

CO-WINNER ENTERPRISE LIMITED

匯盛實業有限公司*

(Incorporated in Bermuda with limited liability)

(於百慕達註冊成立之有限公司)

(Stock Code: 8108)

Interim Report 2005

For the six months ended
30 June 2005

* *For identification purpose only*

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

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.

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The Stock Exchange takes no responsibility for the contents of this report makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors of Co-winner Enterprise Limited 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 Co-winner Enterprise Limited. The directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:– 1. the information contained in this report is accurate and complete in all material respects and not misleading; 2. there are no other matters the omission of which would make any statement in this report misleading; and 3. 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.

RESULTS

The board of directors (the “**Board**”) of Co-winner Enterprise Limited (the “Company”) presents the unaudited consolidated interim financial statements of the Company and its subsidiaries (the “Group”) for the three months and six months ended 30 June 2005 together with the comparative figures.

CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2005

	Notes	Three months ended		Six months ended	
		30 June		30 June	
		2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	2	2,598	–	3,825	–
Cost of sales		(2,352)	–	(3,500)	–
Gross profit		246	–	325	–
Other revenue		–	44	–	64
Administrative expenses		(959)	(1,570)	(2,326)	(2,359)
Other operating expenses		(30)	(94)	(304)	(265)
Loss from operations		(743)	(1,620)	(2,305)	(2,560)
Finance costs		–	(1)	(1)	(2)
Gain on partial disposal of interest in an associate		–	–	–	135
Share of results of associates		–	(173)	–	(265)
Loss before taxation		(743)	(1,794)	(2,306)	(2,692)
Taxation	3	–	–	–	–
Net loss for the period		(743)	(1,794)	(2,306)	(2,692)
		HK cents	HK cents	HK cents	HK cents
Loss per share – basic	5	0.7	3.3	2.3	5.0

CONSOLIDATED BALANCE SHEET

		30 June 2005 HK\$'000 (Unaudited)	31 December 2004 HK\$'000 (Audited)
	<i>Note</i>		
NON-CURRENT ASSETS			
Fixed assets		402	422
Goodwill		9,848	9,948
		<u>10,250</u>	<u>10,370</u>
CURRENT ASSETS			
Inventories		234	71
Trade receivables	6	2,082	436
Loan receivable		–	446
Amount due from an associate		60	–
Prepayments and deposit		348	338
Prepaid tax		563	563
Cash and bank balances		949	641
		<u>4,236</u>	<u>2,495</u>
CURRENT LIABILITIES			
Trade and other payables	7	9,032	9,252
Amount due to an associate		–	2
Amount due to a shareholder		600	–
Tax payable		181	181
Obligations under finance lease-due within one year		11	11
		<u>9,824</u>	<u>9,446</u>
NET CURRENT LIABILITIES		<u>(5,588)</u>	<u>(6,951)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,662	3,419
NON-CURRENT LIABILITIES			
Obligations under finance lease-due after one year		33	39
NET ASSETS		<u>4,629</u>	<u>3,380</u>
CAPITAL AND RESERVES			
Capital		1,185	23,690
Reserves		3,444	(20,310)
		<u>4,629</u>	<u>3,380</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2005

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated Losses HK\$'000	Total HK\$'000
At 1 January 2004	21,600	22,859	36,527	(65,673)	15,313
Net loss for the six months ended 30 June 2004	—	—	—	(2,692)	(2,692)
At 30 June 2004	<u>21,600</u>	<u>22,859</u>	<u>36,527</u>	<u>(68,365)</u>	<u>12,621</u>
At 1 January 2005	23,690	22,859	36,527	(79,696)	3,380
Capital Reduction	(23,099)	—	—	23,099	—
Open Offer	594	2,961	—	—	3,555
Net loss for the six months ended 30 June 2005	—	—	—	(2,306)	(2,306)
At 30 June 2005	<u>1,185</u>	<u>25,820</u>	<u>36,527</u>	<u>(58,903)</u>	<u>4,629</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2005

	2005 HK\$'000	2004 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(3,625)	(2,674)
NET CASH INFLOWS FROM INVESTING ACTIVITIES	384	610
NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES	<u>3,549</u>	<u>(5)</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	308	(2,069)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>641</u>	<u>9,618</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u>949</u>	<u>7,549</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<u>949</u>	<u>7,549</u>

Notes:

1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Accounting Standard issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the disclosure requirements set out in Chapter 18 of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange.

In 2004, the HKICPA issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs had no material impact on the Group’s results of operations and financial position.

The principal accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2004.

