ESPCO TECHNOLOGY HOLDINGS LIMITED
易盈科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

First Quarterly Report 2005

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 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$90 million for the three months ended 30th June 2005.

2. The Group has recorded an unaudited net profit attributable to shareholders of approximately HK$1million for the three months ended 30th June 2005.

To all shareholders,

The board (the "Board") of directors (the "Directors") of Espco Technology Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months ended 30th June 2005 in condensed format, together with the comparative unaudited figures for the corresponding period in 2004, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited) Three months ended 30th June,	
		2005	2004
	Notes	**HK$'000**	HK$'000
Turnover	3	**89,670**	102,367
Cost of sales		**85,403**	97,690
Gross profit		**4,267**	4,677
Other revenues	3	**151**	166
Selling and distribution expenses		**(223)**	(108)
General and administrative expenses		**(2,852)**	(2,579)
Operating profit	5	**1,343**	2,156
Finance costs		**(61)**	(48)
Profit before taxation		**1,282**	2,108
Taxation	6	**(77)**	(170)
Net profit attributable to shareholders		**1,205**	1,938
Dividend	7	**–**	–
Basic earnings per share	7	**HK0.34 cent**	HK0.74 cent

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the three months ended 30th June 2005

1. 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.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM (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 annual financial statements for the year ended 31st March 2005 except for the adoption of the newly issued accounting standards as disclosed in note 2 below.

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

2. IMPACT OF NEWLY ISSUED ACCOUNTING STANDARDS

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting period beginning on or after 1st January 2005. In the current period, the Group has adopted, for the first time, those new HKFRSs which are pertinent to its operations and relevant to these condensed financial statements. The adoption of the new HKFRSs did not have any significant impact on the results of operations and financial position of the Group, except for the adoption of HKAS 17 as described below.

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at valuation less subsequent accumulated depreciation or amortisation. Following the adoption of HKAS 17, a lease of land and building should be split into a lease of land and a lease of building in proportion to the relative fair values of the leasehold interests in the land element and the building element of the lease at the inception of the lease. The lease premium for land is stated at cost and amortised over the period of the lease whereas the leasehold building is stated at valuation less accumulated depreciation. Previously included in fixed assets is the land element of the land and buildings, which is now disclosed as "lease premium for land". Such change in accounting policy has been applied in accounting for the Group's land and buildings in the PRC.

The entire lease of the Group's leasehold land and buildings in Hong Kong are classified as finance lease as it is not possible to measure the two elements of land and building reliably. The adoption of HKAS 17 has had no impact on the accounting treatment of the Group's leasehold land and buildings in Hong Kong.

Effects of the change in the above accounting policy on the condensed consolidated profit and loss account are a decrease in depreciation charge and an increase in amortisation charge for the three months ended 30th June 2005 of approximately HK$123,000 and HK$8,000 respectively (for the three months ended 30 June 2004: HK$131,000 and HK$8,000 respectively)

Due to the adoption of the new HKFRSs for the current period, the accounting treatment and presentation of certain items on the condensed financial statements have been revised to comply with the new requirements. Accordingly, certain figures have been adjusted to reserves in prior year. Also, certain comparative figures have been reclassified to conform with the current period's presentation.

3. TURNOVER

The Group is principally engaged in the design, manufacture and distribution of desktop personal computer ("PC") components. Revenue recognised in the periods are as follows:

	(Unaudited) Three months ended 30th June, 2005 HK$'000	2004 HK$'000
Turnover		
Sales of own-manufactured goods at invoiced value, net of returns and discounts	**73,692**	73,566
Trading of PC components	**10,247**	27,910
Processing fee income	**5,731**	891
	89,670	102,367
Other revenues		
Interest income	**–**	–
Sundry income	**151**	166
	151	166
Total revenues	**89,821**	102,533

4. 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) Three months ended 30th June, 2005 HK$'000	2004 HK$'000
PRC, excluding Hong Kong and Taiwan	**60,265**	62,512
Taiwan	**9,433**	9,671
Hong Kong	**4,601**	15,642
Singapore	**4,467**	6,141
Australia	**1,158**	1,021
Other Asia-Pacific regions	**6,901**	4,189
Europe	**1,225**	972
Korea	**1,129**	–
Other regions	**491**	2,219
	89,670	102,367

5. OPERATING PROFIT

Operating profit is arrived at after charging the following:

	(Unaudited) Three months ended 30th June, 2005 HK$'000	2004 HK$'000
Cost of inventories sold	**82,241**	95,432
Amortisation of lease premium for land	**8**	8
Depreciation of fixed assets		
– owned assets	**622**	551
– assets held under finance leases	**–**	138
Operating lease rentals in respect of land and buildings	**127**	198
Research and development cost	**301**	303
Staff costs including directors' emoluments	**3,022**	2,460

6. TAXATION

	(Unaudited) Three months ended 30th June, 2005 HK$'000	2004 HK$'000
Hong Kong profits tax	40	123
Overseas taxation	27	8
	67	131
Deferred tax	10	39
	77	170

Hong Kong profits tax has been calculated at 17.5% (2004: 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.

