



**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)

**INTERIM REPORT**  
**2006**

## 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\$185,720,000 for the six months ended 30 September 2006.
2. The Group has recorded an unaudited profit attributable to shareholders of approximately HK\$4,188,000 for the six months ended 30 September 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 six months ended 30 September 2006, together with the comparative unaudited figures for the corresponding period in 2005 (the “Corresponding Period”), as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 30 September		(Unaudited) Three months ended 30 September	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenue	2	185,720	205,586	94,102	115,916
Cost of sales		(174,342)	(193,596)	(86,571)	(108,193)
Gross profit		11,378	11,990	7,531	7,723
Other income		323	243	209	92
Selling and distribution expenses		(373)	(501)	(165)	(278)
Administrative expenses		(6,338)	(6,038)	(3,125)	(3,186)
Operating profit	4	4,990	5,694	4,450	4,351
Finance costs	5	(285)	(169)	(191)	(108)
Profit before taxation		4,705	5,525	4,259	4,243
Taxation	6	(517)	(331)	(504)	(254)
Profit attributable to shareholders		4,188	5,194	3,755	3,989
Dividends	7	–	–	–	–
Earnings per share	8	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>	<i>HK Cents</i>
Basic		1.17	1.45	1.05	1.12

## CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
	<i>Note</i>		
<b>Non-current assets</b>			
Property, plant and equipment		25,894	26,787
Prepaid land lease premium		1,540	1,445
Trade and other receivables	9	2,400	2,452
Deferred tax assets		206	200
		<u>30,040</u>	<u>30,884</u>
<b>Current assets</b>			
Prepaid land lease premium		31	31
Inventories		26,046	20,672
Trade and other receivables	9	42,153	43,543
Bank balances and cash		9,286	15,647
		<u>77,516</u>	<u>79,893</u>
<b>Current</b>			
Trade and other payables	10	12,116	17,635
Interest-bearing borrowings			
– due within one year	11	6,709	5,328
Tax payable		1,582	1,046
		<u>20,407</u>	<u>24,009</u>
<b>Net current assets</b>		<u>57,109</u>	<u>55,884</u>
<b>Total assets less current liabilities</b>		<u>87,149</u>	<u>86,768</u>
<b>Non-current liabilities</b>			
Interest-bearing borrowings			
– due after one year	11	2,388	3,127
Deferred tax liabilities		910	911
		<u>3,298</u>	<u>4,038</u>
<b>Net assets</b>		<u>83,851</u>	<u>82,730</u>
<b>Capital and reserves</b>			
Share capital	12	3,571	3,571
Reserves		80,280	79,159
<b>Total equity attributable to equity shareholders of the Company</b>		<u>83,851</u>	<u>82,730</u>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30 September	
	2006	2005
	HK\$'000	HK\$'000
Net cash used in operating activities	(2,893)	(1,218)
Net cash used in investing activities	(732)	(302)
Net cash used in financing activities	(2,580)	(1,095)
Net decrease in cash and cash equivalents	(6,205)	(2,615)
Cash and cash equivalents at beginning of the period	15,647	11,410
Effect of foreign exchange rate changes	(165)	(255)
Cash and cash equivalents at end of the period	<u>9,277</u>	<u>8,540</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	9,286	11,679
Bank overdrafts	(9)	(3,139)
	<u>9,277</u>	<u>8,540</u>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued share capital HK\$'000	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
<b>Six months ended</b>										
<b>30 September 2006 (Unaudited)</b>										
As at 1 April 2006	3,571	18,972	(59)	13,463	6,600	325	162	485	39,211	82,730
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	-	147	-	-	-	-	-	-	147
Profit for the period	-	-	-	-	-	-	-	-	4,188	4,188
Dividends – 2006 final	-	-	-	-	-	-	-	-	(3,214)	(3,214)
As at 30 September 2006	3,571	18,972	88	13,463	6,600	325	162	485	40,185	83,851
<b>Six months ended</b>										
<b>30 September 2005 (Unaudited)</b>										
As at 1 April 2005										
As originally stated	3,571	18,972	4	13,463	9,151	325	162	485	31,535	77,668
Effect of adoption of HKAS 17	-	-	-	-	(4,385)	-	-	-	2,377	(2,008)
As restated	3,571	18,972	4	13,463	4,766	325	162	485	33,912	75,660
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	-	20	-	-	-	-	-	-	20
Profit for the period	-	-	-	-	-	-	-	-	5,194	5,194
Dividends – 2005 final	-	-	-	-	-	-	-	-	(3,214)	(3,214)
As at 30 September 2005	3,571	18,972	24	13,463	4,766	325	162	485	35,892	77,660

## NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2006

### 1. Basis of preparation

The unaudited condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and 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. Revenue

