

# **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 2006**

For the six months ended  
30 June 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.*

## INTERIM RESULTS (UNAUDITED)

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 2006 together with the comparative figures.

### CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the three months and six months ended 30 June 2006

	<i>Notes</i>	Three months ended		Six months ended	
		30 June		30 June	
		2006	2005	2006	2005
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover	2	<b>39,644</b>	2,598	<b>61,162</b>	3,825
Cost of sales		<b>(26,171)</b>	(2,352)	<b>(43,080)</b>	(3,500)
Gross profit		<b>13,473</b>	246	<b>18,082</b>	325
Other revenue		<b>188</b>	–	<b>203</b>	–
Administrative expenses		<b>(1,503)</b>	(959)	<b>(2,632)</b>	(2,326)
Other operating expenses		<b>(176)</b>	(30)	<b>(186)</b>	(304)
Profit (loss) from operations		<b>11,982</b>	(743)	<b>15,467</b>	(2,305)
Finance costs		<b>(36)</b>	–	<b>(37)</b>	(1)
Gain on partial disposal of interest in an associate		–	–	–	–
Share of results of associates		–	–	–	–
Profit (loss) before taxation		<b>11,946</b>	(743)	<b>15,430</b>	(2,306)
Taxation	3	–	–	–	–
Net profit (loss) for the period		<b>11,946</b>	(743)	<b>15,430</b>	(2,306)
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Profit (loss) per share – basic	5	<b>8.7</b>	(0.7)	<b>11.2</b>	(2.3)

## CONSOLIDATED BALANCE SHEET

		<b>30 June 2006 HK\$'000 (Unaudited)</b>	31 December 2005 HK\$'000 (Audited)
	<i>Note</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets		357	373
Goodwill		—	—
		<u>357</u>	<u>373</u>
<b>CURRENT ASSETS</b>			
Inventories		13,249	2,293
Trade receivables	6	17,121	222
Loan receivables		—	—
Amount due from an associate		—	—
Prepayments and deposit		3,735	2,190
Prepaid tax		—	—
Cash and bank balances		9,299	392
		<u>43,404</u>	<u>5,097</u>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	7	30,852	10,919
Amount due to an associate		2	2
Amount due to a shareholder		700	600
Tax payable		823	186
Obligations under finance lease-due within one year		13	13
		<u>32,390</u>	<u>11,720</u>
<b>NET CURRENT ASSETS (LIABILITIES)</b>		<u>11,014</u>	<u>(6,623)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>11,371</b>	<b>(6,250)</b>
<b>NON-CURRENT LIABILITIES</b>			
Obligations under finance lease-due after one year		19	26
<b>NET ASSETS</b>		<u>11,352</u>	<u>(6,276)</u>
<b>CAPITAL AND RESERVES</b>			
Capital		1,705	1,421
Reserves		9,647	(7,697)
		<u>11,352</u>	<u>(6,276)</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2006

	Share Capital HK\$'000	Share Premium HK\$'000	Contributed Surplus HK\$'000	Accumulated Losses HK\$'000	Exchange Reserve HK\$'000	Total HK\$'000
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)
	<u>1,185</u>	<u>25,820</u>	<u>36,527</u>	<u>(58,903)</u>	<u>–</u>	<u>4,629</u>
At 30 June 2005						
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
Exchange difference arising from translation of financial statements of subsidiaries	–	–	–	–	495	495
Net profit for the six months ended 30 June 2006	–	–	–	15,430	–	15,430
	<u>1,705</u>	<u>28,069</u>	<u>36,527</u>	<u>(55,304)</u>	<u>355</u>	<u>11,352</u>
At 30 June 2006						

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2006

	<b>2006</b> <b>HK\$'000</b>	2005 HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	<b>8,812</b>	(3,625)
NET CASH INFLOWS FROM INVESTING ACTIVITIES	<b>2</b>	384
NET CASH INFLOWS/(OUTFLOWS) FROM FINANCING ACTIVITIES	<b>93</b>	3,549
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>8,907</b>	308
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<b>392</b>	641
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<b>9,299</b>	949
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>9,299</b>	949

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.