2. Turnover

The Group’s turnover represents the income received from provision of telephone sets subcontracting services and the net invoiced value of goods sold, after allowance for returns and trade discounts where applicable. An analysis of the Group’s turnover is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Provision of telephone sets subcontracting services	343	–	1,570	–
Sales of goods	2,255	–	2,255	–
	<u>2,598</u>	<u>–</u>	<u>3,825</u>	<u>–</u>

3. Taxation

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits for the six months ended 30 June 2005 (six months ended 30 June 2004: Nil).

No provision for the company’s PRC subsidiary tax had been made because it did not derive any assessable profit during the current and prior corresponding period.

Deferred tax had not been provided as there were no significant timing differences at the period-end date (2004: Nil).

4. Dividend

No dividends have been paid or declared by the Company for the six months ended 30 June 2005 (six months ended 30 June 2004: nil).

5. Loss per share

The calculation of the basic loss per share is based on the Group's net loss for the six months ended 30 June 2005 of approximately HK\$2,306,000 (six months ended 30 June 2004: net loss of HK\$2,692,000), and the weighted average of 100,780,663 ordinary shares (six months ended 30 June 2004: 54,000,000 ordinary shares) in issue during the six months ended 30 June 2005 after adjusting for the effects of the share consolidation on 10 January 2005. The basic loss per share for the six months ended 30 June 2004 had been adjusted accordingly.

Diluted loss per share for the six months ended 30 June 2005 and 2004 have not been provided as the share options outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

6. Trade receivables

In general, the credit terms granted by the Group ranged from 0 to 3 months. The following is an aged analysis of trade receivables at the balance sheet date:

	As at	
	2005 (Unaudited) HK\$'000	2004 (Audited) HK\$'000
0 – 60 days	1,748	–
61 – 90 days	–	–
91 – 180 days	–	–
>180 days	334	436
	<u>2,082</u>	<u>436</u>

7. Trade and other payables

	As at	
	30 June 2005 (Unaudited) HK\$'000	31 December 2004 (Audited) HK\$'000
Trade payable	4,797	2,469
Other payable	4,235	3,783
Purchase consideration payable	–	3,000
	<u>9,032</u>	<u>9,252</u>

The following is an aged analysis of trade payables at the balance sheet date:

	2005 (Unaudited) HK\$'000	2004 (Audited) HK\$'000
0 – 60 days	2,030	–
61 – 90 days	–	–
91 – 180 days	–	–
>180 days	2,767	2,469
	<u>4,797</u>	<u>2,469</u>

8. Segment information

An analysis of the Group's income and results for the six months ended 30 June 2005 and 2004 are as follows:

Business segments

The Group is primarily engaged in the provision of telephone sets subcontracting services and sales of goods.

	Provision of telephone sets		Sales of goods		Total	
	subcontracting services					
	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUE						
External revenue	1,570	–	2,255	–	3,825	–
RESULTS						
Segment results	100	–	225	–	325	–
Unallocated corporate revenue					–	–
Unallocated corporate expenses					(2,630)	(2,753)
Operating loss excluding interest income/expenses					(2,305)	(2,753)
Interest income					–	63
Interest expenses					(1)	(2)
Loss before taxation					(2,306)	(2,692)
Taxation					–	–
Net loss for the period					<u>(2,306)</u>	<u>(2,692)</u>

Geographical segments

The following tables present revenue for the Group's geographical segments:

	2005	2004
	HK\$'000	HK\$'000
Mainland China	1,570	–
North America*	2,255	–
	<u>3,825</u>	<u>–</u>

* North America principally relates to the United States and Canada.

MANAGEMENT DISCUSSION AND ANALYSIS

Overall Financial and Business Review

For the six months ended 30 June 2005, the Group's turnover amounted to approximately HK\$3,825,000 (six months ended 30 June 2004: Nil) while the net loss attributable to the shareholders amounted to approximately HK\$2,306,000 (six months ended 30 June 2004: net loss of HK\$2,692,000). The improvement in turnover was mainly the result of the increase in the phone sets subcontracting business in the PRC and sales of goods. The increase in net loss was mainly attributable to the restructuring activities implemented by the Group.

Owing to the unfavourable market sentiments prevailing in the information technology market, operations in that specific area were temporarily ceased during the period under review. The telephone sets subcontracting services and sales of goods has broadened the revenue base of the Group and diversified the Group's investment. Hence, relatively steady revenue inflow has been generated though time is needed to bring such operations in harmonious conformity with the Group's investments.

Liquidity and Financial Resources

All the Group's funding and treasury activities are currently managed and controlled at the corporate level. There is no significant change in respect of treasury and financing policies from the information disclosed in the Group's latest annual report.

