WINSHINE SCIENCE COMPANY LIMITED
瀛晟科學有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 209)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the "Board") of Winshine Science Company Limited (the "Company") hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2018 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Revenue	*4*	**636,882**	589,933
Cost of sales		**(567,137)**	(502,364)
Gross profit		**69,745**	87,569
Other income, gains and losses	*5*	**16,589**	5,473
Impairment loss on deposit paid for refurbishment of properties	*6*	**(64,627)**	–
Impairment loss on other receivables	*6*	**(39,315)**	–
Impairment loss on deposit paid for purchase of property, plant and equipment	*6*	**–**	(12,500)
Provision of expected credit loss for loan receivables	*11*	**(2,045)**	–
Provision of expected credit loss for trade receivables	*13*	**(138)**	–

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Selling and distribution costs		**(8,183)**	(9,441)
Administrative expenses		**(80,047)**	(101,277)
Research and development expenses		**(1,972)**	(6,389)
Changes in fair value of financial assets at fair value through profit or loss		**(9,999)**	(7,016)
Other operating expenses		**(15,616)**	(12,436)
Finance costs	*7*	**(8,745)**	(11,808)
Loss before tax		**(144,353)**	(67,825)
Income tax expense	*8*	**(9,272)**	(9,908)
Loss for the year	*9*	**(153,625)**	(77,733)
Loss for the year attributable to the owners of the Company		**(153,625)**	(77,733)
Loss per share			
Basic and diluted	*10*	**(HK4.20 cents)**	(HK2.25 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(153,625)**	(77,733)
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Gain on revaluation of properties	**1,678**	10,310
Deferred tax credit (charge) arising from revaluation surplus of properties	**800**	(420)
	2,478	9,890
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(14,426)**	23,047
Other comprehensive (expense) income for the year	**(11,948)**	32,937
Total comprehensive expense for the year	**(165,573)**	(44,796)
Total comprehensive expense for the year attributable to the owners of the Company	**(165,573)**	(44,796)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**126,570**	123,283
Prepaid land premiums		**3,729**	3,873
Investment properties		**105,912**	101,926
Loan receivables	*11*	**13,987**	–
Deposit paid for refurbishment of properties		**–**	65,438
Deferred tax assets		**8,808**	–
		259,006	294,520
Current assets			
Financial assets at fair value through profit or loss		**17,580**	27,579
Inventories	*12*	**89,424**	83,987
Prepaid land premiums		**143**	143
Trade receivables	*13*	**43,245**	114,700
Loan receivables	*11*	**4,510**	16,159
Amount due from a related company		**228**	–
Prepayments, deposits and other receivables	*14*	**35,221**	62,767
Pledged bank deposits		**–**	21,474
Bank balances and cash		**75,489**	131,523
		265,840	458,332
Current liabilities			
Trade payables	*15*	**117,862**	171,375
Other payables and accruals	*16*	**54,041**	44,908
Contract liabilities		**1,745**	–
Borrowings	*17*	**160,422**	184,662
Tax payables		**2,133**	9,679
		336,203	410,624
Net current (liabilities) assets		**(70,363)**	47,708
Total assets less current liabilities		**188,643**	342,228

	2018	2017
	HK$'000	*HK$'000*
Non-current liabilities		
Deferred tax liabilities	**24,306**	9,060
	24,306	9,060
Net assets	**164,337**	333,168
Capital and reserves		
Share capital	**366,186**	366,186
Deficit	**(201,849)**	(33,018)
Total equity	**164,337**	333,168

1. CORPORATE INFORMATION

Winshine Science Company Limited (the "Company", together with its subsidiaries collectively referred to as the "Group") is a limited liability company incorporated in Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section to the annual report. The Company's shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Due to the delay in publication of the 2018 annual results and pursuant to the requirements of Rule 13.50 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), trading in the shares of the Company on the Stock Exchange has been suspended with effect from 1 April 2019.

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are manufacturing for sale of toys, securities investments and medical and health.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

Certain comparative figures have been reclassified to conform with current year's presentation. These reclassifications have no effect on financial position, loss for the year or cash flows of the Group.

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

(a) Matters arising from the change in directors

With effect from the conclusion of an extraordinary general meeting on 10 May 2019, the two executive directors of the Company were removed and two new executive directors were appointed into the board of directors of the Company (the "New Board" or the "directors"). The directors of the Company have reviewed the Group's corporate governance structure and identified that there were appropriate key management personnel in the subsidiaries of the Company who were responsible for the relevant operating and financial functions and could direct the relevant activities of the subsidiaries in previous years and prior to the change to the New Board. In the opinion of the directors of the Company, the accounting books and records of the Company and its subsidiaries have been properly maintained for the year ended 31 December 2018.

Based on the directors' assessment, the directors are of the view that they are eligible to fulfil their responsibilities to prepare the consolidated financial statements.

(b) Material uncertainties relating to the Group's ability to continue as a going concern

For the year ended 31 December 2018, the Group incurred a loss of approximately HK$153,625,000 with net cash outflow from operating activities before working capital changes of approximately HK$19,540,000 for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of approximately HK$70,363,000. The Group's bank balances and cash amounted to approximately HK$75,489,000, in contrast to its borrowings of approximately HK$160,422,000, of which HK$45,000,000 were overdue which have become repayable on demand as at 31 December 2018 (the "Bonds"), and approximately HK$115,422,000 are repayable within the next twelve months as disclosed in note 17.

In order to improve the Group's financial position, the directors of the Company have been implementing various measures as follows:

i. in negotiating with respective lenders to renew and extend existing borrowings upon their maturities;

ii. implementing an active cost-saving measures to control administrative costs through various channels to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group; and

Up to the date of the approval of the consolidated financial statements, in respect of the borrowings which were overdue as described above, the following measures were carried out:

(a) an extension agreement for the borrowings of HK$45,000,000 has been entered into between the Company and the holder of the Bonds to extend the repayment terms of overdue bonds to 30 September 2020, details of which are set out in note 17 to the consolidated financial statements;

(b) an extension agreement in connection with the unsecured loan of approximately HK$25,000,000 has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 8 October 2019 to extend the repayment due date to 30 September 2020, details of which are set out in note 17 to the consolidated financial statements.

(c) the secured bank loan of HK$90,422,000 was revolved on 24 June 2019 with repayment due date extended to 19 June 2020 pursuant to a loan revolving agreement entered into with the bank, details of which are set out in note 17 to the consolidated financial statements.

These consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome and implementation of the above measures to be undertaken by the Group. The directors of the Company are of the opinion that, taking into account the above measures, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of issuance of these consolidated financial statements. The directors of the Company are therefore of the opinion that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the consolidated financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[3]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[5]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019.

2 Effective for annual periods beginning on or after 1 January 2020.

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

4 Effective for annual periods beginning on or after 1 January 2021.

5 Effective for annual periods beginning on or after a date to be determined.

4. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products for the year. The revenue relates to revenue from contracts with customers which is within the scope of HKFRS 15 for the year ended 31 December 2018. The amounts for the year ended 31 December 2017 were recognised under HKAS 18 and other interpretations. All revenue is recognised at a point in time upon delivery of the goods to customers.

The Group manufactured toy products in accordance with the performance obligations as set out in each sales contracts with its customers. The performance obligations in sales contracts have an original expected duration of one year or less. The Group has applied the practical expedient in HKFRS 15 and hence information about the Group's remaining performance obligations that are unsatisfied (or partially satisfied) as of the end of the reporting period is not disclosed. The Group recognised the incremental costs of obtaining a contract as an expense when incurred since the amortisation period of the asset that the Group otherwise would have recognised was one year or less.

