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 2019

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 2019 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2019

		2019	2018
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**649,490**	636,882
Cost of sales		**(574,551)**	(567,137)
Gross profit		**74,939**	69,745
Other income, gains and losses	*5*	**16,822**	16,589
Impairment loss on deposit paid for refurbishment of properties	*6*	**–**	(64,627)
Impairment loss on other receivables	*6*	**–**	(39,315)
Provision of expected credit loss for loan receivables, net		**(1,082)**	(2,045)
Provision of expected credit loss for loan interest receivables		**(1,008)**	–
Provision of expected credit loss for trade receivables	*14*	**(434)**	(138)

	Notes	**2019** **HK$'000**	2018 *HK$'000*
Selling and distribution costs		**(6,403)**	(8,183)
Administrative expenses		**(73,907)**	(80,047)
Research and development expenses		**(2,523)**	(1,972)
Changes in fair value of financial assets at fair value through profit or loss		**(10,689)**	(9,999)
Other operating expenses		**(14,404)**	(15,616)
Finance costs	*7*	**(14,785)**	(8,745)
Loss before tax		**(33,474)**	(144,353)
Income tax expense	*8*	**(8,948)**	(9,272)
Loss for the year	*9*	**(42,422)**	(153,625)
Loss for the year attributable to the owners of the Company		**(42,422)**	(153,625)
Loss per share			
Basic and diluted	*11*	**(HK1.16 cents)**	(HK4.20 cents)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	2019	2018
	HK$'000	*HK$'000*
Loss for the year	**(42,422)**	(153,625)
Other comprehensive income (expense)		
Items that will not be reclassified to profit or loss:		
Gain on revaluation of properties	**4,741**	1,678
Deferred tax (charge) credit arising from revaluation surplus of properties	**(400)**	800
	4,341	2,478
Item that may be reclassified subsequently to profit or loss:		
Exchange differences arising on translation of foreign operations	**(5,977)**	(14,426)
Other comprehensive expense for the year	**(1,636)**	(11,948)
Total comprehensive expense for the year	**(44,058)**	(165,573)
Total comprehensive expense for the year attributable to the owners of the Company	**(44,058)**	(165,573)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2019

	Notes	2019 HK$'000	2018 HK$'000
Non-current assets			
Property, plant and equipment		**135,168**	126,570
Right-of-use assets		**9,185**	–
Prepaid land premiums		**–**	3,729
Investment properties		**110,518**	105,912
Loan receivables	*12*	**–**	13,987
Deferred tax assets		**7,517**	8,808
		262,388	259,006
Current assets			
Financial assets at fair value through profit or loss		**6,891**	17,580
Inventories	*13*	**67,541**	89,424
Prepaid land premiums		**–**	143
Trade receivables	*14*	**84,779**	43,245
Loan receivables	*12*	**9,615**	4,510
Amount due from a related company		**–**	228
Prepayments, deposits and other receivables	*15*	**17,088**	35,221
Pledged bank deposits		**58,170**	–
Bank balances and cash		**89,280**	75,489
		333,364	265,840
Current liabilities			
Trade payables	*16*	**148,159**	117,862
Other payables and accruals	*17*	**35,330**	54,041
Contract liabilities		**542**	1,745
Borrowings	*18*	**209,441**	160,422
Lease liabilities		**3,458**	–
Tax payables		**2,083**	2,133
		399,013	336,203
Net current liabilities		**(65,649)**	(70,363)
Total assets less current liabilities		**196,739**	188,643

	Note	2019	2018
		HK$'000	*HK$'000*
Non-current liabilities			
Borrowings	*18*	**45,000**	–
Lease liabilities		**2,005**	–
Deferred tax liabilities		**29,455**	24,306
		76,460	24,306
Net assets		**120,279**	164,337
Capital and reserves			
Share capital		**366,186**	366,186
Deficit		**(245,907)**	(201,849)
Total equity		**120,279**	164,337

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 had been suspended with effect from 1 April 2019 and resumed at 27 February 2020.

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.

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 2019.