As at 30 June 2005, cash and bank balances of the Group was approximately HK\$949,000. The Group has no bank borrowings.

Capital Structure

There has been no change in the capital structure of the Company during the period under review. The capital of the Company comprises only ordinary shares. The Company and the Group has no borrowing and long-term debts.

Employees Information

During the period, the Group had an average number of employees of 7 (Six months ended 30 June 2004: 7). They were remunerated in accordance with their performance and market condition. Other benefits available to eligible employees include retirement benefits and medical insurance schemes.

PROSPECTS

The Board is actively exploring ways to diversify its investments and broaden its revenue base. Given the strong economic rebound in Hong Kong during 2005, the Group would keep on its cautious and prudent approach in evaluating any new investment opportunities.

Having its business operations widened, the management would focus on fine-tuning its existing operations, or may consider to cease or to dispose of any unprofitable operation, in order to strive for the long term returns for the Company and our shareholders.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the New Share Option Scheme, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

As at 30 June 2005, none of the Directors or chief executive of the Company held any share options.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30 June 2005, the Company had adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings as set out in rules 5.48 to 5.67 of the GEM Listing Rules. The Company also had made specific enquiry of all Directors and the Company was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by directors.

INTEREST DISCLOSURE AS PER REGISTERS KEPT PURSUANT TO THE SECURITIES FUTURES ORDINANCE (“THE SFO”)

(a) Directors' and chief executives interests and short positions in shares and underlying shares

As at 30 June 2005, the interests and short positions of the directors and chief executives in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the “SFO”)) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to Rule 5.46 of the GEM Listing Rules were as follows:

Long positions in ordinary shares of HK\$0.01 each of the Company

Name of director	Number of issued ordinary shares held				Percentage of issued share capital of the Company
	Beneficial owner	Held by trust	Held controlled corporation	Total	
Mr. TSE Wai Kwok, Raymond	600,000	–	–	600,000	0.5%

(b) Substantial shareholders' and other persons' interests and short positions in shares and underlying shares

As at 30 June 2005, other than a Director or chief executive of the Company, the following persons had interests or short position in the Shares or underlying Shares of the Company which as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions in the shares

Name	Nature and capacity of interest	Number of shares held	Approximate percentage of interest <i>(Note 1)</i>
True Allied Assets Limited	Beneficial owner	21,860,000	18.46%
Ms. HUANG Ye-hua <i>(Note 2)</i>	Interest of controlled corporation	21,860,000	18.46%
Ms. WU Lee-man <i>(Note 2)</i>	Interest of controlled corporation	21,860,000	18.46%
Mr. LEUNG Shu-keung <i>(Note 2)</i>	Interest of controlled corporation	21,860,000	18.46%

Note:

- (1) The percentage is calculated by dividing the number of Shares interested or deemed to be interested by the existing 118,450,000 issued shares as at 30 June 2005.
- (2) Ms. HUANG Ye-hua, Ms. WU Lee-man and Mr. LEUNG Shu-keung are interested by virtue of their beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at the 30 June 2005, other than a director or chief executive of the Company, no persons had interests or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to Section 336 to the SFO.

CHANGE OF COMPANY NAME

The name of the Company is changed from “Grandmass Enterprise Solution Limited” to “Co-winner Enterprise Limited” with effect from 10 January 2005. The stock short name of the Company under which the shares are traded on the Stock Exchange is changed to “CO-WINNER” with effect from 28 February 2005.

CAPITAL REORGANISATION

On 10 January 2005, every forty (40) issued shares in the Company are consolidated into one (1) consolidated share. The nominal value of each issued consolidated share was then reduced from HK\$0.40 each to HK\$0.01 each by way of a reduction of capital pursuant to the Companies Act of Bermuda. Accordingly, the issued share capital of the Company was reduced from an amount of HK\$23,690,000 to HK\$592,250 represented by 59,225,000 consolidated shares.

CHANGE IN AUDITOR

Messrs. HLB Hodgson Impey Cheng and Messrs. Cheung & Siu (“HLBCS”) were appointed as joint auditors of the Company in a special general meeting held on 21 March 2005, to fill the vacancy created by the resignation of RSM Nelson Wheeler. HLBCS were retired and re-appointed as joint auditors of the Company at the annual general meeting on 29 April 2005 and to hold office until the conclusion of the next annual general meeting of the Company.

OPEN OFFER

59,225,000 new shares of the Company had been issued under the Open Offer on 24 February 2005, proceeds of approximately HK\$3.55 million was being raised as working capital. As at 30 June 2005, the total issued share capital of the Company after the Open Offer are 118,450,000 shares.

