order to enhance the competitiveness of the Group's products and boost the production capacity, the Group plans to acquire and install the fourth and the fifth SMT production lines by the first half of 2005 and 2006, respectively as mentioned in the Prospectus under the section headed "Business Plan". The cost of these additional SMT production lines are expected to be funded out of the proceeds from the Placing. Through acquisition of these new production lines, the Group can expand its existing production capacity to meet the future growth in demand.

With the installation of the new production lines, the Group is determined to enhance the existing research and development capability by recruiting more professional staffs to develop new models of VGA display card and motherboard in order to cope with the latest development in the market.

On the sales and marketing side, the Group will endeavour to promote its products by advertising the Group's products in magazines and aggressively participating in technology exhibitions in both Asian and Eastern European countries.

In addition, the Group plans to set up an establishment in Eastern Europe to facilitate the expansion strategies of the Group's business in the Eastern European markets.

Following the successful listing of the shares of the Company on GEM on 23rd September 2004, the Board believes that the Company is in a better position to implement the aforesaid business plans. The Board is confident that with the Company's dedicated management team and the financial support obtained through the proceeds raised from the Placing, the business of the Group will continue to provide solid contributions throughout the remainder of the financial year.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operation with cash flow generated from sales and bank facilities. As at 30th September 2004, the Group had cash and bank balance of approximately HK\$16,811,000 and pledged bank deposits of approximately HK\$2,003,000.

As at 30th September 2004, the Group had short term bank loans and obligations under finance lease totaling approximately HK\$3,844,000 which were utilised to finance the purchase of two existing SMT production lines, a property and a motor vehicle of the Group. As at 30th September 2004, the Group had unutilised banking facilities of approximately HK\$13,000,000.

In view of the current cash position, the banking facilities available and the expected future cash flow from operations, the Directors believe that the Group has sufficient financial resources to meet its operation needs.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars and US dollars. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars and US dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30th September 2004, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

EMPLOYEE INFORMATION

The remuneration for the employees of the Group amounted to approximately HK\$5,096,000, including Directors' emoluments of approximately HK\$618,000 for the six months ended 30th September 2004. As at 30th September 2004, the Group employed 369 employees in the PRC, Hong Kong, Singapore and Macau.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months period ended 30th September 2004, the Group did not have any material acquisitions and disposal of subsidiaries.

GEARING RATIO

The Group's gearing ratio as at 30th September 2004 decreased to 5% from 12% as at 31st March 2004. The gearing ratios were calculated as the Group's interest-bearing borrowings to the shareholders' equity as at the respective balance sheet dates. The decrease in the gearing ratio was due to the enlarged capital base as a result of the Placing.

CHARGES ON THE GROUP'S ASSETS

As at 30th September 2004, the Group's leasehold land and buildings with net book value of approximately HK\$2,200,000 (as at 31st March 2004: HK\$2,200,000) and bank deposits of approximately HK\$2,003,000 (as at 31st March 2004: HK\$2,003,000) were pledged as collaterals for the Group's bank loans of approximately HK\$2,246,000.

CONTINGENT LIABILITIES

Save as disclosed in note 14 to the unaudited condensed accounts above, the Group did not have any other material contingent liabilities as at 30th September 2004.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

As this interim report covers activities up to 30th September 2004 which is only 7 days after the date of listing of the Company's shares on GEM, no update is applicable for the business objectives stated under the section headed "Business Objectives" in the Prospectus.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company dated 6th September 2004, the Company has conditionally adopted the share option scheme ("Share Option Scheme") under which share options to subscribe for the Company's shares may be granted under the terms and conditions stipulated therein. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix 5 to the Prospectus. As at 30th September 2004, no share option was granted under the Share Option Scheme.

ADVANCE TO AN ENTITY

According to rules 17.15, 17.17 and 17.22 of the GEM Listing Rules, a disclosure obligation arises where the relevant advance to an entity from the Group exceeds 8% of the Group's consolidated total assets or the market capitalisation of the Company, whichever is the lower. As at 30th September 2004, trade receivable from a customer of the Group (the "Trade Receivable"), 深圳市鐳之光電子有限公司 (the "Customer"), a company which is an independent third party of the Company and is not a connected person of the Company (as defined in the GEM Listing Rules), amounted to approximately HK\$20,408,000 (As at 31st March 2004: HK\$15,234,000), representing approximately 22% of the Group's

consolidated total assets as at 30th September 2004. The Trade Receivable was resulted from sales to the Customer by the Group in its ordinary course of business and on normal commercial terms. It is unsecured, interest-free, and has a payment term of 30 days.

DIRECTORS' AND EMPLOYEES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options that may be granted under the Share Option Scheme, none of the Directors or employees of the Group or their respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 30th September, 2004.

