

FIRST QUARTERLY REPORT
2006



ESPCO TECHNOLOGY HOLDINGS LIMITED

易盈科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8299)

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; and (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\$91.6 million for the three months ended 30 June 2006.
2. The Group has recorded an unaudited net profit attributable to shareholders of approximately HK\$433,000 for the three months ended 30 June 2006.

TO ALL SHAREHOLDERS,

The board of Directors (the “Board”) of the Company announces the unaudited consolidated results of the Company and its subsidiaries (collectively, the “Group”) for the three months ended 30 June 2006, together with the comparative unaudited figures for the Corresponding Period, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | (Unaudited) | |
|---|------|----------------------------|------------------|
| | | Three months ended 30 June | |
| | Note | 2006 HK\$'000 | 2005 HK\$'000 |
| Turnover | 2 | 91,618 | 89,670 |
| Cost of sales | | (87,771) | (85,403) |
| Gross profit | | 3,847 | 4,267 |
| Other revenues | 2 | 114 | 151 |
| Selling and distribution expenses | | (208) | (223) |
| General and administrative expenses | | (3,213) | (2,852) |
| Operating profit | 4 | 540 | 1,343 |
| Finance costs | | (94) | (61) |
| Profit before taxation | | 446 | 1,282 |
| Taxation | 5 | (13) | (77) |
| Net profit attributable to shareholders | | 433 | 1,205 |
| Dividends | 6 | — | — |
| Basic earnings per share | 7 | HK0.12 cent | HK0.34 cent |

NOTES TO FINANCIAL STATEMENTS

For the three months ended 30 June 2006

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 31 March 2006.

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) | |
|---|----------------------------|----------|
| | Three months ended 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Sales of own-manufactured goods at invoiced value, net of returns and discounts | 70,024 | 73,692 |
| Trading of PC components | 17,077 | 10,247 |
| Processing fee income | 4,517 | 5,731 |
| | 91,618 | 89,670 |
| Other revenues | | |
| Interest income | 12 | – |
| Sundry income | 102 | 151 |
| | 114 | 151 |
| Total revenues | 91,732 | 89,821 |

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) | |
|-------------------------------------|----------------------------|---------------|
| | Three months ended 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| PRC, excluding Hong Kong and Taiwan | 50,317 | 60,265 |
| Taiwan | 990 | 9,433 |
| Hong Kong | 29,731 | 4,601 |
| Singapore | 4,270 | 4,467 |
| Australia | 928 | 1,158 |
| Other Asia-Pacific regions | 4,887 | 8,030 |
| Europe | 297 | 1,225 |
| Other regions | 198 | 491 |
| | 91,618 | 89,670 |

4. OPERATING PROFIT

Operating profit is arrived at after charging the following:

| | (Unaudited) | |
|---|----------------------------|--------------|
| | Three months ended 30 June | |
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 85,368 | 82,241 |
| Amortization of land lease premium | 8 | 8 |
| Depreciation | 790 | 622 |
| Operating lease rentals in respect of land and buildings | 146 | 127 |
| Research and development cost | 256 | 301 |
| Staff costs including directors' emoluments | 3,294 | 3,022 |

5. TAXATION

| | (Unaudited) | |
|------------------------------|----------------------------|------------------|
| | Three months ended 30 June | |
| | 2006 HK\$'000 | 2005 HK\$'000 |
| Hong Kong profits tax | (22) | (40) |
| Overseas taxation | (18) | (27) |
| | (40) | (67) |
| Deferred tax credit/(charge) | 27 | (10) |
| | (13) | (77) |

Hong Kong profits tax is calculated at the rate of 17.5% (three months ended 30 June 2005: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong for the period.

Overseas taxation represents tax charges on the estimated assessable profits of subsidiaries operating overseas including the PRC, calculated at rates prevailing in the respective jurisdictions for the period.

易盈電腦(深圳)有限公司 (“Espco Shenzhen”), being a foreign investment enterprise established in Shenzhen Special Economic Zone in the PRC, is subject to the preferential foreign enterprise income tax (“FEIT”) of 15% on its assessable profit. In accordance with the relevant income tax laws and regulations in the PRC, it is exempted from FEIT for two years commencing from its first profit-making year of operation after offsetting prior year tax losses, followed by a 50% reduction in tax rate for the following three years. Espco Shenzhen's first profit-making year started in 2001.

SPI Distribution Macao Commercial Offshore Limited (“Espco Macau”) 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, Espco Macau 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 three months ended 30 June 2006 (three months ended 30 June 2005: Nil).

7. EARNINGS PER SHARE

Basic earnings per share for the three months ended 30 June 2006 is calculated based on the unaudited consolidated net profit attributable to shareholders of HK\$433,000 (three months ended 30 June 2005: HK\$1,205,000) and on the weighted average number of 357,136,200 (three months ended 30 June 2005: 357,136,200) ordinary shares of the Company (the "Shares") in issue during the period.

Dilutive earnings per share amount has not been presented as the Company did not have any dilutive potential ordinary shares during the period.