	2018	2017
	HK$'000	*HK$'000*
Revenue from sales of finished goods of toy products	**636,882**	589,933

The Group is organised and its businesses are managed by divisions, which are a mixture of both business lines and geographical locations. Information reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and performance assessment of segment performance focuses on types of goods or services delivered or provided. The Group has presented the following three reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

1. Securities investments: this segment derives its revenue from dividends received from equity securities investments.

2. Toys: this segment derives its revenue from manufacturing for sale of toys.

3. Medical and health: this segment is under development stage in which research and development expenses for the medical and health technology development have been incurred.

The chief operating decision maker monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

All assets are allocated to reportable segments other than refundable deposits, certain property, plant and equipment, certain prepayments and certain bank balances and cash, which are grouped as unallocated corporate assets.

All liabilities are allocated to reportable segments other than certain accruals, which are grouped as unallocated corporate liabilities.

Segment (loss) profit before tax excludes unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

(a) Segment revenue, results, assets and liabilities

The following is an analysis of the Group's revenue and results by reportable segments:

For the years ended 31 December 2018 and 2017

	Securities investments		Toys		Medical and health		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue								
Revenue from external customers	**–**	–	**636,882**	589,933	**–**	–	**636,882**	589,933
Reportable segment (loss) profit before tax	**(10,001)**	(5,922)	**7,396**	15,490	**(1,972)**	(12,973)	**(4,577)**	(3,405)
Unallocated corporate income							**17,026**	7,281
Unallocated corporate expenses							**(156,802)**	(71,701)
Loss before tax							**(144,353)**	(67,825)
Other segment information (included in the measure of segment profit or loss or regularly provided to chief operating decision maker)								
Depreciation of property, plant and equipment	**–**	–	**(8,169)**	(7,985)	**–**	–	**(8,169)**	(7,985)
Amortisation of prepaid land premiums	**–**	–	**(144)**	(146)	**–**	–	**(144)**	(146)
Provision of expected credit loss ("ECL") for trade receivables	**–**	–	**(138)**	–	**–**	–	**(138)**	–
Write-off on trade receivables	**–**	–	**(256)**	–	**–**	–	**(256)**	–
Write down of inventories, net	**–**	–	**(2,749)**	(11,146)	**–**	–	**(2,749)**	(11,146)
Gain (loss) on disposal of property, plant and equipment, net	**–**	–	**129**	(16)	**–**	–	**129**	(16)
Gain on disposal of a prepaid land premium	**–**	–	**–**	3,625	**–**	–	**–**	3,625
Changes in fair value of financial assets at fair value through profit or loss	**(9,999)**	(7,016)	**–**	–	**–**	–	**(9,999)**	(7,016)
Bank interest income	**–**	–	**454**	38	**–**	–	**454**	38
Interest expense	**–**	–	**(6,044)**	(9,108)	**–**	–	**(6,044)**	(9,108)
Research and development expenses	**–**	–	**–**	–	**(1,972)**	(6,389)	**(1,972)**	(6,389)
Purchases of property, plant and equipment	**–**	–	**12,395**	8,463	**–**	–	**12,395**	8,463

(b) Segment assets and liabilities

As at 31 December 2018

	Securities investments *HK$'000*	**Toys** *HK$'000*	**Medical and health** *HK$'000*	**Total** *HK$'000*
Reportable segment assets	**17,580**	**302,466**	**–**	**320,046**
Unallocated corporate assets				**204,800**
Total assets				**524,846**
Reportable segment liabilities	**–**	**(283,438)**	**–**	**(283,438)**
Unallocated corporate liabilities				**(77,071)**
Total liabilities				**(360,509)**

As at 31 December 2017

	Securities investments *HK$'000*	Toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	27,579	391,049	–	418,628
Unallocated corporate assets				334,224
Total assets				752,852
Reportable segment liabilities	–	(360,108)	–	(360,108)
Unallocated corporate liabilities				(59,576)
Total liabilities				(419,684)

(c) Geographical information

The following is an analysis of geographical location of (i) the Group's revenue and (ii) the Group's non-current assets including property, plant and equipment, prepaid land premiums, investment properties and deposit paid for refurbishment of properties. The geographical location of customers refers to the customers' place of domicile. The geographical locations of property, plant and equipment, prepaid land premiums, investment properties and deposit paid for refurbishment of properties are based on the physical location of the asset under consideration.

	Revenue from external customers		**Non-current assets**	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**35,860**	20,437	**245**	1,625
The PRC	**–**	–	**235,966**	292,895
United States	**551,242**	506,519	**–**	–
Europe	**45,168**	47,430	**–**	–
Japan	**4,612**	15,547	**–**	–
	636,882	589,933	**236,211**	294,520

(d) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2018	2017
	HK$'000	*HK$'000*
Revenue from manufacturing for sale of toys segment		
Customer A	**488,474**	446,921

5. OTHER INCOME, GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**720**	63
Loan interest income	**2,965**	2,873
Changes in fair value of investment properties	**8,979**	2,146
Net foreign exchange gain (loss)	**2,077**	(10,920)
Mould income	**79**	2,907
Rental income	**1,529**	2,237
Compensation loss for refurbishment of properties	**(437)**	–
Gain (loss) on disposal of property, plant and equipment, net	**129**	(16)
Net agency commission income *(note 14)*	**445**	–
Gain on disposal of prepaid land premium	**–**	3,625
Sundry income	**103**	2,558
	16,589	5,473

6. IMPAIRMENT LOSSES AND PROVISION OF EXPECTED CREDIT LOSSES

	2018	2017
	HK$'000	*HK$'000*
Impairment loss on deposit paid for refurbishment of properties *(note a)*	**64,627**	–
Impairment loss on other receivables *(note a)*	**39,315**	–
Impairment loss on deposit paid for purchase of property, plant and equipment *(note b)*	**–**	12,500
Provision of ECL for loan receivables *(note 11)*	**2,045**	–
Provision of ECL for trade receivables *(note 13)*	**138**	–
	106,125	12,500

Notes:

(a) On 17 February 2016, the Group, entered into a sale and purchase agreement (the "Acquisition Agreement") with third parties (the "Vendors") for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技(蘇州)有限公司 (Yi Nuo Technology (Suzhou) Co., Ltd., ("Yi Nuo")), a company established in the People's Republic of China (the "PRC"), at a cash consideration of RMB64,500,000 (equivalent to approximately HK$74,500,000). The main assets of Yi Nuo are a parcel of land and the building thereon in Suzhou, Jiangsu Province, the PRC ("Suzhou Building") and a receivable amounting to RMB37,536,000 (equivalent to approximately HK$44,348,000) due from one of the Vendors ("Vendor B") which shall be settled within six months upon the completion of the acquisition according to payment schedule agreed with Vendor B (the "Receivable"). Out of the RMB64,500,000 (equivalent to approximately HK$74,500,000) cash consideration, RMB4,410,000 (equivalent to approximately HK$5,033,000) remained unsettled upon the completion of the acquisition. As at 31 December 2018 and 2017, the amount due from Vendor B and the aforementioned outstanding cash consideration remained unsettled.

As at 31 December 2018, the directors of the Company considered that the amount of the Receivable (net of consideration payable) owing from Vendor B was uncollectible and hence an impairment loss of RMB33,177,000 (equivalent to approximately HK$39,315,000) for such receivables owing from Vendor B after netting off against the remaining consideration payable due to Vendor B was recognised in consolidated profit or loss for the year ended 31 December 2018.

