



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)

Third Quarterly Report  
2006

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

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

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

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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\$220,027,000 for the nine months ended 31 December 2006.
2. The Group has recorded an unaudited profit attributable to shareholders of approximately HK\$6,222,000 for the nine months ended 31 December 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 nine months ended 31 December 2006, together with the comparative unaudited figures for the corresponding period in 2005 (the "Corresponding Period"), as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Nine months ended 31 December		(Unaudited) Three months ended 31 December	
		2006	2005	2006	2005
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	2	220,027	302,562	34,307	96,976
Cost of sales		(203,104)	(286,293)	(28,762)	(92,697)
Gross profit		16,923	16,269	5,545	4,279
Other income		622	349	299	106
Selling and distribution expenses		(495)	(729)	(122)	(228)
Administrative expenses		(9,828)	(9,156)	(3,490)	(3,118)
Operating profit	4	7,222	6,733	2,232	1,039
Finance costs	5	(382)	(266)	(97)	(97)
Profit before taxation		6,840	6,467	2,135	942
Taxation	6	(618)	(371)	(101)	(40)
Profit attributable to shareholders		6,222	6,096	2,034	902
Dividends	7	-	-	-	-
Earnings per share	8	HK Cents	HK Cents	HK Cents	HK Cents
Basic		1.74	1.71	0.57	0.25

# NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 31 December 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. 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) Nine months ended 31 December		(Unaudited) Three months ended 31 December	
	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	156,348	246,146	21,959	74,279
Trading of PC components	50,963	37,600	7,823	20,449
Processing fee income	12,716	18,816	4,525	2,248
	<b>220,027</b>	302,562	<b>34,307</b>	96,976

## 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)		(Unaudited)	
	Nine months ended		Three months ended	
	31 December		31 December	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue by location of customers PRC, excluding				
Hong Kong and Taiwan	116,801	204,542	13,003	64,290
Taiwan	6,681	23,832	125	5,023
Hong Kong	61,649	28,939	8,790	12,816
Singapore	10,325	15,711	2,639	6,698
Australia	3,071	4,021	1,016	784
Other Asia-Pacific regions	17,284	21,689	6,762	6,461
Europe	3,467	2,946	1,688	581
Other regions	749	882	284	323
	<b>220,027</b>	<b>302,562</b>	<b>34,307</b>	<b>96,976</b>

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#### 4. Operating profit

Operating profit is stated after charging the following:

	(Unaudited)		(Unaudited)	
	Nine months ended		Three months ended	
	31 December		31 December	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost of inventories sold	195,549	278,564	26,445	90,152
Amortization of land lease premium	24	23	8	8
Depreciation	2,796	2,144	948	713
Operating lease rentals in respect of land and buildings	466	391	156	138
Research and development cost	788	772	271	209
Staff costs including directors' emoluments	9,803	9,324	3,236	3,206

## 5. Finance costs

Finance costs represent the interest on bank loans and overdrafts.

## 6. Taxation

	(Unaudited) Nine months ended 31 December		(Unaudited) Three months ended 31 December	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong profits tax	650	220	140	(84)
Overseas taxation	41	163	12	148
	691	383	152	64
Deferred tax	(73)	(12)	(51)	(24)
	618	371	101	40

Hong Kong profits tax is calculated at the rate of 17.5% (nine months ended 31 December 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 nine months ended 31 December 2006 (nine months ended 31 December 2005: Nil).

**8. Earnings per share**

Basic earnings per share for the nine months and three months ended 31 December 2006 are calculated based on the unaudited consolidated profit attributable to shareholders of HK\$6,222,000 and HK\$2,034,000 respectively (nine months and three months ended 31 December 2005: HK\$6,096,000 and HK\$902,000 respectively) and on the weighted average number of 357,136,200 (nine months and three months ended 31 December 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. 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
<b>Nine months ended 31 December 2006 (Unaudited)</b>									
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	-	2,223	-	-	-	-	-	-	2,223
Profit for the period	-	-	-	-	-	-	-	6,222	6,222
Dividends - 2006 final	-	-	-	-	-	-	-	(3,214)	(3,214)
<b>At 31 December 2006</b>	<b>18,972</b>	<b>2,164</b>	<b>13,463</b>	<b>6,600</b>	<b>325</b>	<b>162</b>	<b>485</b>	<b>42,219</b>	<b>84,390</b>
<b>Nine months ended 31 December 2005 (Unaudited)</b>									
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 HKAS 17	-	-	-	(4,385)	-	-	-	2,377	(2,008)
As restated	18,972	4	13,463	4,766	325	162	485	33,912	72,089
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	(171)	(188)	-	-	-	-	-	(359)
Profit for the period	-	-	-	-	-	-	-	6,096	6,096
Dividends - 2005 final	-	-	-	-	-	-	-	(3,214)	(3,214)
<b>At 31 December 2005</b>	<b>18,972</b>	<b>(167)</b>	<b>13,275</b>	<b>4,766</b>	<b>325</b>	<b>162</b>	<b>485</b>	<b>36,794</b>	<b>74,612</b>





## 10. Contingent liabilities

As at 31 December 2006, six (as at 31 December 2005: seven) 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 31 December 2006 would be approximately HK\$371,000 (as at 31 December 2005: HK\$570,000). 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 31 December 2006.

## FINANCIAL REVIEW

The Group's turnover for the nine months ended 31 December 2006 amounted to approximately HK\$220,027,000, representing a decrease of approximately 27.3% from that of HK\$302,562,000 generated in the Corresponding Period. The effect of change in operating system on the market of computer component was unprecedented. The Group's overall gross margin for the nine months ended 31 December 2006 increased to 7.7% from that of 5.4% in the Corresponding Period. This was due to the increase in selling price of VGA cards as a result of the increase in prices of major memory chips in the last quarter and the significantly increase in processing fee income in the quarter under review, when compared with that of the Corresponding Period. Despite of the quiet market, the Group still provided adequate fund in promoting its brand name during the period under review.

## BUSINESS REVIEW AND PROSPECT

The delay in their upgrading plan of many PC users resulted in a quiet VGA card market in the quarter under review. As the Group succeeded in getting orders from new customers for processing VGA cards in the last quarter, the profit generated from processing VGA cards reduced the negative effect of the drop in sale of own-manufactured VGA cards during the quarter under review. However, the management believes that the VGA card market will pick up when the change in operating system commences in the coming quarter.

In view of the Group's customers mainly concentrate on the mainland China and Hong Kong, the Group has enforced its sales team for exploring foreign markets. The management believes that this could diversify the risk of short-term fluctuation in some markets and stabilize the Group's income. On the other hand, the Group is still looking for investment opportunity and new sources of processing income.

## 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 31 December 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 31 December 2006.

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

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As at 31 December 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 ( <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 31 December 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 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 31 December 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 31 December 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 nine months ended 31 December 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 31 December 2006.

## PURCHASE, SALE OR REDEMPTION OF SHARES

During the nine months ended 31 December 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 nine months ended 31 December 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. Wong Ka Hung, Frederic and Mr. Cheung Wing Ping, who is the chairman of the Audit Committee.

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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 nine months ended 31 December 2006.

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

Hong Kong, 8 February 2007

*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.*