The Group is principally engaged in the design, manufacture and distribution of desktop personal computer ("PC") components. Revenue, which is also the Group's turnover, represents the aggregate of amounts received and receivable for goods sold and services rendered, net of returns, by the Group to outsider customers during the periods and is analysed as follows:

	(Unaudited) Six months ended 30 September		(Unaudited) Three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Sale of own-manufactured goods at invoiced value, net of returns and discounts	134,389	171,867	64,365	98,175
Trading of PC components	43,140	17,151	26,063	6,904
Processing fee income	8,191	16,568	3,674	10,837
	<u>185,720</u>	<u>205,586</u>	<u>94,102</u>	<u>115,916</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.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

#### *Secondary reporting format – geographical segments*

	(Unaudited) Six months ended 30 September		(Unaudited) Three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Segment revenue by location of customers				
PRC, excluding				
Hong Kong and Taiwan	103,798	134,118	53,481	73,853
Taiwan	6,556	18,809	5,566	9,376
Hong Kong	52,859	16,011	23,128	11,410
Singapore	7,686	20,987	3,416	16,520
Australia	2,055	3,237	1,127	2,079
Other Asia-Pacific regions	10,522	10,411	5,635	2,381
Europe	1,779	1,517	1,482	292
Other regions	465	496	267	5
	<b>185,720</b>	<b>205,586</b>	<b>94,102</b>	<b>115,916</b>

#### 4. Operating profit

Operating profit is stated after charging the following:

	(Unaudited) Six months ended 30 September		(Unaudited) Three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cost of inventories sold	169,104	188,412	83,736	106,171
Amortization of land lease premium	16	15	8	7
Depreciation	1,848	1,431	1,058	809
Operating lease rentals in respect of land and buildings	310	253	164	126
Research and development cost	517	563	261	262
Staff costs including directors' emoluments	6,567	6,118	3,273	3,096

#### 5. Finance costs

Finance costs represent the interest on bank loans and overdrafts.

## 6. Taxation

	(Unaudited) Six months ended 30 September		(Unaudited) Three months ended 30 September	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax	510	304	488	264
Overseas taxation	29	15	11	(12)
	<u>539</u>	<u>319</u>	<u>499</u>	<u>252</u>
Deferred tax	(22)	12	5	2
	<u>517</u>	<u>331</u>	<u>504</u>	<u>254</u>

Hong Kong profits tax is calculated at the rate of 17.5% (six months ended 30 September 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 applicable 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, Espco Shenzhen 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.

**7. Dividends**

The Board does not recommend the payment of any dividend for the six months ended 30 September 2006 (six months ended 30 September 2005 : Nil).

**8. Earnings per share**

Basic earnings per share for the six months and three months ended 30 September 2006 are calculated based on the unaudited consolidated profit attributable to shareholders of HK\$4,188,000 and HK\$3,755,000 respectively (six months and three months ended 30 September 2005: HK\$5,194,000 and HK\$3,989,000 respectively) and on the weighted average number of 357,136,200 (six months and three months ended 30 September 2005: 357,136,200) ordinary shares of the Company in issue during the periods.

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

**9. Trade and other receivables**

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Trade receivables	44,216	45,585
Deposits and prepayments	337	410
	<u>44,553</u>	<u>45,995</u>
Amounts due within one year included in current assets	(42,153)	(43,543)
	<u>2,400</u>	<u>2,452</u>

The credit terms granted by the Group to its customers normally ranged from COD (cash-on-delivery) to 75 days. The aged analysis of the Group's trade receivable is as follows:

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
0 – 30 days	19,016	20,410
31 – 60 days	15,202	11,481
61 – 90 days	2,849	6,638
Over 90 days	7,149	7,056
	<u>44,216</u>	<u>45,585</u>



**10. Trade and other payables**

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Trade payables	10,458	15,521
Other payables and accruals	1,658	2,114
	<b>12,116</b>	<b>17,635</b>

The aged analysis of the Group's trade payables is as follows:

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
0 – 30 days	4,664	5,682
31 – 60 days	3,721	3,830
61 – 90 days	959	3,487
Over 90 days	1,114	2,522
	<b>10,458</b>	<b>15,521</b>

**11. Interest-bearing borrowings**

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Bank overdraft	9	–
Trust receipt loans	5,017	3,218
Bank loans		
– Secured	3,943	4,758
– Unsecured	–	479
	<u>8,969</u>	<u>8,455</u>
Obligations under a finance lease	128	–
	<u>9,097</u>	<u>8,455</u>
Amounts due within one year included in current liabilities	<u>(6,709)</u>	<u>(5,328)</u>
Amounts due after one year	<u>2,388</u>	<u>3,127</u>

**12. Share capital**

	Ordinary shares of HK\$0.01 each	
	(Unaudited) Number of shares	(Unaudited) Nominal value HK\$'000
Authorised:		
As at 31 March 2006 and 30 September 2006	<u>500,000,000</u>	<u>5,000</u>
Issued and fully paid:		
As at 31 March 2006 and 30 September 2006	<u>357,136,200</u>	<u>3,571</u>

**13. Commitments***(a) Capital commitments*

The Group did not have any significant capital commitments as at 31 March 2006 and 30 September 2006.

