



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



1st Quarterly Report

2007

## **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.**

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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\$88.1 million for the three months ended 30 June 2007.
2. The Group has recorded an unaudited net profit attributable to shareholders of approximately HK\$1,696,000 for the three months ended 30 June 2007.

## 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 2007, together with the comparative unaudited figures for the Corresponding Period, as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) Three months ended 30 June	
	<i>Note</i>	2007 <i>HK\$'000</i>	2006 <i>HK\$'000</i>
Turnover	2	88,087	91,618
Cost of sales		<u>(82,566)</u>	<u>(87,771)</u>
Gross profit		5,521	3,847
Other revenues	2	447	114
Selling and distribution expenses		(425)	(208)
General and administrative expenses		<u>(3,457)</u>	<u>(3,213)</u>
Operating profit	4	2,086	540
Finance costs		<u>(281)</u>	<u>(94)</u>
Profit before taxation		1,805	446
Taxation	5	<u>(109)</u>	<u>(13)</u>
Net profit attributable to shareholders		<u>1,696</u>	<u>433</u>
Dividends	6	<u>—</u>	<u>—</u>
Basic earnings per share	7	<u>HK0.47 cent</u>	<u>HK0.12 cent</u>

## NOTES TO FINANCIAL STATEMENTS

For the three months ended 30 June 2007

### 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 2007.

### 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	
	2007 HK\$'000	2006 HK\$'000
Turnover		
Sales of own-manufactured goods at invoiced value, net of returns and discounts	71,902	70,024
Trading of PC components	8,319	17,077
Processing fee income	6,450	4,517
Handling income	1,416	0
	<u>88,087</u>	<u>91,618</u>
Other revenues		
Interest income	1	12
Sundry income	446	102
	<u>447</u>	<u>114</u>
Total revenues	<u>88,534</u>	<u>91,732</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.

*Secondary reporting format - geographical segments*

	(Unaudited) Three months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
PRC, excluding Hong Kong and Taiwan	37,624	50,317
Taiwan	18,307	990
Hong Kong	10,878	29,731
Singapore	2,421	4,270
Australia	542	928
Other Asia-Pacific regions	13,096	4,887
Europe	1,953	297
Other regions	3,266	198
	<b>88,087</b>	<b>91,618</b>

### 4. OPERATING PROFIT

Operating profit is arrived at after charging the following:

	(Unaudited) Three months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Cost of inventories sold	78,961	85,368
Amortization of land lease premium	8	8
Depreciation	835	790
Operating lease rentals in respect of land and buildings	144	146
Research and development cost	-	256
Staff costs including directors' emoluments	3,433	3,294
	<b>3,433</b>	<b>3,294</b>

## 5. TAXATION

	(Unaudited)	
	Three months ended 30 June	
	2007 HK\$'000	2006 HK\$'000
Hong Kong profits tax	(111)	(22)
Overseas taxation	12	(18)
	<b>(99)</b>	(40)
Deferred tax (charge)/credit	(10)	27
	<b>(109)</b>	(13)

Hong Kong profits tax is calculated at the rate of 17.5% (three months ended 30 June 2006 : 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 2007 (three months ended 30 June 2006 : Nil).

## 7. EARNINGS PER SHARE

Basic earnings per share for the three months ended 30 June 2007 is calculated based on the unaudited consolidated net profit attributable to shareholders of HK\$1,696,000 (three months ended 30 June 2006: HK\$433,000) and on the weighted average number of 357,136,200 (three months ended 30 June 2006 : 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
<b>Three months ended 30 June 2007</b>									
At 1 April 2007	18,972	1,294	13,463	7,748	325	162	485	39,682	82,131
Exchange differences arising from translation of financial statements of overseas subsidiaries	-	183	-	-	-	-	-	-	183
Profit for the period	-	-	-	-	-	-	-	1,696	1,696
At 30 June 2007	<u>18,972</u>	<u>1,477</u>	<u>13,463</u>	<u>7,748</u>	<u>325</u>	<u>162</u>	<u>485</u>	<u>41,378</u>	<u>84,010</u>
<b>Three months ended 30 June 2006</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	-	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>



#### 9. CONTINGENT LIABILITIES

As at 30 June 2007, five (as at 30 June 2006 : six) 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 2007 would be approximately HK\$199,000 (as at 30 June 2006 : HK\$512,000). 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 2007.

## FINANCIAL REVIEW

Total turnover of the Group for the three months ended 30 June 2007 amounted to approximately HK\$88,087,000, representing a decrease of approximately 3.9% from that of approximately HK\$91,618,000 generated in the three months ended 30 June 2006 (the "Corresponding Period"). Despite the decrease in turnover, the Group's overall gross profit margin increase to approximately 6.3% from that of approximately 4.2% recorded in the Corresponding Period. The increase in gross profit margin in the quarter under review was mainly due to the significant increase in processing fee income and handling income and the significant decrease in income from trading of PC components which usually generates a lower gross profit margin.

## BUSINESS REVIEW AND PROSPECT

During the first quarter of the year under review, many PC users were expecting new computer operating system and delayed their upgrading plan. It led to a decrease of the Group's sales of own manufactured goods. However, the increase in processing orders had brought a stable steam of income together with higher profit margin to the Group.

On 20 July 2007, the Group has entered into a non-binding memorandum of understanding with two individual vendors for the proposed acquisition of the entire issued share capital of Ask Technology Limited (ATL). ATL and its subsidiaries are principally engaged in the business of assembly and sales of computer accessories. The Group believes that the acquisition, if proceeded with, will enable the Group to enlarge its market share in the computer accessories market and increase its turnover.

## 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 2007, 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 2007.

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

As at 30 June 2007, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

### Long positions in Shares of the Company

Name of Director	Nature of interest	Number and class of securities	Approximate % of the issued share capital of the Company
Mr. Chan Hing Yin	Interest in a controlled corporation	249,992,200 ordinary shares of HK\$0.01 each ("Shares") (Note)	70%

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

Save as disclosed above, as at 30 June 2007, 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 2007, 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.

<b>Name of Director</b>	<b>Nature of interest</b>	<b>Number and class of securities</b>	<b>Approximate % of the issued share capital of the Company</b>
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 2007, 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.

## 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 2007.

## 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.

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 financial statements for the three months ended 30 June 2007.

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

Hong Kong, 9 August 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 and Mr. Cheung Wing Ping and Mr. Wong Ka Hung, Frederic.*