



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

(Incorporated in the Cayman Islands with limited liability)

Third Quarterly Report

2005

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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\$303 million and HK\$97 million, respectively for the nine months and three months ended 31st December 2005.
2. The Group has recorded an unaudited net profit attributable to shareholders of approximately HK\$6.1 million and HK\$0.9 million respectively for the nine months and three months ended 31st December 2005.

TO ALL SHAREHOLDERS,

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 nine months and three months ended 31st December 2005, together with the comparative unaudited figures for the corresponding periods in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) Nine months ended 31st December		(Unaudited) Three months ended 31st December	
		2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	2	302,562	306,355	96,976	110,056
Cost of sales		(286,293)	(289,139)	(92,697)	(103,332)
Gross profit		16,269	17,216	4,279	6,724
Other revenues	2	349	609	106	282
Selling and distribution expenses		(729)	(843)	(228)	(383)
General and administrative expenses		(9,156)	(8,545)	(3,118)	(2,974)
Operating profit	4	6,733	8,437	1,039	3,649
Finance costs		(266)	(192)	(97)	(38)
Profit before taxation		6,467	8,245	942	3,611
Taxation	5	(371)	(677)	(40)	(301)
Net profit attributable to shareholders		6,096	7,568	902	3,310
Dividends	6	-	1,071	-	-
Basic earnings per share	7	HK1.71 cents	HK2.56 cents	HK0.25 cent	HK0.93 cent

NOTES TO ACCOUNTS

For the nine months ended 31st December 2005

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with the disclosure requirements of the GEM Listing Rules. The accounting policies adopted in preparing the unaudited condensed consolidated financial statements are consistent with those followed in the annual financial statements for the year ended 31st March 2005 except as described below.

In 2004, the Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (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 consolidated financial statements. The adoption of the new HKFRSs has no material impact on the Group's results of operations and financial position, except for the adoption of HKAS 17 as described below.

In the previous periods, leasehold land and buildings were included in property, plant and equipment and carried at valuation less subsequent accumulated depreciation or amortization. Following the adoption of HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortized over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

The effect of adopting HKAS 17 on the condensed consolidated profit and loss account for the nine months ended 31st December 2005 and 31st December 2004 are as follows:

	(Unaudited)	
	Nine months ended	
	31st December	31st December
	2005	2004
	HK\$'000	HK\$'000
Increase in amortization of lease payments for land	(23)	(23)
Decrease in depreciation of land	368	394
	<u>345</u>	<u>371</u>
Increase in profit for the period	<u>345</u>	<u>371</u>

The above changes result in a decrease in cost of sales by approximately HK\$345,000 and HK\$371,000 for the nine months ended 31st December 2005 and 31st December 2004 respectively.

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

2. TURNOVER AND REVENUES

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

	(Unaudited) Nine months ended 31st December		(Unaudited) Three months ended 31st December	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Turnover				
Sales of own-manufactured goods at invoiced value, net of returns and discounts	246,146	225,314	74,279	75,870
Trading of PC components	37,600	74,921	20,449	29,520
Processing fee income	18,816	6,120	2,248	4,666
	302,562	306,355	96,976	110,056
Other revenues				
Sundry income	349	609	106	282
Total revenues	302,911	306,964	97,082	110,338

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)		(Unaudited)	
	Nine months ended		Three months ended	
	31st December		31st December	
	2005	2004	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
PRC, excluding Hong Kong and Taiwan	204,542	181,699	64,290	59,941
Taiwan	23,832	35,037	5,023	15,034
Hong Kong	28,939	33,203	12,816	12,628
Singapore	15,711	23,599	6,698	8,985
Korea	3,309	–	1,069	–
Australia	4,021	2,654	784	1,091
Other Asia-Pacific regions	18,380	20,757	5,392	9,833
Europe	2,946	2,877	581	998
Other regions	882	6,529	323	1,546
	302,562	306,355	96,976	110,056