*(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:

	(Unaudited) As at <b>30 September</b> 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Within one year	242	453
In the second to fifth year, inclusive	64	171
	<b>306</b>	<b>624</b>

**14. Contingent liabilities**

As at 30 September 2006, seven (as at 31 March 2006: eight) employees of the Group have completed the required number of years of service 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 September 2006 would be approximately HK\$546,000 (as at 31 March 2006: HK\$576,000). No provision has been made by the Group in this respect.

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

**15. Comparative figures**

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

The Group's turnover for the six months ended 30 September 2006 amounted to approximately HK\$185,720,000, representing a decrease of approximately 9.7% from that of approximately HK\$205,586,000 generated in the Corresponding Period. Despite of the decrease in turnover, the Group's overall gross margin for the six months ended 30 September 2006 increased slightly to 6.1% from that of 5.8% in the Corresponding period. This was due to the increase in selling prices of VGA cards in response to the increase in prices of major memory chips during the period under review. Many users continued to delay their upgrading plan and this accounted for the drop in the Group's income from sales of VGA cards. However, the Group's income from trading of PC components for the six months ended 30 September 2006 increased significantly to approximately HK\$43,140,000 from that of approximately HK\$17,151,000 in the Corresponding Period and gave many contributions to the Group's gross profit.

The Group's administrative expenses for the six months ended 30 September 2006 increased by approximately 5% in comparing with that of the Corresponding Period to HK\$6,338,000 as a result of the increase in staff's salaries and benefits.

### Business Review and Prospect

During the second quarter of the financial year 2006/07, the prices of major memory chips increased significantly and it pushed up the selling prices of VGA cards. The Group took this opportunity to increase the revenue and profit from the trading of PC components. Despite of the positive effect of the price increase of memory chips to the Group, high prices of memory chips may give pressure on the cost of raw materials and in turn has a negative effect on the sales of VGA cards in the future quarters.

The Group has succeeded to get orders from new customers for processing VGA cards during the period under review. The management believes that an increase in the processing fee income could stabilize the Group's profit. The Group is also preparing for the increase of its product lines so as to diversify the risk of reliance on single product. In addition, the Group will put more effort on increasing the sales channels and developing its own brand name.

## Liquidity and Financial Resources

The Group generally finances its operations by cash flow generated from sales and from its banking facilities. As at 30 September 2006, the Group had net current assets of approximately HK\$57,109,000 of which approximately HK\$9,286,000 was bank balances and cash while current portion of interest-bearing borrowings was approximately HK\$6,709,000. As at 30 September 2006, the Group had total banking facilities of approximately HK\$22,031,000, approximately HK\$8,960,000 of which had been utilized. The Group's banking facilities were secured by fixed charges on certain of the Group's leasehold land and buildings and machinery and by corporate guarantee executed by the Company.

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.

## Debts Maturity Profile

The debts maturity profile of the Group as at 30 September 2006 was as follows:

	(Unaudited) As at 30 September 2006 HK\$'000	(Unaudited) As at 31 March 2006 HK\$'000
On demand or within one year	6,709	5,328
In the second year	1,683	1,631
In the third to fifth year, inclusive	705	1,496
	<b>9,097</b>	<b>8,455</b>



## Foreign Exchange Exposure

Most of the trading transactions, assets and liabilities of the Group were denominated in Hong Kong dollars, United States dollars and Renminbi. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars or United States dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30 September 2006, 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\$5,926,000, including Directors' emoluments of approximately HK\$911,000, for the six months ended 30 September 2006. As at 30 September 2006, the Group employed 484 employees in the PRC, Hong Kong, Singapore and Macau.

## Material Acquisitions and Disposals

During the six months ended 30 September 2006, the Group did not have any material acquisitions and disposals of subsidiaries.

## Gearing Ratios

The Group's gearing ratio as at 30 September 2006 increased to 10.8% from 10.2% as at 31 March 2006. The gearing ratios were calculated as the Group's interest-bearing borrowings to the shareholders' equity as at the respective balance sheet dates. The increase in gearing ratio was due to the increase of trust receipt loans during the period under review.

## Charges on the Group's Assets

As at 30 September 2006, the Group's leasehold land and buildings with net book value of approximately HK\$3,445,000 (as at 31 March 2006: HK\$3,500,000) and machinery with net book value of approximately HK\$5,506,000 (as at 31 March 2006: HK\$5,642,000) were pledged as collaterals for the Group's banking facilities of approximately HK\$8,000,000 and HK\$4,893,000 respectively.