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

(b) The Group's ability to continue as a going concern

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. For the year ended 31 December 2019, the Group incurred a loss of approximately HK$42,422,000 and as at 31 December 2019, the Group had net current liabilities of approximately HK$65,649,000. The Group's bank balances and cash and pledged bank deposits amounted to approximately HK$89,280,000 and HK$58,170,000 respectively, in contrast to its borrowings of approximately HK$254,441,000 and approximately HK$209,441,000 are repayable within the next twelve months.

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

i. negotiating with respective lenders to renew and extend existing borrowings upon their maturities, in which (a) an extension agreement for the borrowings of HK$45,000,000 entered into between the Company and the holder of the Bonds to extend the repayment terms to 31 March 2021; (b) an extension agreement in connection with the unsecured revolving loan facility of amounting to HK$50,000,000 which has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 30 September 2020 to further extend the credit facility to 31 March 2021 and such facility is un-utilised as at the end of the reporting period and up to the date of the approval of the consolidated financial statements; and (c) the bank facilities granted to the Group are secured by mortgage over or pledge of the Group's assets, the directors of the Company consider that it is highly probable that such bank facilities can be renewed at its maturity in June 2020, details of which are set out in note 18 to the consolidated financial statements;

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

iii. reviewing its investments and actively considering to realise certain of investment properties and/or listed securities held for trading, in order to enhance the cash flow position of the Group whenever it is necessary.

On the basis of the above considerations and taking into account the above measures, the directors of the Company are of the opinion that, 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 and accordingly, these consolidated financial statements have been prepared on a going concern basis.

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 16	Leases
HK(IFRIC) - Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 16 "Leases"

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17"), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 "Determining whether an Arrangement contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

(i) relied on the assessment of whether leases are onerous by applying HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" as an alternative of impairment review;
(ii) elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
(iii) excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
(iv) applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.
(v) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities adjusted by any prepaid or accrued lease payments by applying HKFRS 16.C8(b)(ii) transition.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rates applied by the relevant group entities range from 6.0% to 10.0%.

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	8,591
Lease liabilities discounted at relevant incremental borrowing rates	7,965
Less: Recognition exemption – short-term leases	(774)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 and lease liabilities as at 1 January 2019	7,191
Analysed as	
Current	2,935
Non-current	4,256
	7,191

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Right-of-use assets *HK$'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	7,191
Reclassified from prepaid lease payments (note)	3,872
	11,063
By class:	
Land and buildings	7,191
Leasehold land	3,872
	11,063

Note:

Upfront payments for leasehold lands in the PRC were classified as prepaid land premiums as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK$143,000 and HK$3,729,000 respectively were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	**Carrying amounts under HKFRS 16 at 1 January 2019**
	HK$'000	*HK$'000*	***HK$'000***
Non-current assets			
Prepaid land premiums	3,729	(3,729)	–
Right-of-use assets	-	11,063	11,063
Current assets			
Prepaid land premiums	143	(143)	-
Current liabilities			
Lease liabilities	–	2,935	2,935
Non-current liabilities			
Lease liabilities	–	4,256	4,256

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

HKFRS 17	Insurance Contracts[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform[4]

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

2 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.

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

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

Except for the amendments to HKFRS mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;

- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and

- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

4. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products for the year. 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.

	2019	2018
	HK$'000	*HK$'000*
Revenue from sales of finished goods of toy products	**649,490**	636,882

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 profits or losses from dividends received from, and other gains or losses 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 2019 and 2018

	Securities investments		Toys		Medical and health		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue								
Revenue from external customers	**-**	–	**649,490**	636,882	**-**	–	**649,490**	636,882
Reportable segment (loss) profit before tax	**(10,690)**	(10,001)	**13,065**	7,396	**(2,523)**	(1,972)	**(148)**	(4,577)
Unallocated corporate income							**13,306**	17,026
Unallocated corporate expenses							**(46,632)**	(156,802)
Loss before tax							**(33,474)**	(144,353)