4. OPERATING PROFIT

Operating profit is arrived at after charging the following:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31st December		31st December	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(restated)		(restated)
Auditors' remuneration	304	58	90	58
Cost of inventories sold	278,564	281,541	90,152	100,550
Amortization of prepaid lease payments for land	23	23	8	8
Depreciation of fixed assets				
– owned assets	2,144	1,603	713	540
– assets held under finance lease	–	414	–	138
Operating lease rentals in respect of land and buildings	391	575	138	179
Research and development cost	772	924	209	307
Staff costs including directors' emoluments	9,324	8,065	3,206	2,969
	<u>9,324</u>	<u>8,065</u>	<u>3,206</u>	<u>2,969</u>

5. TAXATION

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31st December		31st December	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong profits tax	220	483	(84)	241
Overseas taxation	163	151	148	48
	<u>383</u>	<u>634</u>	<u>64</u>	<u>289</u>
Deferred tax	(12)	43	(24)	12
	<u>371</u>	<u>677</u>	<u>40</u>	<u>301</u>

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.

6. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 31st December 2005 (2004: HK0.3 cent per Share).

7. EARNINGS PER SHARE

Basic earnings per share for the nine months and the three months ended 31st December 2005 are calculated based on the unaudited consolidated net profit attributable to shareholders of HK\$6,096,000 and HK\$902,000 respectively (2004: HK\$7,568,000 and HK\$3,310,000 respectively) and on the weighted average number of 357,136,200 and 357,136,200 ordinary shares of the Company (the "Shares") respectively (2004: 295,770,382 Shares and 357,136,200 Shares respectively) 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. MOVEMENT OF RESERVES

	Share premium 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	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Nine months ended									
31st December 2005									
Balance at 1st April 2005, as previously reported	18,972	13,463	9,151	325	162	485	4	31,535	74,097
Effect of adoption of new accounting policy									
– HKAS 17	–	–	(4,385)	–	–	–	–	2,377	(2,008)
Balance at 1st April 2005, as restated	18,972	13,463	4,766	325	162	485	4	33,912	72,089
Exchange differences arising from translation of accounts of overseas subsidiaries	–	(188)	–	–	–	–	(171)	–	(359)
Profit for the period	–	–	–	–	–	–	–	6,096	6,096
Dividend – 2005 final	–	–	–	–	–	–	–	(3,214)	(3,214)
Balance at 31st December 2005	<u>18,972</u>	<u>13,275</u>	<u>4,766</u>	<u>325</u>	<u>162</u>	<u>485</u>	<u>(167)</u>	<u>36,794</u>	<u>74,612</u>
Nine months ended									
31st December 2004									
Balance at 1st April 2004, as previously reported	3,000	13,463	9,652	325	162	–	25	27,861	54,488
Effect of adoption of new accounting policy									
– HKAS 17	–	–	(4,661)	–	–	–	–	1,883	(2,778)
Balance at 1st April 2004, as restated	3,000	13,463	4,991	325	162	–	25	29,744	51,710
Capitalisation issue	(2,607)	–	–	–	–	–	–	–	(2,607)
Placing of shares	26,036	–	–	–	–	–	–	–	26,036
Expenses in connection with the listing of the shares of the Company	(7,457)	–	–	–	–	–	–	–	(7,457)
Transfer to statutory reserves	–	–	–	–	–	485	–	(485)	–
Exchange differences arising from translation of accounts of overseas subsidiaries	–	–	–	–	–	–	(9)	–	(9)
Profit for the period, as restated	–	–	–	–	–	–	–	7,568	7,568
Dividend – 2004 final	–	–	–	–	–	–	–	(3,500)	(3,500)
Dividend – 2005 interim	–	–	–	–	–	–	–	(1,071)	(1,071)
Balance at 31st December 2004	<u>18,972</u>	<u>13,463</u>	<u>4,991</u>	<u>325</u>	<u>162</u>	<u>485</u>	<u>16</u>	<u>32,256</u>	<u>70,670</u>

9. CONTINGENT LIABILITIES

As at 31st December 2005, seven employees of the Group have completed the required number of years of services under the Hong Kong Employment Ordinance (the "Employment Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the circumstances specified in the Employment Ordinance.