Furthermore, on 8 August 2016, the Group had entered into a refurbishment agreement with Vendor B for the Suzhou Building with a contract sum of RMB58,000,000 (equivalent to approximately HK$68,500,000), in which deposits of an aggregated amount of RMB54,700,000 (equivalent to approximately HK$64,627,000) were paid to the Vendor B during November and December 2016. As at 31 December 2018 and 2017 and up to the date of this report, the deposits were unutilised and the refurbishment work has not been completed. The Group has recognised an impairment loss of the deposits of RMB54,700,000 (equivalent to approximately HK$64,627,000) in its consolidated profit or loss for the year ended 31 December 2018 to fully write down the carrying amount of these deposits.

(b) The Group paid the deposit to an independent third party (the "Equipment Supplier") in prior year for the purchase of certain equipment. During the year ended 31 December 2017, the Group entered into a cancellation agreement with the Equipment Supplier to cancel the purchase and the Equipment Supplier agreed to refund the deposit in full by two instalments before the end of June 2017. However, no subsequent payment has been received from the Equipment Supplier in accordance with the cancellation agreement. In the opinion of the directors of the Company, the collectability of this amount receivable from the Equipment Supplier was doubtful and impairment loss was recognised accordingly in prior year. No subsequent settlement was received in current year.

7. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on bank loans	**3,195**	3,404
Interest on corporate bonds	**2,701**	2,700
Interest on revolving loans	**2,849**	5,704
	8,745	11,808

8. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
(Over)underprovision in prior years	**(872)**	6,012
PRC Enterprise Income Tax		
Current year	**2,565**	3,131
Underprovision in prior years	**17**	212
	1,710	9,355
Deferred tax expense	**7,562**	553
Income tax expense	**9,272**	9,908

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amounts involved arising from the implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The tax affairs of a subsidiary (incorporated in Hong Kong) of the Group for the period starting from 1 January 2004 were under field audit by the Hong Kong Inland Revenue Department ("IRD"). In prior year, the subsidiary submitted a reply to the IRD where the subsidiary agreed to withdraw certain deductions claims made in prior years. Based on the directors' estimation, additional provision of income tax of HK$6,012,000 had been provided during the year ended 31 December 2017.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The Group is liable to withholding taxes on dividends distributed by the subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. Pursuant to the PRC Enterprise Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate of 5% is applied to the Group as there is a double tax treaty between the PRC and Hong Kong and the relevant Hong Kong companies should be qualified for the preferential tax rate based on the prescribed conditions.

Taxation arising in other jurisdictions is calculated at the rates of tax prevailing in the relevant jurisdictions.

9. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Employee benefit expense		
(including directors' remunerations):		
Wages and salaries	**131,325**	149,823
Other employee benefits	**4,157**	3,202
Contributions to defined contribution retirement plans	**17,463**	12,101
	152,945	165,126
Sub-contracting labour cost	**54,016**	51,288
Auditors' remuneration	**4,009**	2,000
Cost of inventories recognised as an expense		
(included in cost of sales)	**560,588**	483,543
Depreciation of property, plant and equipment	**9,588**	9,086
Amortisation of prepaid land premiums	**144**	146
Write-off on trade receivables	**256**	–
Write down of inventories, net (included in cost of sales)	**2,749**	11,146
Operating lease charges in respect of land and buildings	**6,153**	5,853

Included in other operating expenses is an amount of HK$484,000 (2017: HK$10,016,000) which represented professional fees incurred for consulting and due diligence services for various potential investment projects that the Group planned to invest in the future.

10. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2018	2017
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(153,625)**	(77,733)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,661,865**	3,456,933

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 does not assume the exercise of share options granted by the Company since such assumed exercise would result in a decrease in loss per share.

11. LOAN RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**23,800**	16,159
Less: provision of ECL	**(5,303)**	–
	18,497	16,159
Analysed as		
Current	**4,510**	16,159
Non-current	**13,987**	–
	18,497	16,159

As at 31 December 2018, the loans are unsecured, carry interest at fixed rates which ranged from 10% to 12% (2017: 10% to 12%) per annum. Loans whose gross carrying values amounted to HK$16,000,000 are repayable more than one year and a loan of gross carrying value of HK$7,800,000 is repayable within one year (2017: all loans were repayable within one year). As at 31 December 2017, a loan receivable of approximately HK$8,359,000 is secured (2018: nil). As at 31 December 2018 and 2017, the loan receivables were neither past due nor impaired. Pursuant to loan agreements, the Group retains a discretionary right to demand the repayment from the borrowers in full before the maturity of the loans.

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and aging analysis of accounts and on the management's judgment, including the current creditworthiness and past collection history of each borrower. In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date credit was initially granted up to the reporting date. This includes assessing the credit history of the business, such as financial difficulties or default in payments and current market conditions.

During the year ended 31 December 2018, in determining the expected credit losses for these assets, the directors of the Company have taken into account the financial position of the counterparties as well as the future prospects of the industries in which the borrowers operate and considered various external sources of actual and forecast economic information, as appropriate, in estimating the probability of default of each of these financial assets occurring within their respective loss assessment time horizon, as well as the loss upon default in each case. The ECL is assessed individually for the counterparties.

Applying the ECL model, provision of ECL for loan receivables is assessed on 12m ECL basis when there has been no significant increase in credit risk since initial recognition. However, when there has been a significant increase in credit risk since origination, the provision will be based on the lifetime ECL. As a result, the gross carrying amount of HK$16,000,000 is assessed on 12m ECL basis whereas the gross carrying amount of HK$7,800,000 is assessed on the lifetime ECL. On the date of initial application of HKFRS 9, a provision of ECL of HK$3,258,000 was recognised in the opening accumulated losses. The provision of ECL on the loan receivables further increased by HK$2,045,000 during the year ended 31 December 2018.

There has been no change in the estimation techniques or significant assumptions made during the current reporting period in assessing the loss allowance for loan receivables.

No aging analysis is disclosed, as in the opinion of the directors of the Company, the aging analysis does not give additional value in view of the nature of business of money lending.

12. INVENTORIES

	2018	2017
	HK$'000	*HK$'000*
Raw materials	**23,847**	21,034
Work in progress	**41,175**	43,141
Finished goods	**24,402**	19,812
	89,424	83,987

13. TRADE RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables, gross	**43,383**	114,700
Less: provision of ECL	**(138)**	–
Trade receivables, net	**43,245**	114,700

At as 31 December 2018, the gross carrying amount of trade receivables arising from contracts with customers amounted to approximately HK$43,383,000 (1 January 2018: HK$114,700,000).

The following is an aged analysis of trade receivables (net of provision of ECL) presented based on the invoice dates which are approximate to the revenue recognition date:

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**29,817**	77,526
31 to 90 days	**13,413**	37,134
Over 90 days	**15**	40
	43,245	114,700

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 180 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing.

Expected credit loss of trade receivables

At the end of the reporting period, the Group reviews trade receivables for evidence of impairment on both an individual and a collective basis. The provision of ECL for receivables is recognised based on the credit history of its customers, indication of financial difficulties, default in payments, and current market conditions. After the above assessment performed by the directors of the Company, a provision of ECL of HK$138,000 was provided for current year and the directors consider that the trade debtors are of good credit quality (2017: nil).