PLACING OF NEW SHARES

On 22 July 2005, the Company has placed under the general mandate a total of 23,690,000 new shares to eight placees at a price of HK\$0.06 per share. Proceeds of approximately HK\$1.42 million was being raised as working capital. The total issued share capital of the Company after the placing of new shares are 142,140,000 shares.

BOARD PRACTICES AND PROCEDURES

The Company has complied with the board practices and procedures as set out in rules 5.34 to 5.45, if relevant, of the GEM Listing Rules throughout the six months ended 30 June 2005.

CHANGE IN DIRECTORSHIP

The following changes occurred during the period under review and up to the date of this report:

1. Ms. KWONG Wai-man, Karina has been re-designated from executive director to non-executive director and resigned as compliance officer of the Company with effect from 15 February 2005. Ms. Kwong has resigned as non-executive director of the Company with effect from 17 May 2005;
2. Mr. TAI Chi-ching has been appointed as executive director of the Company with effect from 16 February 2005;
3. Mr. NG Ming-wah has resigned as non-executive director of the Company with effect from 8 March 2005;
4. Mr. TSE Wai-kwok, Raymond has been appointed as executive director of the Company with effect from 1 April 2005;
5. Ms. MA Lee has resigned as independent non-executive director of the Company with effect from 17 May 2005;
6. Mr. ZHAO Ming has resigned as executive director of the Company with effect from 15 July 2005; and
7. Mr. Tok Beng Tiong and Mr. Shen Jiahui have been appointed as independent non-executive directors of the Company with effect from 10 August 2005.

AUDIT COMMITTEE

The Company has established an audit committee in July 2000 with its written terms of reference being in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules. As at 30 June 2005, the audit committee comprised two members, namely Mr. CHEN Pei and Mr. PENG Feng, being independent non-executive directors of the Company.

The primary duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Group and to provide advice and comments to the Board. During the six months ended 30 June 2005, the audit committee has reviewed the Group's interim report, financial statements and providing advice and recommendations to the Board. After the review of the financial statements, the members of the audit committee, who were of the opinion that such statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosure had been made.

APPOINTMENT OF INDEPENDENT NON-EXECUTIVE DIRECTORS, MEMBERS OF AUDIT COMMITTEE, AUTHORISED REPRESENTATIVES AND QUALIFIED ACCOUNTANT

With effect from 17 May 2005, Ms. Ma Lee has resigned as an independent non-executive director of the Company. Following Ms. Ma's resignation, the Company has two independent non-executive directors and two members of the audit committee. Hence, the Company is not able to comply with Rule 5.05 and 5.28 of the GEM Listing Rules in which it requires the Company to have at least three independent non-executive directors and three members of the audit committee. Mr. Tok Beng Tiong and Mr. Shen Jiahui have been appointed as independent non-executive directors and members of audit committee with effect from 10 August 2005 to ensure the compliance with such provisions of the GEM Listing Rules.

Each of the independent non-executive directors has confirmed his independent to the Company pursuant to Rule 5.09 of the GEM Listing Rules and the Company considers the independent non-executive directors to be independent.

With effect from 1 June 2005, Ms. Lee Wai-yee has resigned as authorised representative and qualified accountant of the Company. Following Ms. Lee's resignation, the Company has one authorised representative and no qualified accountant. Hence, the Company is not able to comply with Rule 5.15 and 5.24 of the GEM Listing Rules in which it requires the Company to have at least a qualified accountant and two authorised representatives. Mr. Tse Wai Kwok, Raymond has been appointed as an authorised representative of the Company with effect from 19 July 2005 and Mr. Chan Wing Chung has been appointed as qualified accountant of the Company with effect from 1 August 2005 to ensure the compliance with such provisions of the GEM Listing Rules.

CORPORATE GOVERNANCE

Save as disclosed in the paragraph "Appointment of independent non-executive directors, members of audit committee, authorised representative and qualified accountant" above, the Company had complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the six months ended 30 June 2005.

PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

For the six months ended 30 June 2005, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

COMPETING INTEREST

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) or their respective associates had any interest in any business which competed or might compete with the business of the Group.

By Order of the Board
Co-winner Enterprise Limited
TAI Chi-ching
Executive Director

Hong Kong, 12 August 2005

As at the date of this report, the board of directors of the Company comprises of Mr. TAI Chi-ching and Mr. TSE Wai-kwok, Raymond as executive director and Mr. Tok Beng Tiong, Mr. Shen Jiahui, Mr. CHEN Pei and Mr. PENG Feng as independent non-executive directors.