## Contingent Liabilities

Saved as disclosed in note 14 to the unaudited condensed consolidated financial statements above, the Group did not have any other material contingent liabilities as at 30 September 2006.

## COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

Set out below is a comparison between the Group's actual business progress for the six months ended 30 September 2006 and its business plan as stated in the prospectus of the Company dated 14 September 2004 (the "Prospectus").

### BUSINESS PLAN

### ACTUAL BUSINESS PROGRESS

#### (i) To upgrade the production facilities

- Complete the installation of and put the 5th SMT production line in full operation

- Completed the installation of and put the 5th SMT production line in full operation in January 2006.

#### (ii) To promote the Group's brandname "EAGLE"

- Advertise the Group's products in magazines
- Periodic review of the Group's strategies on product advertisements
- Participate in the computer exhibition "Computex" to be held in Taiwan

- During the period under review, the Group periodically placed advertisements in major computer magazines in Hong Kong, Europe and PRC.
- Advertise full range of products from low to top models.
- Already participated in the exhibition in June 2006.

### **(iii) To explore new markets and expand distribution network**

- Continue the distribution arrangements in the Eastern European markets
- Review the performance of the distribution arrangement in the Eastern European markets and adjust the sales and marketing strategies accordingly
- The Board is still looking for the appropriate place for setting up the first office in Eastern Europe.
- Explain as above.

### **(iv) To expand the research and development capability**

- Review periodically the staffing requirement of the Group's research and development team
- Develop new models of VGA display card and motherboard in order to cope with the latest development of CPU and requirements in visual display
- Review periodically the existing products and initiate projects to improve their functionalities and reduce production cost
- The Group is looking for appropriate technical staff for the expansion of research and development team.
- A team of technicians continuously reviews and initiates projects of product development and cost reduction.
- Explain as above.

## USE OF PROCEEDS

The net proceeds raised from the listing of the Company on the GEM on 23 September 2004 was approximately HK\$19,500,000.

Up to 30 September 2006, the Company has incurred the following amounts to achieve its business objectives as set out in the Prospectus.

	<b>From the date of listing on GEM on 23 September 2004 to 30 September 2006</b>	
	<b>Proposed HK\$'000</b>	<b>Actual HK\$'000</b>
To upgrade the production facilities	10,000	8,222
To promote the Group's brandname "EAGLE"	1,700	1,185
To explore new markets and expand distribution network	875	212
To expand research and development capabilities	380	22
General working capital	6,000	6,000
	<u>18,955</u>	<u>15,641</u>

## 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 September 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 September 2006.

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

As at 30 September 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 (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 30 September 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 Rules 5.46 to 5.67 of the GEM Listing Rules.

## PERSONS WHO HAVE AN INTEREST OR A 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 September 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 a 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.

### Long positions in shares of the Company

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 ordinary shares of HK\$0.01 each (Note 1)	70%
Chan, Selma (Note 2)	Family interest of controlled corporation	249,992,200 ordinary shares of HK\$0.01 each (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 September 2006, 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 six months ended 30 September 2006.

## **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 defined in the GEM Listing Rules) 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 30 September 2006.

## **PURCHASE, SALE OR REDEMPTION OF SHARES**

During the six months ended 30 September 2006, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the shares of the Company.

## **CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of the Directors, all Directors have confirmed that they had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules during the six months ended 30 September 2006.

## **CORPORATE GOVERNANCE**

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices under Appendix 15 to the GEM Listing Rules throughout the six months ended 30 September 2006 with the exception of code provision A.2.1 in respect of the separation of the roles of chairman and chief executive officer.

Mr. Chan Hing Yin is the chairman of the Board and the chief executive officer of the Group. The Board considers that current arrangement enables an efficient implementation of the Board's decision. Since the Board has reserved the decision-making authorities on major matters, the Board believes that the balance of power between the Board and the management will not be impaired.

After Mr. Lam Ping Cheung resigned as an independent non-executive director of the Company and ceased to be a member of the audit committee of the Company on 3 July 2006, the number of independent non-executive director of the Company fell below the minimum requirement pursuant to Rule 5.05 of the GEM Listing Rules. As such, Mr. Cheung Wing Ping was appointed as an independent non-executive director and a member of the audit committee of the Company on 27 July 2006 to fill the above vacancies in accordance with Rule 5.06 of the GEM Listing Rules.

## 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 advices 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. Wong Ka Hung, Frederic and Mr. Cheung Wing Ping, 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 six months ended 30 September 2006.

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

Hong Kong, 8 November 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 Ms. Chan Yi Man, Magdalen, Mr. Cheung Wing Ping and Mr. Wong Ka Hung, Frederic.*