Ageing of trade receivables which are past due but not impaired

The ageing analysis of trade receivables that are neither individually nor collectively considered to be impaired are as follows:

	2018	2017
	HK$'000	*HK$'000*
Neither past due nor impaired	**42,903**	111,555
Past due but not impaired		
Less than 1 month past due	**342**	1,864
1 to 3 months past due	**–**	1,279
Over 3 months	**–**	2
	43,245	114,700

Trade receivables that were neither past due nor impaired related to customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired are related to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no allowance for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Other receivable arising from acquisition of a subsidiary in Suzhou *(note 6(a))*	**–**	44,905
Other receivables arising from agency services *(note ii)*	**11,708**	–
Other receivables arising from subsidiaries in Hainan *(note i)*	**7,844**	–
Prepayments	**7,372**	2,228
Value-added tax recoverable arising from toys segment	**3,805**	11,128
Loan interest receivables	**1,921**	593
Rental deposits	**985**	1,567
Others	**1,586**	2,346
	35,221	62,767

Notes:

(i) During the year ended 31 December 2018, the Group's subsidiary established in Hainan, the PRC (the "Subsidiary") signed a service agreement with an business development and advertising agent (the "Debtor") in respect of a plan for developing a resort village in Hainan with a contract sum of approximately RMB2,150,000 and the Group paid a sum of RMB1,980,000 of which a sum of RMB1,380,000 (equivalent to approximately HK$1,575,000) was purported to be a prepayment to the service fee which was not utilised and was recorded as other receivable as at 31 December 2018 and RMB600,000 was recorded as service fee in profit or loss during the year ended 31 December 2018. A further payment of RMB0.89 million was made subsequent to the reporting period in January 2019. As disclosed in the announcement dated 6 May 2019 made by the Company regarding the resignation of the then auditor for the consolidated financial statements for the year ended 31 December 2018, the then auditor of the Company received a direct confirmation from the Debtor during their audit which indicated that the balances/transactions (the "Transactions") involved arrangements with a former director of the Company (the "Ex-Director") that were not reflected in the books and records of the Subsidiary.

The Transactions entered with an intention to pursue business opportunities for the Group in Hainan, the deposits of RMB1,380,000 (equivalent to approximately HK$1,575,000) as at 31 December 2018 and the further payment of RMB893,000 (equivalent to approximately HK$1,019,000) made in January 2019, totally RMB2,273,000 (equivalent to approximately HK$2,594,000), were short-term advances made, under the control of the Ex-Director, to six parties through the Debtor, of which RMB400,000 was made to a related party of the Ex-Director. Subsequent to the end of the reporting period, certain recipients, including the related party with the Ex-Director, repaid the funds of RMB700,000 (equivalent to approximately HK$799,000) to the Group via the Debtor who also accepted that such amount would be used to settle its outstanding service fee, which was reduced to RMB1,300,000 (equivalent to approximately HK$1,484,000) as final settlement, and the amount of RMB700,000 (equivalent to approximately HK$799,000) was recognised to the profit or loss for the year ended 31 December 2018. Furthermore, in September 2019, the remaining RMB1,573,000 (equivalent to approximately HK$1,795,000) out of the RMB2,273,000 (equivalent to approximately HK$2,594,000) was subsequently repaid to the Subsidiary.

During the period from April 2018 to July 2018, the Subsidiary entered into loan arrangements with five parties outside the Group for a sum of approximately RMB14,182,000 (equivalent to approximately HK$16,185,000) (the "Loans"), of which RMB200,000 (equivalent to approximately HK$228,000) was made to a related party of that Ex- Director. The Loans were unsecured, interest-free and repayable within 12 months from the date of drawn down. Before the end of the reporting period, an amount of RMB10,200,000 out of a loan made to a party of RMB10,359,000 million was repaid to the Subsidiary. The rest of the Loans totalling RMB3,982,000 (equivalent to approximately HK$4,543,000) including RMB200,000 (equivalent to approximately HK$228,000) due from a related company remained outstanding as at 31 December 2018. This outstanding amount was subsequently repaid to the Subsidiary in April 2019. Also, the Subsidiary entered into a consultancy service agreement with another counterparty in relation to the plan for developing a resort village in Hainan, and made a deposit paid of RMB1,700,000 (equivalent to approximately HK$1,940,000) and recorded as other receivables as at 31 December 2018. This consultancy service agreement was subsequently terminated in April 2019, and such deposit paid was refunded to the Subsidiary. Besides, there was a purchasing agreement amounting RMB1,360,000 (equivalent to approximately HK$1,552,000) entered by the Subsidiary for purchasing certain horses from overseas, of which the amount recorded as prepayment and was stated as its recoverable amount based on market information at RMB473,000 (equivalent to approximately HK$540,000) as at 31 December 2018.

(ii) Receivables of United States dollar ("USD") 1,501,000 (equivalent to approximately HK$11,708,000) due from a counterparty was in relation to the Group's rendering of agency services for purchases and sales of chemical goods and such amount was subsequently settled after the end of the reporting period.

The Group recognised lifetime ECL for other receivables based on individually significant debtors or the ageing of debtors collectively that are not individually significant by reference to past default experience of the debtor at the reporting date.

15. TRADE PAYABLES

The following is an aged analysis of trade payables presented based on the invoice dates.

	2018	2017
	HK$'000	*HK$'000*
0 to 30 days	**56,155**	96,591
31 to 90 days	**38,964**	53,991
Over 90 days	**22,743**	20,793
	117,862	171,375

The trade payables are expected to be settled within one year.

16. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Deposit received for disposal of a subsidiary *(note a)*	**25,891**	–
Accrued staff cost	**12,503**	16,306
Accruals	**9,768**	10,683
Other payables	**3,913**	8,656
Consideration payable for acquisition of Hainan Zhongzhi	**1,137**	1,137
Consideration payable for acquisition of Yi Nuo *(note 6a)*	**–**	5,033
Tenant deposits received	**829**	851
Deposits received from customers *(note b)*	**–**	2,242
	54,041	44,908

Notes:

(a) On 28 December 2017, the Group entered into a sale and purchase agreement (the "Disposal Agreement") with an independent third party (the "Purchaser") to conditionally sell the entire share capital of Bright Triumph Development Limited, a company incorporated in the British Virgin Islands with limited liability and being the investment holding company of Yi Nuo, at a consideration of HK$142,000,000. On 19 March 2018, the Group received a deposit of RMB22,686,000 (equivalent to approximately HK$25,891,000) out of RMB28,400,000 as prescribed in the Disposal Agreement from the Purchaser.

However, in the opinion of the directors of the Company, the Purchaser was not in a position to proceed to the completion. On 23 April 2019, following negotiations, the parties mutually agreed to terminate the Disposal Agreement, and the Group and the Purchaser entered into a termination agreement (the "Termination Agreement"), pursuant to which the parties have agreed to terminate the Disposal Agreement with immediate effect, the respective rights and obligations of each party thereunder shall cease and no party to the Disposal Agreement shall have any claim against any other party. Pursuant to the Termination Agreement, the Group is required to refund the deposit received of RMB22,686,000 to the Purchaser. In April 2019, the Group has refunded part of the deposit of approximately RMB18,320,000 (equivalent to approximately HK$20,908,000) to the Purchaser.

(b) As at 1 January 2018, deposits received from customers of trading of toys products business of HK$2,242,000 previously included in trade and other payables were reclassified to contract liabilities.

