

# **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)**

## **First Quarterly Report 2006**

For the three months ended  
31 March 2006

\* *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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*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 results of the Company and its subsidiaries (the “Group”) for the three months ended 31 March 2006 together with the comparative figures.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months ended 31 March 2006

	<i>Notes</i>	<b>2006</b> <i>HK\$'000</i>	2005 <i>HK\$'000</i>
Turnover	2	<b>21,518</b>	1,227
Cost of sales		<b>(16,909)</b>	(1,148)
Gross profit		<b>4,609</b>	79
Other revenue		<b>15</b>	–
Administrative expenses		<b>(1,129)</b>	(1,367)
Other operating expenses		<b>(10)</b>	(275)
Loss from operations		<b>3,485</b>	(1,563)
Finance costs		–	(1)
Share of results of associates		–	–
Profit (loss) before taxation		<b>3,485</b>	(1,564)
Taxation	3	–	–
Net profit (loss) for the period		<b><u>3,485</u></b>	<b><u>(1,564)</u></b>
Dividend	4	–	–
		<i>HK cents</i>	<i>HK cents</i>
Profit (loss) per share – basic	5	<b><u>0.024</u></b>	<b><u>(0.019)</u></b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the three months ended 31 March 2006

	Share Capital <i>HK\$'000</i>	Share Premium <i>HK\$'000</i>	Contributed Surplus <i>HK\$'000</i>	Accumulated Losses <i>HK\$'000</i>	Exchange Reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2005	–	22,859	36,527	(79,696)	–	(20,310)
Capital Reduction	–	–	–	23,099	–	23,099
Open Offer	–	2,961	–	–	–	2,961
Net loss for the three months ended 31 March 2005	–	–	–	(1,564)	–	(1,564)
At 31 March 2005	<u>–</u>	<u>25,820</u>	<u>36,527</u>	<u>(58,161)</u>	<u>–</u>	<u>4,186</u>
At 1 January 2006	1,421	26,650	36,527	(70,734)	(140)	(6,276)
Placing of new shares	284	–	–	–	–	284
Premium arising from placing of new shares, net of expenses	–	1,419	–	–	–	1,419
Net profit for the three months ended 31 March 2006	–	–	–	3,485	–	3,485
At 31 March 2006	<u>1,705</u>	<u>28,069</u>	<u>36,527</u>	<u>(67,249)</u>	<u>(140)</u>	<u>(1,088)</u>

Notes:

### 1. Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Accounting Standards 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.

### 2. Turnover

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

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2006</b>	2005
	<b>HK\$’000</b>	HK\$’000
Provision of telephone sets subcontracting services	<b>288</b>	1,227
Sales of household products	<b>21,230</b>	–
	<b><u>21,518</u></b>	<u>1,227</u>

### 3. Taxation

No provision for Hong Kong profits tax had been made as the Group did not generate any assessable profits for the three months ended 31 March 2006 (2005: 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 (2005: Nil).

### 4. Dividend

No dividends have been paid or declared by the Company for the three months ended 31 March 2006 (2005: nil).

## 5. Profit (loss) per share

The calculation of the basic profit (loss) per share is based on the Group's net profit for the three months ended 31 March 2006 of approximately HK\$3,485,000 (three months ended 31 March 2005: net loss of HK\$1,564,000), and the weighted average of 145,613,000 ordinary shares (three months ended 31 March 2005: 82,915,000 ordinary shares) in issue during the three months ended 31 March 2006 after adjusting for the effects of the placing of new shares on 20 March 2006. The basic loss per share for the three months ended 31 March 2005 had been adjusted accordingly.

Diluted profit (loss) per share for the three months ended 31 March 2006 and 2005 have not been provided as the share options outstanding during the period had an anti-dilutive effect on the basic profit (loss) per share for the period.

## 6. Segment information

An analysis of the Group's income and results for the three months ended 31 March 2006 and 2005 are as follows:

### *Business segments*

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

	Provision of telephone sets		Sales of household products		Total	
	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)	2005 HK\$'000 (unaudited)
REVENUE						
External revenue	<u>288</u>	<u>1,227</u>	<u>21,230</u>	<u>-</u>	<u>21,518</u>	<u>1,227</u>
RESULTS						
Segment results	<b>16</b>	79	<b>4,593</b>	-	<b>4,609</b>	79
Unallocated corporate revenue					15	-
Unallocated corporate expenses					<u>(1,139)</u>	<u>(1,642)</u>
Operating profit (loss) excluding interest income/expenses					<b>3,485</b>	(1,563)
Interest income					-	-
Interest expenses					<u>-</u>	<u>(1)</u>
Profit (loss) before taxation					<b>3,485</b>	(1,564)
Taxation					<u>-</u>	<u>-</u>
Profit (loss) after taxation					<b>3,485</b>	(1,564)
Minority interests					<u>-</u>	<u>-</u>
Net profit (loss) for the period					<u><b>3,485</b></u>	<u>(1,564)</u>