USE OF PROCEEDS

The actual net proceeds from the Placing was approximately HK\$19,400,000 million which was not materially different from the estimated net proceeds of approximately HK\$19,500,000 as stated in the Prospectus. Details of the utilization of fundings from the actual net proceeds of the Placing versus that envisaged in the Prospectus during the period from 23rd to 30th September 2004 are as follows:

| | Proposed fund required up to 30th Sep 2004 <i>HK\$'000</i> | Actual fund spent up to 30th Sep 2004 <i>HK\$'000</i> |
|---|--|---|
| To promote the Group's brandname "EAGLE" | 400 | 30 |
| To explore new markets and expand distribution network | 300 | 26 |
| General working capital | 6,000 | 5,766 |
| Total | 6,700 | 5,822 |

Due to unexpected delay in certain marketing activities originally planned in late September 2004, the Group has not applied in full the proceeds in accordance with the schedule as planned in the Prospectus. The marketing activities have now been rescheduled to the third quarter of the financial year and the Directors would like to carry this period's budget forward to the forthcoming period.

In order to reduce the finance cost of the Group, the Company has applied the net proceeds of HK\$5,766,000 as the general working capital of the Group as stated in the Prospectus to repay the Group's bank overdraft balances as at 30th September 2004 which was drawn down principally to settle trade payables for purchase of raw materials and other payables for general administrative expenses. The aforesaid applications of the proceeds of the Placing are in compliance with the intentions as stated in the Prospectus.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th September 2004, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under section 352 of the SFO, or which is otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

| Name of Director | Nature of interest | Number and class of securities | Approximate % of the issued share capital of the Company |
|-------------------------|------------------------------------|--|---|
| Mr. Chan Hing Yin | Interest of controlled corporation | 249,992,200 Ordinary Shares of HK\$0.01 each ("Shares") (Note) | 70% |

Note: These Shares were held by Osborne Pacific Limited ("Osborne") which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 30th September 2004, none of the Directors or chief executives of the Company had any interests and short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDER

So far as is known to any Director or chief executive of the Company, as at 30th September 2004, the following person (other than the Directors and chief executives of the Company whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares and underlying shares" above) had an interest or short position in the shares or underlying shares of the Company which were recorded in the register required to be kept under Section 336 of the SFO:

| Name of shareholder | Nature of interest | Number and class of securities | Approximate % of the issued share capital of the Company |
|----------------------------|---|---------------------------------------|---|
| Osborne | Beneficial owner | 249,992,200 Shares (Note 1) | 70% |
| Chan, Selma (Note 2) | Family interest of controlled corporation | 249,992,200 Shares (Note 2) | 70% |

Notes:

1. These Shares were held by Osborne Pacific Limited which is wholly and beneficially owned by Mr. Chan Hing Yin.
2. These were the same Shares held by Osborne. As Ms. Chan, Selma is the spouse of Mr. Chan Hing Yin, she is deemed to have interests in the Shares held by Osborne, which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 30th September 2004, the Company had not been notified of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which were required to be kept under Section 336 of the SFO.

COMPETING INTEREST

None of the directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the period under review.

SPONSOR'S INTERESTS

Pursuant to the sponsor's agreement dated 13th September 2004 entered into between the Company and Somerley Limited ("Somerley"), Somerley has been appointed as the sponsor of the Company as required under the GEM Listing Rules at a fee for the period from 23rd September 2004 to 31st March 2007 or until the sponsor's agreement is terminated in accordance with the terms and conditions set out therein.

None of Somerley, its directors, employees or associates had any interests in the securities of the Company or any member of the Group, or had any rights to subscribe for or to nominate persons to subscribe for the securities of the Company or any member of the Group as at 30th September 2004.

BOARD PRACTICES AND PROCEDURES

Since the date of listing of the Company's shares on GEM on 23rd September 2004, the Company has complied with board practices and procedures as set out in Rules 5.34 to 5.45 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with written terms of reference in compliance with the requirements as set out in Rules 5.28 to 5.30 of the GEM Listing Rules. The primary duties of the Audit Committee are (i) to review the Company's annual report, half-yearly report and quarterly reports and provide advice and comments thereon to the Board; and (ii) to review and supervise the financial reporting process and internal control procedures of the Company. The Audit Committee comprises three independent non-executive Directors, namely Mr. Tam Yuk Sang, Sammy, Mr. Lam Ping Cheung and Ms. Chan Yi Man, Magdalen.

Since the Company's listing on GEM on 23rd September 2004, the Audit Committee had one meeting up to the date of this report. The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th September 2004. The Audit Committee had not identified any disagreement with the accounting treatments which had been adopted in the preparation of the Group's interim report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Company's shares on the GEM of the Stock Exchange on 23rd September 2004 and up to 30th September 2004, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30th September 2004, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

By Order of the Board
Espco Technology Holdings Limited
Chan Hing Yin
Chairman

Hong Kong, 11 November 2004

As at the date of this report, the executive Directors are Mr. Chan Hing Yin and Mr. Chan Hing Kai, and the independent non-executive Directors are Mr. Lam Ping Cheung, Andrew, Mr. Tam Yuk Sang, Sammy, and Ms. Chan Yi Man, Magdalen.