7. DIVIDENDS

The Directors do not recommend the payment of any dividend for the three months ended 30th June 2005 (three months ended 30th June 2004: Nil)

8. EARNINGS PER SHARE

Basic earnings per share for the three months ended 30th June 2005 are calculated based on the unaudited consolidated net profit attributable to shareholders of HK$1,205,000 (2004: HK$1,938,000) and the weighted average number of 357,136,200 ordinary shares (2004: 260,704,200 ordinary shares) in issue during the period.

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.

9. MOVEMENT OF RESERVES

	Share premium HK$'000	Exchange reserve HK$'000	Capital reserve HK$'000	Revaluation reserve HK$'000	Statutory surplus reserve HK$'000	Statutory welfare fund HK$'000	Statutory general reserve HK$'000	Retained profits HK$'000	Total HK$'000
Three months ended 30th June 2005									
At 1st April 2005									
As previously reported	18,972	4	13,463	9,151	325	162	485	31,535	74,097
Effect on adoption of HKAS 17	–	–	–	(4,385)	–	–	–	2,378	(2,007)
As restated	18,972	4	13,463	4,766	325	162	485	33,913	72,090
Exchange differences arising from translation of accounts of overseas subsidiaries	–	76	–	–	–	–	–	–	76
Profit for the period	–	–	–	–	–	–	–	1,205	1,205
Dividends (2005 final)	–	–	–	–	–	–	–	(3,214)	(3,214)
At 30th June 2005	18,972	80	13,463	4,766	325	162	485	31,904	70,157
Three months ended 30th June 2004									
At 1st April 2004									
As previously reported	3,000	25	13,463	9,652	325	162	–	27,861	54,488
Effect on adoption of HKAS 17	–	–	–	(4,661)	–	–	–	1,883	(2,778)
As restated	3,000	25	13,463	4,991	325	162	–	29,744	51,710
Exchange differences arising from translation of accounts of overseas subsidiaries	–	(1)	–	–	–	–	–	–	(1)
Profit for the period	–	–	–	–	–	–	–	1,938	1,938
At 30th June 2004	3,000	24	13,463	4,991	325	162	–	31,682	53,647

10. RELATED PARTY TRANSACTIONS

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

	(Unaudited) Three months ended 30th June, 2005 HK$'000	2004 HK$'000
Easely Investments Limited		
– Rentals of a director's quarter paid by the Group	**81**	75

Note:

(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 period, the Group entered into lease arrangements with Easely for leasing of a director's quarter. The lease in force will expire on 31 October 2005 and the monthly rental payable by the Group under such lease is HK$27,000, which was determined by terms agreed by both parties with reference to open market value.

11. CONTINGENT LIABILITIES

As at 30th June 2005 and 31st March 2005, 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 June 2005 would be approximately HK$564,000 (as at 31st March 2005: HK$560,000). 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 June 2005.

INTERIM DIVIDEND

The Board does not recommend the payment of any dividend for the three months ended 30th June 2005 (2004: nil).

FINANCIAL REVIEW

Total turnover of the Group for the three months ended 30th June 2005 amounted to approximately HK$89,670,000, representing a 12.4% decrease from that of approximately HK$102,367,000 generated in the corresponding period in 2004. The decrease was mainly attributable to the significant decrease of approximately 63% in the turnover from trading of PC components. Unlike in prior year, new customers in the period who placed orders for processing services tend to purchase components by themselves instead of requesting the Group to source the components for them. Under these circumstances, even though turnover from the provision of processing services had recorded a remarkable increase of approximately 5.4 times from the corresponding quarter in 2004, it did not lead to corresponding increase of turnover from the trading of PC components. Turnover from sales of the Group's own manufactured goods was comparable to that recorded in the same period last year.