17. BORROWINGS

	2018 Contractual interest rate (%)	2018 HK$'000	2017 Contractual interest rate (%)	2017 HK$'000
Bank loans – secured *(note a)*	**Fixed rates of 2.5% to 4.35% per annum**	**90,422**	Fixed rates of 2.5% to 5.7% per annum	104,662
Corporate bonds – secured *(note b)*	**Fixed rates of 6.0% per annum**	**45,000**	Fixed rates of 6.0% per annum	45,000
Sub-total of secured borrowings		**135,422**		149,662
Revolving loans – unsecured *(note c)*	**Fixed rates of 10.0% per annum**	**25,000**	Fixed rates of 10.0% per annum	35,000
		160,422		184,662
Analysed as				
Current		**160,422**		184,662

The above loans are measured at amortised costs.

Notes:

(a) The bank borrowings were secured by:

(i) mortgage over the Group's leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK$101,000,000 (2017: HK$103,000,000) and approximately HK$3,872,000 (2017: HK$4,016,000) respectively; and

(ii) pledge over the Group's bank deposits of approximately HK$21,474,000 as at 31 December 2017 (2018: nil); and

The total banking facilities granted to the Group amounted to RMB110,000,000 (equivalent to approximately HK$125,542,000) (2017: RMB90,000,000 (equivalent to approximately HK$107,668,000)) of which approximately HK$90,422,000 (2017: HK$104,662,000) were utilised as at 31 December 2018.

On 24 June 2019, the maturity date of the bank loans is subsequently extended to 19 June 2020.

(b) On 7 December 2016, corporate bonds amounted to HK$45,000,000 were issued by the Company, bearing interest of 6% per annum and payable semi-annually in arrears, and with maturity in two years, of which are secured by pledge of shares of a subsidiary of the Company.

The corporate bonds had become due and payable on its maturity date of 6 December 2018. As at 31 December 2018, the Group defaulted on the repayment of the corporate bonds and further negotiated with the bond holder for extension. On 23 August 2019, by successfully entering into a deed of waiver and a supplemental deed poll to the bond instrument executed by the Company, the Group was discharged and released from the obligation and liabilities which arose from the default and the maturity date has been extended to 30 September 2020. The corporate bonds then bear interest at 6.75% per annum from 7 December 2018 to 30 September 2020.

(c) As at 31 December 2018 and 2017, the Group's revolving loans utilised with carrying amount of HK$25,000,000 (2017: HK$35,000,000), repayable within one year, were granted by a substantial shareholder of the Company and guaranteed by the Company. The revolving loans had unutilised amount of HK$25,000,000 (2017: HK$5,000,000) as at 31 December 2018. Prior to the maturity date of such revolving loans, the Group has entered into an extension agreement to further extend the maturity date to 30 September 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

FINAL DIVIDEND

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2018 (2017: nil).

BUSINESS OVERVIEW

For the financial year ended 31 December 2018 ("FY 2018"), the Group recorded revenue of HK$636.9 million, representing an increase of 8% from the revenue of HK$589.9 million for the financial year ended 31 December 2017 ("FY 2017"). The increase was mainly due to the performance of our toy's division. Gross profit for the year amounted to HK$69.7million, down by 20% compared with that of HK$87.6 million in FY 2017 as a result of keen competition and increase in labour cost.

The securities investments division recorded a loss of HK$10.0 million in FY 2018, compared with HK$7.0 million in FY 2017, representing an increase of losses of 43% year-on-year.

For the FY 2018, the Group increased its net loss by 98% to HK$153.6 million compared with HK$77.7 million in FY 2017. The main reason for the loss increase was the impairment of assets of HK$103.9 million during the FY 2018 discussed below.

The following will discuss each of the sections of the Group.

Toys Division

For the FY2018, revenue of the toys division increased by 8% to HK$636.9 million as a result of continued popular product series developed and marketed by one of our major customers. However, as the intense competition in the industry resulted in lower margins, increment on minimum wages and unfavourable exchange rate for the RMB, the production cost increased and gross profit decreased to HK$69.7 million (FY2017: HK$87.6 million). As the headwords mentioned above, the toys division decreased reported segment profit after taxation at HK$4.2 million for FY2018 (FY2017: HK$5.6 million).

Securities Investments Division

During the year, the Hong Kong stock market experienced a significant downturn, as factors such as China-US trade war, US interest rate hike and uncertainty about Brexit all caused huge volatility. The Group adopted a conservative strategy in managing its investment portfolio during the year. As a result, the securities investments division recorded a HK$10 million loss, representing a 68.9% increase as compared with FY 2017. At the end of FY 2018, the Group securities portfolio was valued at HK$17.6 million (FY 2017: HK$27.6 million). The Group did not receive any dividend income in both FY 2018 and FY 2017.

Medical and Health Division

During the year, the Group continued its medical research project by investing in Success Impact Corporation. The project was mainly about the preclinical research studies of genetically engineered bacteria for targeted cancer therapy ("Project GEB"). A total of approximately HK$2.0 million (FY2017: HK$6.4 million) on research and development expenses were recorded in the Project GEB.

Further efforts and more research studies will be needed to improve the specificity of the bacteria-based treatment and its antitumor efficacy.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

Due to the classification of the Group's borrowing as current liability discussed immediately below, at the end of FY 2018, the Group had net current liabilities of HK$70,363,000 (FY2017: Net current asset of HK$47,708,000) comprising cash and cash equivalents of HK$75,489,000 (FY 2017: HK$131,523,000) (excluding pledged bank deposits).

The equity attributable to shareholders of the Company decreased by 51% to HK$164,337,000 (FY2017: HK$333,168,000) mainly as a result of the impairment loss incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder's equity. The Group's gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade and bills payables and other payables and accruals less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group at 31 December 2018 was 61% (2017: 43%).

Despite the loss incurred by the Group and the net current liabilities status at the end of FY2018, the financial position of the Group remains healthy with the loan extensions obtained after the financial year ended, and the Group has sufficient cash to support the Group's ongoing business operations. During the year, the Group made a one-off HK$103.9 million impairment in the receivables and assets of Yi Nuo Technology (Suzhou) Limited, a wholly owned subsidiary since 2016. The reason for the impairment was mainly attributable to the need to comply with applicable accounting rules as the relevant receivables were long overdue and relevant assets became obsolete. In addition, it is the management position that those receivables recovery is questionable in the best circumstances. The management nevertheless is actively engaged in recovering relevant receivables. The assets written off in the year will not have any forward impact on the Group financial statements.

The new management team is more closely aligned with our shareholders as can be seen from the actions taken so far to redirect the Company toward a better internal control, resolution of the legacy issues, and a substantial reduction of the management cost.

PROSPECTS

The Company is having significant changes in the year 2019 in terms of board of directors and the financial statements. The board of directors were all newly appointed in the year 2019 and the new board immediately implemented policies to set the Company in a right direction. The new board is looking for different business opportunity to diversify our principal business activities. Cost cutting measures were put in place to reduce operating costs. The Board appointed an independent investigator to look into the allegations made by previous auditor and determine the appropriate action to follow up. The new Board engaged an independent consultant to review and eliminate potential internal control weakness. On our financial statements, the Company cleared long outstanding debt and obtained new extension of loans to give the Company a better financial position to meet the future challenge.

The toys division is expected to continue to perform satisfactorily. Due to the trade conflict between the US and China, and the related customs duty increase, customers are cautious to place orders. Besides, customers are actively looking for productions bases outside China to alleviate the possible tariffs and possible lower cost of production. Those trends may cause extreme pressure on product margins and turnover, in particular the first half in 2019. However, stabilized RMB and lower material cost will be favourable in 2019.