Subject to the termination of the employment of all such employees meeting the relevant circumstances set out in the Employment Ordinance, the Group was exposed to a liability amounting to approximately HK\$570,000 as at 31st December 2005 (as at 31st March 2005: HK\$560,000). No provision has been made in this respect.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 31st December 2005.

10. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

FINANCIAL REVIEW

Total turnover of the Group for the nine months ended 31st December 2005 (the "Period") amounted to approximately HK\$302,562,000, representing an approximately 1.2% decrease from that of approximately HK\$306,355,000 for the nine months ended 31st December 2004 (the "Corresponding Period"). Despite the slight drop in turnover, the proportion of processing fee income to total turnover increased to approximately 6.2% during the Period from approximately 2.0% for the Corresponding Period. Although processing services could generate a higher gross profit margin, the Group recorded a gross profit margin of approximately 5.4% for the Period that was comparable to the gross profit margin of approximately 5.6% for the Corresponding Period. Such decrease was due to the increase in the depreciation of plant and machinery and wages during the Period.

The net profit attributable to shareholders of the Group for the Period amounted to approximately HK\$6,096,000, representing a drop of approximately 19.5% from approximately HK\$7,568,000 for the Corresponding Period. Other than the reason of slight drop in gross profit margin, the decrease in profit attributable to shareholders was resulted from the increase of general and administrative expenses.

The general and administrative expenses of the Group for the Period amounted to approximately HK\$9,156,000, representing an increase of approximately 7.2% as compared to the Corresponding Period. The increase was mainly due to the increase in the professional fee after the listing of the Company's shares in GEM in September 2004.

The finance cost of the Group for the Period amounted to approximately HK\$266,000, representing an increase of approximately 38.5% as compared to that of approximately HK\$192,000 for the Corresponding Period. It was mainly due to the increase of bank loan interest during the Period.

BUSINESS REVIEW AND PROSPECT

The SMT production lines and machines purchased in November 2005 have been installed in January 2006. The costs of these new SMT production lines and machines were funded out of the proceeds from the Placing and by bank finance. With the purchase of these high-speed and advanced production lines and machines, the Group's production capacity is expanded and production efficiency is improved. Besides, the existing production lines are modified so that each production line can meet all types of production requirements and handle the production of high-end products.

To cope with the latest development in the market, the Group prepares to develop a new series of display card with more powerful chipset. A model has been produced and will be launched to the market very soon. The Group will increase the promotion of its own brand name with the aim of getting the customers' recognition. The Group's another prime objective is to increase the proportion of processing fee income to total turnover. It could reduce the Group's overall risk of price fluctuation of major parts and increase the Group's gross profit margin.

The Group is determined to explore the overseas market and has recently engaged a distributor in the Republic of Korea. Other than increasing the sales, exploring overseas market can diversify the Group's business risk.

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 of the Company dated 14th September 2004. As at 31st December 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 31st December 2005.

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

As at 31st December 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

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 31st December 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.

PERSONS WHO HAVE AN INTEREST OR SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any Director or chief executive of the Company, as at 31st December 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 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 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 represent the same quantum of 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 31st December 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 INTERESTS

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 30th September 2005 entered into between the Company and Barits Securities (Hong Kong) Limited ("Barits"), Barits has been appointed as the compliance adviser of the Company as required under the GEM Listing Rules at a fee for the period from 1st October 2005 to 31st March 2007 or until the aforesaid agreement is terminated in accordance with the terms and conditions set out therein.

None of Barits, its directors, employees or associates (as referred to in notes 2 and 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 31st December 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the nine months ended 31st December 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.

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 31st December 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules.

The Audit Committee provides a link between the Board and the Company's auditors in matter coming within the scope of the Group audit, review the Company's annual report, half-yearly report and quarterly reports and provide advice and comments thereon to the Board, supervise the financial reporting process and internal control procedures of the Group, and monitor relationship with the Company's auditors. The Audit Committee comprises three independent non-executive Directors, namely, Mr. Tam Yuk Sang, Sammy, Mr. Lam Ping Cheung, Andrew and Ms. Chan Yi Man, Magdalen.

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 nine months ended 31st December 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.

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

Hong Kong, 8th February 2006

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