Although the overall turnover has decreased for the three months ended 30th June 2005, the gross profit margin for the first quarter has improved slightly to approximately 4.76%, against 4.57% recorded for the first quarter of 2004.

Net profit attributable to shareholders of the Group for the three months ended 30th June 2005 was approximately HK$1,205,000, whereas that of the corresponding period in 2004 was approximately HK$1,938,000.

The selling and distribution expenses of the Group for the three months ended 30th June 2005 amounted to approximately HK$223,000, representing a 106% increase as compared to the corresponding period in last year. The increase was mainly due to more extensive advertising and promotional campaign for the promotion of the Group's own brand name products in Hong Kong and overseas markets.

The general and administrative expenses of the Group for the three months ended 30th June 2005 amounted to approximately HK$2,852,000, representing an increase of 10.6% compared to the corresponding period in last year. The increase was mainly due to the increase in salaries expenses due to the recruitment of additional staff in the research & development team and the payment of expenses for maintenance of the listing status of the Company.

The finance cost of the Group for the three months ended 30th June 2005 amounted to approximately HK$61,000, representing an increase of approximately 27% as compared to the corresponding period last year. The increase was mainly due to the increase of interest regarding the increased banking facilities of the Group for the period.

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

BUSINESS REVIEW AND PROSPECT

For the three months ended 30th June 2005, the proportion of turnover from sales of the Group's own-manufactured goods, trading of PC components and provision of processing service were 82%, 11% and 7% of the Group's total turnover respectively.

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 fifth SMT production lines by the first half of 2005 and 2006. The cost of these additional SMT production lines are expected to be funded out of the proceeds from the IPO in accordance with the plan stated in the Prospectus. Through acquisition of these new production lines, the Group can expand its existing production capacity to meet the future growth in demand.

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 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 reconsider the feasibility of setting up an establishment in Eastern Europe to facilitate the expansion strategies of the Group's business in the Eastern European markets if the market environment continues to improve.

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 IPO, the business of the Group will continue to provide solid contributions in the remaining of the financial year.

ADVANCE TO AN ENTITY

According to rules 17.15 to 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 June 2005, 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 was an independent third party of the Company and was not a connected person of the Company (as defined in the GEM Listing Rules), amounted to approximately HK$27,711,000 (as at 31st March 2005: HK$34,455,000), representing approximately 26.9% of the Group's consolidated total assets as at 31st March 2005. 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 was unsecured, interest-free, and had a payment term of 30 days. The amount has been fully settled by the date of publication of this report.

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 (the "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 June 2005, no share option was granted under the Share Option Scheme.

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 June 2005.

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

As at 30th June 2005, 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 were required to be 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 in a controlled corporation	249,992,200 ordinary shares of HK$0.01 each ("Shares") *(Note)*	70%

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

Save as disclosed above, as at 30th June 2005, 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 June 2005, the following person (other than the Directors and chief executives of the Company whose interests are set out in the section "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 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 Pacific Limited	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 which is wholly and beneficially owned by Mr. Chan Hing Yin.

2. These were the same Shares held by Osborne. As Mrs. Chan, Selma is the spouse of Mr. Chan Hing Yin, she is deemed to have interests in the Shares held by Osborne.

Save as disclosed above, as at 30th June 2005, 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.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the 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, which applied before the amendment of the GEM Listing Rules on 1st January 2005, 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 June 2005.

BOARD PRACTICES AND PROCEDURES

Since the date of listing of the 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, which applied before the amendment of the GEM Listing Rules relating to the Code on Corporate Governance Practices and Rules on Corporate Governance Report on 1st January 2005. The Company will prepare a Corporate Governance Report in accordance with Rule 18.44 of the GEM Listing Rules for the financial year ending 31st March 2006.

AUDIT COMMITTEE

The Company has established an audit committee (the "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, which applied before the amendment of the GEM Listing Rules on 1st January 2005. 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. Following the introduction of the Code on Corporate Governance Practices set out in Appendix 15 of the GEM Listing Rules on 1st January 2005, the duties of the Audit Committee shall include monitoring relationship with the Company's auditors, reviewing the financial information of the Company and overseeing the Company's financial reporting system and internal control procedures. 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 listing of the Shares on GEM on 23rd September 2004, the Audit Committee had four meetings 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 three months ended 30th June 2005. The Audit Committee had not identified any disagreement with the accounting treatments which had been adopted in the preparation of the Group's quarterly report.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Shares on the GEM of the Stock Exchange on 23rd September 2004 and up to 30th June 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 30th June 2005, 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, 10th August 2005

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