Looking forward, we are cautiously optimistic as our toys division continues to perform successfully in the marketplace and the new Board sets to start to explore new business opportunity on a much lower management cost.

CORPORATE GOVERNANCE

During the financial year ended 31 December 2018, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules except for the following deviation with reason as explained.

Pursuant to Code A.6.7, the independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

One Executive Director, one Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the annual general meeting of the Company held on 1 June 2018 due to other prior business engagements. One Executive Director, one Non-executive Director and two Independent Non-executive Directors of the Company were unable to attend the special general meeting of the Company held on 26 June 2018 due to other prior business engagements. However, there were at least one Executive Director and one Independent Non-executive Director presented at each meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

Two Independent Non-executive Directors were resigned on 10 April 2019 and 11 April 2019 respectively. Upon the resignation of two Independent Non-executive Directors, the number of Independent Non-executive Directors falls below the minimum number of independent non-executive directors as required under Rules 3.10(1) and 3.10A of the Listing Rules. The number of members of the Audit Committee also below the minimum number as required under Rule 3.21 of the Listing Rules. Furthermore, there is a vacancy in the Nomination Committee and the Remuneration Committee for the period from 10 April 2019 to 21 May 2019.

Non-Compliance with Financial Reporting Provisions of the Listing Rules

On 28 March 2019, the Company announces that as additional time will be required to provide the required information to the auditors of the Company to perform the audit work in respect of the financial information of the Group for the year ended 31 December 2018, the Company could not timely publish its annual results and annual report as required under the Listing Rules.

On 3 May 2019, SHINEWING (HK) CPA Limited ("Shinewing") resigned as the auditor of the Group after taking into account several factors, including among others:

1. several major outstanding audit matters including, but not limited to, the disposal transaction of subsidiaries of the Group and the use of going concern basis underlying the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018; and

2. a direct confirmation received by Shinewing from a debtor of the Group during the course of audit which indicated that the confirmed balances/transactions appear to have involved arrangements with certain directors of the Company that were not reflected in the books and records of the Group's subsidiary.

Following the resignation of Shinewing, Prism CPA Limited ("Prism") was appointed as the auditors of the Group on 8 May 2019. Prism will accept the appointment as auditors of the Group after the satisfactory completion of their client acceptance procedures. Further on 6 June 2019, Prism stated that they were unable to accept the appointment as the auditors of the Group as they were unable to commit to the timetable set by the Board regarding the completion of the audit work on the consolidated financial statements of the Group for the year ended 31 December 2018. Subsequently, the Company appoint Moore Stephens CPA Limited as the auditors of the Group with effect from 6 June 2019.

As such, the Company was not able to timely comply with the financial reporting provisions under the Listing Rules in (i) announcing the annual results for the financial years ended 31 December 2018 and interim results for the six month periods ended 30 June 2019; and (ii) publishing the related annual reports and interim reports for the above-mentioned years and periods.

AUDIT COMMITTEE

The annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company. The Group's consolidated financial statements have been audited by the Company's auditor, Moore Stephen CPA Limited, it has issued a disclaim opinion.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditor, Moore Stephens CPA Limited ("Moore Stephens"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens on the preliminary announcement.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2018.

Disclaimer of Opinion

We were engaged to audit the consolidated financial statements of Winshine Science Company Limited (the "Company") and its subsidiaries (together the "Group") set out on the financial statements, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

(i) Scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables

As disclosed in note 8(a) to the consolidated financial statements, on 17 February 2016, the Group, entered into a sale and purchase agreement (the "Acquisition Agreement") with third parties (the "Vendors") for the acquisition of certain assets and recognised certain liabilities through the acquisition of the entire equity interest of 宜諾科技（蘇州）有限公司(Yi Nuo Technology (Suzhou) Co., Ltd., ("Yi Nuo")), a company established in the People's Republic of China (the "PRC"), at a cash consideration of RMB64.5 million (equivalent to approximately HK$74.5 million). The main assets of Yi Nuo are a parcel of land and the building thereon in Suzhou, Jiangsu Province, the PRC ("Suzhou Building") and a receivable amounting to RMB37.5 million (equivalent to approximately HK$44.3 million) due from one of the Vendors ("Vendor B") which shall be settled within six months upon the completion of the acquisition according to payment schedule agreed with Vendor B (the "Receivable"). Out of the RMB64.5 million (equivalent to approximately HK$74.5 million) cash consideration, RMB4.4 million (equivalent to approximately HK$5.0 million) remained unsettled upon the completion of the acquisition. As at 31 December 2018 and 2017, the amount due from Vendor B and the aforementioned outstanding cash consideration remained unsettled. As at 31 December 2018, the directors of the Company considered that the amount of the Receivable (net of consideration payable) owing from Vendor B was uncollectible and hence an impairment loss of RMB33.2 million (equivalent to approximately HK$39.3 million) for such receivables owing from Vendor B after netting off against the remaining consideration payable due to Vendor B was recognised in consolidated profit or loss for the year ended 31 December 2018.

Furthermore, on 8 August 2016, the Group had entered into a refurbishment agreement with Vendor B for the Suzhou Building with a contract sum of RMB58.0 million (equivalent to approximately HK$68.5 million), of which deposits of an aggregated amount of RMB54.7 million (equivalent to approximately HK$64.6 million) were paid to the Vendor B during November and December 2016. As at 31 December 2018 and 2017 and up to the date of this report, the deposits were unutilised and the refurbishment work has not been completed. The Group has recognised an impairment loss of the deposits of RMB54.7 million (equivalent to approximately HK$64.6 million) in its consolidated profit or loss for the year ended 31 December 2018 to fully write down the carrying amount of these deposits.

We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the nature and validity, of the deposits paid in 2016 in respect of the refurbishment of the Suzhou Building. In addition, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves as to whether, and if so how much of, the impairment losses recognised in consolidated profit or loss for the year ended 31 December 2018 in respect of the amount due from Vendor B and the deposits for the refurbishment of Suzhou Building referred to above should be recognised in financial years prior to the year ended 31 December 2018. Consequently, we were unable to determine whether any adjustments mentioned immediately following would be necessary to the classification and amounts presented in the consolidated financial statements in relation to deposit paid for refurbishment of Suzhou Building and amount due from Vendor B (included in prepayments, deposits and other receivables), impairment losses on these balances, the related elements making up the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the consolidated financial statements. Any adjustments found to be necessary in respect of these matters might have significant consequential effects on the losses and cash flows of the Group for the years ended 31 December 2018 and 2017 and the net assets of the Group as at 31 December 2017 presented in the consolidated financial statements.

(ii) Scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions and loans made by a subsidiary of the Group

During the year ended 31 December 2018, the Group's subsidiary established in Hainan, the PRC, (the "Subsidiary") signed a service agreement with a business development and advertising agent (the "Debtor") in respect of a plan for developing a resort village in Hainan with a contract sum of approximately RMB2.15 million and the Group paid a sum of RMB1.98 million of which a sum of RMB1.38 million (equivalent to approximately HK$1.58 million) was purported to be a prepayment to the service fee which was not utilised and was recorded as other receivable as at 31 December 2018 and RMB0.6 million was recorded as service fee in profit or loss during the year ended 31 December 2018. A further payment of RMB0.89 million was made subsequent to the reporting period in January 2019. As disclosed in the announcement dated 6 May 2019 made by the Company regarding the resignation of the then auditor for the consolidated financial statements for the year ended 31 December 2018, the then auditor of the Company received a direct confirmation from the Debtor during their audit which indicated that the balances/transactions (the "Transactions") involved arrangements with a former director of the Company (the "Ex-Director") that were not reflected in the books and records of the Subsidiary.