### *Geographical segments*

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

	<b>2006</b> <b>HK\$'000</b>	2005 <b>HK\$'000</b>
Mainland China	<b>19,469</b>	1,227
North America*	<b>2,049</b>	–
	<b>21,518</b>	1,227

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Overall Financial and Business Review**

For the three months ended 31 March 2006, the Group's turnover amounted to approximately HK\$21,518,000 (three months ended 31 March 2005: HK\$1,227,000) while the net profit attributable to the shareholders amounted to approximately HK\$3,485,000 (three months ended 31 March 2005: net loss of HK\$1,564,000). The improvement in turnover was mainly the result of the increase in the sales of household products in PRC and foreign countries. The decrease in net loss was the result of the increase in revenue generated from new household business and effective cost control 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 turnover of telephone sets subcontracting services recorded a healthy growth. Owing to the small operation scale, the telephone sets subcontracting business did not generate profit yet. On the other hand, increase in the household products sales and the effective cost control resulted from a profit.

### **PROSPECTS**

The Board is actively exploring ways to diversify its investments and broaden its revenue base in household product trading in Mainland China and foreign countries. 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 31 March 2006, none of the Directors or chief executive of the Company held any share options.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the three months ended 31 March 2006, 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 31 March 2006, 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			Total	Percentage of issued share capital of the Company
	Beneficial owner	Held by trust	Held by controlled corporation		
Mr. TSE Wai Kwok, Raymond	600,000	–	–	600,000	0.35%



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

As at 31 March 2006, 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*

<b>Name</b>	<b>Nature and capacity of interest</b>	<b>Number of shares held</b>	<b>Approximate percentage of interest</b> <i>(Note 1)</i>
True Allied Assets Limited	Beneficial owner	36,390,000	21.34%
Ms. HUANG Ye Hua <i>(Note 2)</i>	Interest of controlled corporation	36,390,000	21.34%
Ms. WU Lee Man <i>(Note 2)</i>	Interest of controlled corporation	36,390,000	21.34%
Mr. LEUNG Shu Keung <i>(Note 2)</i>	Interest of controlled corporation	36,390,000	21.34%

*Note:*

- (1) The percentage is calculated by dividing the number of Shares interested or deemed to be interested by the existing 170,560,000 issued shares as at 31 March 2006.
- (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 31 March 2006, 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.

## **PLACING OF NEW SHARES**

On 20 March 2006, the Company has placed under the general mandate a total of 28,420,000 new shares to seven places at a price of HK\$0.064 per share. Proceeds of approximately HK\$1.82 million was being raised as working capital. The total issued share capital of the Company after the placing of new shares are 170,560,000 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 three months ended 31 March 2006.

## **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 31 March 2006, the audit committee comprised three members, namely Mr. TOK Beng Tiong, Mr. SHEN Jiahui and Mr. YANG Dongli, 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 three months ended 31 March 2006, the audit committee has reviewed the Group's first quarterly 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.

## **CORPORATE GOVERNANCE**

The Company had complied with the Code on Corporate Governance Practices as set out in Appendix 15 of the GEM Listing Rules for the three months ended 31 March 2006.

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

For the three months ended 31 March 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

## **SUBSEQUENT EVENTS**

- (a) With effect from 1 April 2006, Mr. Chan Wing Chung ("Mr. Chan") has resigned as qualified accountant of the Company. Following Mr. Chan's resignation, the Company has no qualified accountant. Hence, the Company is not able to comply with Rule 5.15 of the GEM Listing Rules in which it requires the Company to have at least a qualified accountant. Mr. CHAN Yuk Hiu Taylor has been appointed as qualified accountant of the Company with effect from 1 May 2006 to ensure the compliance with such provisions of the GEM Listing Rules.
- (b) One of our Executive Director, Mr. Tse Wai Kwok Raymond ("Mr. Tse") has sold 250,000 shares, 200,000 shares and 150,000 shares of the Company that held by him to the independent third parties on The Stock Exchange of Hong Kong Limited on 28 April 2006, 2 May 2006 and 4 May 2006 respectively, this is in breach of the GEM Listing Rule 5.56; and prior to the disposals of the Company's shares on 28 April, 2 May and 4 May 2006, Mr. Tse has not notified the chairman of the Company in writing and also not obtained a dated written acknowledgment, this is in breach of the GEM Listing Rule 5.61. The Company has made detailed disclosures of these breaches in the Announcements posted on 4 May and 9 May 2006 on the GEM website.

## **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, 15 May 2006

*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 and Mr. YANG Dongli as independent non-executive directors.*