### 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:

	Three months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Sales of household products	39,418	2,255	60,648	2,255
Provision of telephone sets subcontracting services	226	343	514	1,570
	<u>39,644</u>	<u>2,598</u>	<u>61,162</u>	<u>3,825</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 2006 (six months ended 30 June 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 six months ended 30 June 2006 (six months ended 30 June 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 six months ended 30 June 2006 of approximately HK\$15,430,000 (six months ended 30 June 2005: net loss of HK\$2,306,000), and the weighted average of 137,424,641 ordinary shares (six months ended 30 June 2005: 100,780,663 ordinary shares) in issue during the six months ended 30 June 2006 after adjusting for the effects of the placing of new shares on 20 March 2006 and the share consolidation on 18 May 2006. The basic loss per share for the six months ended 30 June 2005 had been adjusted accordingly.

Diluted profit (loss) per share for the six months ended 30 June 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. 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	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
0 – 60 days	16,965	170
61 – 90 days	–	52
91 – 180 days	–	–
>180 days	156	–
	<u>17,121</u>	<u>222</u>

## 7. Trade and other payables

	As at	
	30 June 2006 (Unaudited) HK\$'000	31 December 2005 (Audited) HK\$'000
Trade payable	15,993	2,963
Other payable	14,859	7,956
	<u>30,852</u>	<u>10,919</u>

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

	2006 (Unaudited) HK\$'000	2005 (Audited) HK\$'000
0 – 60 days	12,989	423
61 – 90 days	–	–
91 – 180 days	–	–
>180 days	3,004	2,540
	<u>15,993</u>	<u>2,963</u>

## 8. Segment information

An analysis of the Group's income and results for the six months ended 30 June 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		Total	
	subcontracting services	household products	subcontracting services	household products		
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
REVENUE						
External revenue	<u>514</u>	<u>1,570</u>	<u>60,648</u>	<u>2,255</u>	<u>61,162</u>	<u>3,825</u>
RESULTS						
Segment results	25	100	18,057	225	18,082	325
Unallocated corporate revenue					201	–
Unallocated corporate expenses					<u>(2,819)</u>	<u>(2,630)</u>
Operating loss excluding interest income/expenses					15,464	(2,305)
Interest income					2	–
Interest expenses					<u>(36)</u>	<u>(1)</u>
Loss before taxation					15,430	(2,306)
Taxation					<u>–</u>	<u>–</u>
Net profit (loss) for the period					<u>15,430</u>	<u>(2,306)</u>

### *Geographical segments*

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

	2006	2005
	HK\$'000	HK\$'000
Mainland China	49,001	1,570
Europe	7,659	–
North America*	<u>4,502</u>	<u>2,255</u>
	<u>61,162</u>	<u>3,825</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 2006, the Group's turnover amounted to approximately HK\$61,162,000 (six months ended 30 June 2005: HK\$3,825,000) while the net profit attributable to the shareholders amounted to approximately HK\$15,430,000 (six months ended 30 June 2005: net loss of HK\$2,306,000). The improvement in turnover was mainly the result of the increase in the sales of household products in PRC and overseas market.

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 sales of household products in PRC and foreign countries has broadened the revenue base of the Group and also brought in conspicuous revenue to the Group's investments.

### **Liquidity and Financial Resources**

All the Group's funding and treasury activities are currently managed and controlled by the senior management. 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 2006, cash and bank balances of the Group was approximately HK\$9,299,000. The Group has no bank borrowings.

### **Capital Structure**

By an ordinary resolution approved by the shareholders attended the special general meeting held on 17 May 2006, every two (2) issued shares in the Company are consolidated into one (1) consolidated share. Accordingly, the issued share capital of the Company was consolidated from 170,560,000 shares of HK\$0.01 each into 85,280,000 shares of HK\$0.02 each. 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 400 (Six months ended 30 June 2005: 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 develop the sales of household products to broaden its revenue base. Given the increasing in the sales of household products in PRC and Europe, the revenue base of the Company was broaden further.