	Securities investments		Toys		Medical and health		Unallocated		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information (included in the measure of segment profit or loss or segment assets)										
Depreciation of property, plant and equipment	**-**	–	**(9,274)**	(8,169)	**-**	–	**(755)**	(1,419)	**(10,029)**	(9,588)
Depreciation of right-of-use assets	**-**	–	**(917)**	–	**-**	–	**(2,618)**	–	**(3,535)**	–
Amortisation of prepaid land premiums	**-**	–	**-**	(144)	**-**	–	**-**	–	**-**	(144)
Provision of expected credit loss (the "ECL") for trade receivables	**-**	–	**(434)**	(138)	**-**	–	**-**	–	**(434)**	(138)
Provision of ECL for loan receivables	**-**	–	**-**	–	**-**	–	**(4,372)**	(2,045)	**(4,372)**	(2,045)
Provision of ECL for loan interest receivables	**-**	–	**-**	–	**-**	–	**(1,008)**	–	**(1,008)**	–
Reversal of provision of ECL for loan receivables	**-**	–	**-**	–	**-**	–	**3,290**	–	**3,290**	–
Write-off on trade receivables	**-**	–	**(139)**	(256)	**-**	–	**-**	–	**(139)**	(256)
Write down of inventories, net	**-**	–	**(4,406)**	(2,749)	**-**	–	**-**	–	**(4,406)**	(2,749)
Gain (loss) on disposal of property, plant and equipment	**-**	–	**197**	129	**-**	–	**(124)**	–	**73**	129
Change in fair value of investment properties	**-**	–	**-**	–	**-**	–	**7,045**	8,979	**7,045**	8,979
Changes in fair value of financial assets at fair value through profit or loss	**(10,689)**	(9,999)	**-**	–	**-**	–	**-**	–	**(10,689)**	(9,999)
Bank interest income	**-**	–	**32**	454	**-**	–	**56**	266	**88**	720
Interest expense	**-**	–	**(11,420)**	(6,044)	**-**	–	**(3,365)**	(2,701)	**(14,785)**	(8,745)
Research and development expenses	**-**	–	**-**	–	**(2,523)**	(1,972)	**-**	–	**(2,523)**	(1,972)
Purchases of property, plant and equipment	**-**	–	**15,637**	12,395	**-**	–	**-**	437	**15,637**	12,832
Addition of right-of-use assets	**-**	–	**1,678**	–	**-**	–	**-**	–	**1,678**	–

(b) Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

As at 31 December 2019

	Securities investments *HK$'000*	Toys *HK$'000*	Medical and health *HK$'000*	Total *HK$'000*
Reportable segment assets	**6,896**	**436,890**	**–**	**443,786**
Unallocated corporate assets				**151,966**
Total assets				**595,752**
Reportable segment liabilities	**–**	**(400,967)**	**–**	**(400,967)**
Unallocated corporate liabilities				**(74,506)**
Total liabilities				**(475,473)**

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)

(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, right-of-use assets (2018: 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, right-of-use assets (2018: 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**	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**11,432**	35,860	**4,348**	245
The PRC	**–**	–	**250,523**	235,966
United States	**621,695**	551,242	**–**	–
Europe	**16,363**	45,168	**–**	–
Japan	**–**	4,612	**–**	–
	649,490	636,882	**254,871**	236,211

(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:

	2019	2018
	HK$'000	*HK$'000*
Revenue from manufacturing for sale of toys segment		
Customer A	**570,776**	488,474

5. OTHER INCOME, GAINS AND LOSSES

	2019	2018
	HK$'000	*HK$'000*
Bank interest income	**88**	720
Loan interest income	**2,019**	2,965
Changes in fair value of investment properties	**7,045**	8,979
Net foreign exchange gain	**4,279**	2,077
Mould income	**1,114**	79
Rental income	**1,870**	1,529
Compensation loss for refurbishment of properties	**–**	(437)
Gain on disposal of property, plant and equipment, net	**73**	129
Net agency commission income	**–**	445
Sundry income	**334**	103
	16,822	16,589

6. IMPAIRMENT LOSSES AND PROVISION OF EXPECTED CREDIT LOSSES

	2019	2018
	HK$'000	*HK$'000*
Impairment loss on deposit paid for refurbishment of properties *(note)*	**–**	64,627
Impairment loss on other receivables *(note)*	**–**	39,315
Provision of ECL for loan receivables	**4,372**	2,045
Provision of ECL for loan interest receivables	**1,008**	–
Reversal of provision for ECL for loan receivables	**(3,290)**	–
Provision of ECL for trade receivables *(note 14)*	**434**	138

Note:

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 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, the amount due from Vendor B and the aforementioned outstanding cash consideration remained unsettled, while 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, 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.