8. 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 30 June 2006 | | | | | | | | | |
| At 1 April 2006 | 18,972 | (59) | 13,463 | 6,600 | 325 | 162 | 485 | 39,211 | 79,159 |
| Exchange differences arising from translation of financial statements of overseas subsidiaries | - | 102 | - | - | - | - | - | - | 102 |
| Profit for the period | - | - | - | - | - | - | - | 433 | 433 |
| At 30 June 2006 | <u>18,972</u> | <u>43</u> | <u>13,463</u> | <u>6,600</u> | <u>325</u> | <u>162</u> | <u>485</u> | <u>39,644</u> | <u>79,694</u> |
| Three months ended 30 June 2005 | | | | | | | | | |
| At 1 April 2005 | | | | | | | | | |
| As originally stated | 18,972 | 4 | 13,463 | 9,151 | 325 | 162 | 485 | 31,535 | 74,097 |
| Effect of adoption of HKAS17 | - | - | - | (4,385) | - | - | - | 2,378 | (2,007) |
| As restated | <u>18,972</u> | <u>4</u> | <u>13,463</u> | <u>4,766</u> | <u>325</u> | <u>162</u> | <u>485</u> | <u>33,913</u> | <u>72,090</u> |
| Exchange differences arising from translation of financial statements of overseas subsidiaries | - | 76 | - | - | - | - | - | - | 76 |
| Profit for the period | - | - | - | - | - | - | - | 1,205 | 1,205 |
| Dividends-2005 final | - | - | - | - | - | - | - | (3,214) | (3,214) |
| At 30 June 2005 | <u>18,972</u> | <u>80</u> | <u>13,463</u> | <u>4,766</u> | <u>325</u> | <u>162</u> | <u>485</u> | <u>31,904</u> | <u>70,157</u> |

9. CONTINGENT LIABILITIES

As at 30 June 2006, six (as at 30 June 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 on termination of their employment. The Group is only liable to make such payments where the termination meets the circumstances specified in the Employment Ordinance.

If the termination of all such employees meets the circumstances as set out in the Employment Ordinance, the Group's liability as at 30 June 2006 would be approximately HK\$512,000 (as at 30 June 2005: HK\$564,000). No provision has been made in this respect.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30 June 2006.

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 three months ended 30 June 2006 amounted to approximately HK\$91,618,000, representing an increase of approximately 2.2% from that of approximately HK\$89,670,000 generated in the three months ended 30 June 2005 (the "Corresponding Period"). Despite the increase in turnover, the Group's overall gross profit margin slightly decreased to approximately 4.2% from that of approximately 4.7% recorded in the Corresponding Period. The decrease in gross profit margin is due to the change in sales mix and the short-term conservative market sentiments. The increase in turnover is attributable to the increase in income from trading of PC components which usually generates a lower gross profit margin as compared to processing fee income. In addition, the market is awaiting for the issue of new operating system and new central processing unit by major companies in the computer industry and there was a few chipsets with similar functions launching to the market at lower prices during the period under review. Therefore, many users delayed their upgrading plan in order to enjoy the latest technology at a lower price and as a result, many customers reduced their order quantities. This condition also gave pressure on the selling prices of the Group's products as well as the processing fee income. However, the Board is confident that the Group's sales could pick up in the coming quarters.

In order to retain the market share, the Group had to keep on conducting promotion activities. Therefore, the Group's selling and distribution expenses for the three months ended 30 June 2006 only slightly decreased to approximately HK\$208,000 by 6.7%, as compared to that of approximately HK\$223,000 in the Corresponding Period.

The Group's general and administrative expenses for the three months ended 30 June 2006 amounted to approximately HK\$3,213,000, representing an increase of 12.6% from that of approximately HK\$2,852,000 incurred in the Corresponding Period. It is mainly due to the increase in the staff's salaries and benefits in order to retain high-quality staff for meeting future development.

Since the purchase of machinery in January 2006 was partly financed by bank loans, the Group's finance costs for the three months ended 30 June 2006 increased to approximately HK\$94,000, representing an increase of approximately 54% from that of HK\$61,000 incurred in the Corresponding Period.

BUSINESS REVIEW AND PROSPECT

Due to uncertain processing demand from the existing VGA cards customers in the first quarter, the proportion of processing fee income to the Group's turnover is reduced to approximately 4.9% from that of approximately 6.4% in the Corresponding Period. Since the processing fee income has a lower cost base and can generate higher gross profit margin, the Group wishes to increase the proportion of processing fee income to turnover and is negotiating with new customers for processing VGA cards and other electronic products. On the other hand, the Group is looking for new investment opportunities that could complement the Group's existing business in order to widen the revenue stream.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company dated 6 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 14 September 2004. As at 30 June 2006, 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 30 June 2006.

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

As at 30 June 2006, 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") (<i>Note</i>) | 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 30 June 2006, 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 30 June 2006, 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, underlying Shares and debentures" 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 are 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, which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 30 June 2006, the Company had not been notified of any other person (other than the Directors and 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 30 September 2005 entered into between the Company and Mega Capital (Asia) Co., Ltd. (formerly known as Barits Securities (Hong Kong) Limited) ("Mega Capital"), Mega Capital has been appointed as the compliance adviser of the Company as required under the GEM Listing Rules at a fee for the period from 1 October 2005 to 31 March 2007 or until the aforesaid agreement is terminated in accordance with the terms and conditions set out therein.

None of Mega Capital, 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 30 June 2006.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares during the three months ended 30 June 2006.

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 external auditors in matters falling within the scope of the Group’s audit, reviews the Company’s annual report, half-yearly report and quarterly reports and provides advice and comments thereon to the Board, supervises the financial reporting process and internal control procedures of the Group and, monitors relationship with the Company’s external auditors. The Audit Committee comprises all the three independent non-executive Directors, namely, Ms. Chan Yi Man, Magdalen, Mr. Cheung Wing Ping and Mr. Tam Yuk Sang, Sammy, who is the chairman of the Audit Committee.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed financial reporting matters including a review of the unaudited condensed consolidated financial statements for the three months ended 30 June 2006.

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

Hong Kong, 9 August 2006

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. Tam Yuk Sang, Sammy, Ms. Chan Yi Man, Magdalen and Mr. Cheung Wing Ping.