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 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 six months ended 30 June 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, instead of the disclosure in the following:

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 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.

In consideration of the above-mentioned event, the Company has explained to the directors the standard to be complied with in securities dealings to ensure that no such breach will happen for the second time.

## **DISCLOSURE OF INTEREST 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 2006, none of the Directors and chief executives of the Company has any interests and short positions in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7& 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rule 5.46 of the GEM Listing Rules.

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

To the best knowledge of the directors or chief executives, as at 30 June 2006, 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	18,975,000	22.25%
Ms. HUANG Ye-hua <i>(Note 2)</i>	Interest of controlled corporation	18,975,000	22.25%

*Note:*

- (1) The percentage is calculated by dividing the number of shares interested or deemed to be interested by the existing 85,280,000 issued shares as at 30 June 2006.
- (2) Ms. HUANG Ye-hua is interested by virtue of her 100% beneficial interest in True Allied Assets Limited.

Save as disclosed above, as at the 30 June 2006, the Board is not aware of any other persons that 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 placees at a price of HK\$0.064 per share. Proceeds of approximately HK\$1.7 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.

**CAPITAL REORGANISATION**

By an ordinary resolution approved by the shareholders attended the special general meeting held on 17 May 2006, every two (2) issued shares in the Company are consolidated into one (1) consolidated share. Accordingly, the issued share capital of the Company was consolidated from 170,560,000 shares of HK\$0.01 each into 85,280,000 shares of HK\$0.02 each.

## **AUDITOR**

Messrs. HLB Hodgson Impey Cheng and Messrs. Cheung & Siu (“HLBCS”) were retired and re-appointed as joint auditors of the Company at the annual general meeting on 17 May 2006 and to hold office until the conclusion of the next annual general meeting of the Company.

## **BOARD PRACTICES AND PROCEDURES**

Save as disclosed in the “Code of Conduct Regarding Securities Transactions by Directors” above, the Company has complied with the board practices and procedures as set out in rule 5.34, if relevant, of the GEM Listing Rules throughout the six months ended 30 June 2006.

## **CHANGE IN DIRECTORSHIP**

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

1. Mr. TOK Beng Tiong has resigned as independent non-executive director of the Company with effect from 12 June 2006;
2. Mr. LEE Yuen Kwong has been appointed as independent non-executive director of the Company with effect from 12 June 2006;
3. Mr. SHEN Jia Hui has resigned as independent non-executive director of the Company with effect from 30 June 2006;
4. Mr. YANG Jie has been appointed as independent non-executive director of the Company with effect from 30 June 2006;
5. Mr. TSE Wai-kwok, Raymond has resigned as executive director of the Company with effect from 6 July 2006; and
6. Mr. ZHAO Guo Wei has been appointed as executive director of the Company with effect from 6 July 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 30 June 2006, the audit committee comprised three members, namely Mr. LEE Yuen Kwong, Mr. YANG Dong Li and Mr. YANG Jie, 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 2006, 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 AND QUALIFIED ACCOUNTANT**

Each of the independent non-executive directors has confirmed his independence 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 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.

## **CORPORATE GOVERNANCE**

Save as disclosed in the paragraph “Appointment of independent non-executive directors 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 2006.

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

For the six months ended 30 June 2006, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company’s listed securities.

## **SUBSEQUENT EVENT**

The Company and Guotai Junan Securities (Hong Kong) Limited (the “Placing Agent”) entered into the Convertible Notes Placing Agreement on 6 July 2006 pursuant to which the Placing Agent agreed to place, on a best effort basis, up to an aggregate principal amount of HK\$18,000,000 Convertible Notes. The Convertible Notes will be secured by the security interests to be created under the Security Documents. For details please refer to the Company’s announcement dated 7 July 2006.

## **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, 26 July 2006

*As at the date of this report, the board of directors of the Company comprises of Mr. TAI Chi-ching and Mr. ZHAO Guo Wei as executive director and Mr. LEE Yuen Kwong, Mr. YANG Dong Li and Mr. YANG Jie as independent non-executive directors.*