The Transactions entered with an intention to pursue business opportunities for the Group in Hainan, the deposits of RMB1.38 million (equivalent to approximately HK$1.58 million) as at 31 December 2018 and the further payment of RMB0.89 million (equivalent to approximately HK$1.02 million) made in January 2019, totally RMB2.27 million (equivalent to approximately HK$2.60 million), were short-term advances made, under the control of the Ex-Director, to six parties through the Debtor, of which RMB0.4 million was made to a related party of the Ex-Director. Subsequent to the end of the reporting period, certain recipients, including the related party with the Ex-Director, repaid the funds of RMB0.7 million (equivalent to approximately HK$0.8 million) to the Group via the Debtor who also accepted that such amount would be used to settle its outstanding service fee, which was reduced to RMB1.3 million (equivalent to approximately HK$1.5 million) as final settlement, with a further amount of RMB0.7 million (equivalent to approximately HK$0.8 million) recognised to the profit or loss for the year ended 31 December 2018. Furthermore, in September 2019, the remaining RMB1.57 million (equivalent to approximately HK$1.79 million) out of the RMB2.27 million (equivalent to approximately HK$2.60 million) was repaid to the Subsidiary.

During the period from April 2018 to July 2018, the Subsidiary entered into loan arrangements with five parties outside the Group for a sum of approximately RMB14.18 million (equivalent to approximately HK$16.18 million) (the "Loans"), of which RMB0.2 million (equivalent to approximately HK$0.23 million) was made to a related party of that Ex– Director. The Loans were unsecured, interest-free and repayable within 12 months from the date of drawn down. Before the end of the reporting period, an amount of RMB10.2 million out of a loan made to a party of RMB10.36 million was repaid to the Subsidiary. The rest of the Loans totalling RMB3.98 million (equivalent to approximately HK$4.54 million) including RMB0.2 million (equivalent to approximately HK$0.23 million) due from a related company remained outstanding as at 31 December 2018. As disclosed in note 24 to the consolidated financial statements, this outstanding amount was subsequently repaid to the Subsidiary in April 2019. Also, the Subsidiary entered into a consultancy service agreement with another counterparty in relation to the plan for developing a resort village in Hainan, and made a deposit paid of RMB1,700,000 (equivalent to approximately HK$1,940,000) and recorded as other receivables as at 31 December 2018. This consultancy service agreement was subsequently terminated in April 2019, and such deposit paid was refunded to the Subsidiary.

The New Board (defined in note 2 to the consolidated financial statements), which was formed on 10 May 2019, established a special investigation committee (the "SIC") comprising an executive director and 2 independent non-executive directors on 18 May 2019 and engaged an independent forensic accountant with the purposes of investigating (i) the Transactions and Loans and (ii) identifying if there are any other similar fund transfer arrangements.

In respect of the above, we were unable to obtain sufficient appropriate audit evidence to satisfy ourselves regarding the nature and business rationale for making the short-term fund advance arrangements described above, and whether any party related to related parties of the Group was involved in the transactions, particularly given the influence and involvement of the Ex-Director in the arrangements for the Transactions given the aforesaid discovery of discrepancies between the direct confirmation received from the Debtor and the accounting records by the then auditor in March 2019, and therefore we did not consider that we had obtained sufficient appropriate audit evidence to conclude whether the Ex-Director is not related to those counterparties, other than whom expressively identified as such by the Ex-Director, for the Loans and short-term fund advance arrangements under the Transactions and thus these parties are not related parties in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures". Accordingly, we are unable to conclude whether the associated related party transaction disclosures are complete and accurate for the current period as well as satisfying ourselves about the nature and the underlying commercial reasons of entering into the above transactions.

Consequently, we were unable to determine whether any adjustments that might have an impact on determination of the amounts presented in the consolidated statement of changes in equity, the consolidated statement of cash flows and the related disclosures in the consolidated financial statements, were necessary. Any adjustments found to be necessary in respect of these matters might have significant consequential effects on the losses and cash flows of the Group for the year ended 31 December 2018 presented in the consolidated financial statements.

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the consolidated financial statements which indicates that the Group incurred a loss of approximately HK$153.6 million with net cash outflow from operating activities before working capital changes of approximately HK$19.5 million for the year ended 31 December 2018 and as at 31 December 2018, the Group had net current liabilities of approximately HK$70.4 million and cash and cash equivalents of approximately HK$75.5 million, in contrast, the Group's borrowings amounted to approximately HK$160.4 million, of which HK$45.0 million were overdue which have become repayable on demand as at 31 December 2018 (the "Bonds"), and approximately HK$115.4 million were repayable within the next twelve months as disclosed in note 29 to the consolidated financial statements.

Up to the date of the approval of the consolidated financial statements, in respect of the borrowings which were overdue and were repayable within the next twelve months as described above, the following measures were carried out:

(a) an extension agreement for the borrowings of HK$45.0 million has been entered into between the Company and the holder of the Bonds to extend the repayment terms of overdue bonds to 30 September 2020, details of which are set out in note 29 to the consolidated financial statements;

(b) an extension agreement prior to its maturity in connection with the unsecured loan of approximately HK$25.0 million has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 8 October 2019 to extend the repayment due date to 30 September 2020, details of which are set out in note 29 to the consolidated financial statements.

(c) the secured bank loan of HK$90.4 million was revolved on 24 June 2020 with repayment due date extended to 19 June 2020 pursuant to a loan revolving agreement entered into with the bank, details of which are set out in note 29 to the consolidated financial statement.

Besides, the Group also carried out other measures as set forth in note 2 to the consolidated financial statements to improve its financial position. The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group will be able to successfully achieve the outcome and implementation of the measures to meet its financial obligations when they fall due in the next twelve months from the date of issuance of these consolidated financial statements. Our disclaimer of opinion is not modified in respect of this matter.

Other Matter

The consolidated financial statements of the Group for the year ended 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those statements on 28 March 2018.

ADDITIONAL INFORMATION REGARDING THE DISCLAIMER OF AUDIT OPINION

As disclosed in the section headed "Basis for Disclaimer of Opinion" in the independent auditors' report on the consolidated financial statements of the Group for the year ended 31 December 2018 (the "Independent Auditors' Report"), the auditors of the Company, Moore Stephens CPA Limited, does not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2018.

The matters which gave rise to such disclaimer of opinion related to (1) scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables; and (2) scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions and loans made by a subsidiary of the Group.

The Audit Committee has reviewed and agreed with the Audit Qualification. At the Board meeting held immediately after the meeting of the Audit Committee held on 30 October 2019, the Audit Committee reported to and discussed with the Board on the Audit Qualification. The Board provided response to the Audit Qualification and the Audit Committee concurred with the management. The management and the Audit Committee have the following opinions on the matters which gave rise to the disclaimer of opinion for the year ended 31 December 2018.

(1) Scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables

As disclosed in the announcement of the Company dated 23 April 2019, since Nanjing Sanyou Real Estate Company Limited* (南京三友置業有限公司) ("Nanjing Sanyou" or the "Purchaser") is not in a position to proceed to complete the acquisition of Yi Nuo Technology (Suzhou) Company Limited (an indirect wholly-owned subsidiary of the Company, ("Yi Nuo")), Billion Pride Group Limited (a wholly-owned subsidiary of the Company, ("Billion Pride")) and Nanjing Sanyou had entered into a termination agreement (the "Termination Agreement"), pursuant to which the parties have agreed to terminate the disposal agreement signed on 28 December 2017 with immediate effect. The main assets of Yi Nuo are a parcel of land, the deposit paid for refurbishment of properties in Suzhou, Jiangsu Province, the PRC and the other receivable.

In view of the significant uncertainty on the recoverability of the other receivables and the Group has no intention to complete the refurbishment work of properties, the management considered the recoverable amount of the deposit paid for refurbishment of properties and the other receivables to be zero and it would be appropriate for the Group to make an impairment of approximately HK$68.5 million and HK$39.3 million for the year ended 31 December 2018 respectively. In order to reduce the loss incurred, the management is currently negotiating with one of the Vendors for RMB10 million settlement of all the outstanding other receivables.

The Audit Committee is of the view that it is prudent to make full impairment on the deposit paid for refurbishment of properties and other receivables. In the above circumstances, the full impairment losses have been made in the year ended 31 December 2018 in respect of the deposit paid for refurbishment of properties and other receivable due to their recoverable amounts were in doubt, and hence the Company expects that disclaimer relating to the Auditors' opinion on this issue will be removed in the next year's audit except for the effect on comparability of corresponding figures.

Please refer to the announcement of the Company dated 28 December 2017 and the circular of the Company dated 31 May 2018 for details of the disposal of Yi Nuo.

(2) Scope limitation on inability to obtain sufficient appropriate audit evidence concerning certain transactions (the "Transactions") and loans (the "Loans") made by a subsidiary of the Group.

The auditors were unable to perform sufficient appropriate audit procedures to satisfy themselves regarding the nature and reasons for the making the short-term fund advance arrangements under the Transactions and the Loans, and whether any related parties of the Group was involved in the transactions given the influence and involvement of an individual who was a director of the Company (the "Ex-Director"). As disclosed in the announcement of the Company dated 6 May 2019, a direct confirmation from a debtor was received by the then auditors in March 2019 which indicated that the Transactions involved the Ex-Director were not reflected in the books and records of a subsidiary of the Group.

In regards of the Transactions and Loans, the Company established a special investigation committee (the "SIC") comprising an executive director and 2 independent non-executive directors on 18 May 2019 and engaged FTI Consulting (Hong Kong) Limited ("FTI Consulting") with the purposes of investigating (i) the Transactions and Loans and (ii) identifying if there are any other similar fund transfer arrangements (the "Independent Investigation"). The SIC also engaged an internal control consulting firm (the "Internal Control Adviser") to assess and conduct a review of the internal control systems and procedures of the Group and selected subsidiaries of the Company, and to make recommendations accordingly (the "Internal Control Review").

The management, the SIC and the Audit Committee have reviewed the reports prepared by FTI Consulting and the Internal Control Adviser. They concluded that the Transactions were made with the intention to pursue business opportunities for the Group and the Loans made by a subsidiary are primarily attributable to a weak internal control mechanism of the Group. The management has taken up the recommendations from the Internal Control Adviser to remedy the internal control system and procedures in order to avoid any future situations. The SIC and the Audit Committee are of the view that this Audit Qualification have been duly dealt with given that (i) the amount relating to the service fee had been recognised in the profit or loss for the year ended 31 December 2018 and the remaining amounts from the Transactions and Loans were refunded or repaid to the Group subsequently after the year ended 31 December 2018 (as disclosed in note 24 to the consolidated financial statements); (ii) the Group did not suffer substantial loss as a result of the Transactions and Loans; (iii) the relevant personnel of the Transactions and Loans concerned have already left the Group; and (iv) the Company has put in the place adequate internal control system and procedures as recommended by the Internal Control Adviser. In the above circumstances, the Company expects that disclaimer relating to the Auditors' opinion on this issue will be removed in the next year's audit except for the effect on comparability of corresponding figures.

Key findings of the Independent Investigation and the Internal Control Review are summarised in the announcement of the Company dated 30 October 2019.

FURTHER INFORMATION IN RESPECT OF CHANGE OF AUDITOR

Reference is made to the announcements of the Company dated 6 May 2019, 8 May 2019 and 10 June 2019 respectively in relation to, among other things, the change of auditors (collectively, the "Announcements"). Unless otherwise defined, capitalised items used herein shall have the same meanings as those defined in the Announcements.

As disclosed in the Announcements, SHINEWING (HK) CPA Limited ("Shinewing") has resigned as auditor of the Company with effect from 3 May 2019 and Prism CPA Limited ("Prism") was appointed to fill the casual vacancy following the resignation of Shinewing and since Prisim were unable to accept the appointment as auditors of the Group as they were unable to commit to the timetable set by the Board regarding the completion of the audit work on the consolidated financial statements Moore Stephens CPA Limited ("Moore Stephens") was appointed as the new auditors of the Company.

As stated in Shinewing's letter of resignation to the Board and the Audit Committee dated 3 May 2019, Shinewing resigned after taking into account several factors (the "Outstanding Matters"), including among others:

(i) several major outstanding audit matters including, but not limited to, the disposal transaction of subsidiaries of the Group and the use of going concern basis underlying the preparation of the financial statements of the Group for the year ended 31 December 2018 (the "Financial Statements"); and

(ii) a direct confirmation received by Shinewing from a debtor of the Group during the course of audit which indicated that the confirmed balances/transactions appear to have involved arrangements with certain directors of the Company that were not reflected in the books and records of the Group's subsidiary.

Shinewing, as they have advised the management of the Company, considered that they were not in a position to precisely estimate the date by which they could foresee to complete the necessary audit procedures and conclude the audit of the Financial Statements based on the current status of the Outstanding Matters and the circumstances surrounding the announcement of the Company dated 16 April 2019.

Set out below is the actions taken by the Company to address the Outstanding Matters and the Audit Committee's view on how the matters are properly addressed:

As disclosed in the announcement of the Company dated 23 April 2019, the disposal transaction of subsidiaries of the Group was terminated. The relevant subsidiaries remain as subsidiaries of the Group and that the financial results are consolidated into the Financial Statements. In regards to the use of going concern basis, the Company has entered into extension agreements with several lenders. Details of which are set out in note 29 to the consolidated financial statements.

In regards to the matter of direct confirmation, the Company engaged FTI consulting with the purposes of investigating above transactions and to identify if there are any other similar fund transfer arrangements. The Company also engaged Internal Control Adviser to assess and conduct a review of the internal control systems and procedures of the Group and selected subsidiaries of the Company, and to make recommendations accordingly. The results was disclosed in the announcement of the Company dated 30 October 2019.

In view of the above, the Audit Committee considered that the Outstanding Matters are properly addressed.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CONTINUED SUSPENSION OF TRADING

At the request of the Company, trading in the shares of the Company on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2019 and will remain suspended until further notice.

By Order of the Board
Winshine Science Company Limited
Zhao Deyong
Chairman

Hong Kong, 30 October 2019

As at the date of this announcement, the Board comprises three Executive Directors, namely Mr. Zhao Deyong (Chairman), Mr. Liu Michael Xiao Ming (Chief Executive Officer) and Mr. Luo Lianjun; one Non-executive Director, namely Mr. Lin Shaopeng; and three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Ng Wai Hung and Ms. Shi Xiaolei.

* *For identification purpose only*