7. FINANCE COSTS

	2019	2018
	HK$'000	*HK$'000*
Interest on bank loans	**6,416**	3,195
Interest on corporate bonds	**3,052**	2,701
Interest on revolving loans	**3,768**	2,849
Interest on short-term loans	**1,141**	–
Interest on lease liabilities	**408**	–
	14,785	8,745

8. INCOME TAX EXPENSE

	2019	2018
	HK$'000	*HK$'000*
Hong Kong Profits Tax		
Current year	**95**	–
Overprovision in prior years	**–**	(872)
PRC Enterprise Income Tax		
Current year	**2,957**	2,565
(Over) underprovision in prior years	**(424)**	17
	2,628	1,710
Deferred tax expense	**6,320**	7,562
Income tax expense	**8,948**	9,272

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.

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 provision for the land appreciation tax ("LAT") is calculated according to the requirements set forth in the relevant PRC tax laws and regulations. LAT has been provided at ranges of progressive rates on the appreciation value, with certain allowable deductions.

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:

	2019	2018
	HK$'000	*HK$'000*
Employee benefit expense		
(including directors' remunerations):		
Wages and salaries *(note a)*	**114,953**	131,325
Other employee benefits	**5,404**	4,157
Contributions to defined contribution retirement plans	**9,681**	17,463
	130,038	152,945
Auditors' remuneration	**1,831**	4,009
Cost of inventories recognised as an expense		
(included in cost of sales) *(note b)*	**568,886**	560,588
Depreciation of property, plant and equipment	**10,029**	9,588
Depreciation of right-of-use assets	**3,535**	–
Amortisation of prepaid land premiums	**–**	144
Write-off on trade receivables	**139**	256
Write down of inventories, net (included in cost of sales)	**4,406**	2,749
Operating lease charges in respect of land and buildings	**1,712**	6,153

Notes:

(a) HK$34,124,000 and HK$1,185,000 of the employee benefit expenses are included in administrative expenses and selling and distribution costs respectively, the remaining are included in cost of sales.

(b) Cost of inventories included cost of materials consumed in production and sub-contracting labor costs amounting to HK$301,949,000 (2018: HK$268,691,000) and HK$47,204,000 (2018: HK$54,016,000) respectively.

(c) Other operation expenses included professional fees amounting to HK$11,075,000 (2018: HK$4,927,000).

During the year ended 31 December 2019, professional fees amounting to HK$2,822,000 (2018: nil) and HK$3,789,000 (2018: nil) were incurred for consulting and legal advice services for the purposes of holding special general meeting of the Company and resumption of trading in the shares of the Company on The Stock Exchange of Hong Kong Limited respectively.

During the year ended 31 December 2018, professional fees amounting to HK$484,000 were included in other operating expenses which were incurred for consulting and due diligence services for various potential investment projects that the Group planned to invest in the future.

10. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders of the Company for both years, nor has any dividend been proposed since the end of the reporting period.

11. LOSS PER SHARE

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

	2019	2018
	HK$'000	*HK$'000*
Loss		
Loss attributable to owners of the Company for the purposes of basic and diluted loss per share	**(42,422)**	(153,625)
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	**3,661,865**	3,661,865

The computation of diluted loss per share for the years ended 31 December 2019 and 2018 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.

12. LOAN RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**16,000**	23,800
Less: provision of ECL	**(6,385)**	(5,303)
	9,615	18,497
Analysed as		
Current	**9,615**	4,510
Non-current	**–**	13,987
	9,615	18,497

13. INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
Raw materials	**21,629**	23,847
Work in progress	**37,263**	41,175
Finished goods	**8,649**	24,402
	67,541	89,424

14. TRADE RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Trade receivables, gross	**85,351**	43,383
Less: provision of ECL	**(572)**	(138)
Trade receivables, net	**84,779**	43,245

At as 31 December 2019, the gross carrying amount of trade receivables arising from contracts with customers amounted to approximately HK$85,351,000 (31 December 2018: HK$43,383,000).

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:

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**41,720**	29,817
31 to 90 days	**42,433**	13,413
Over 90 days	**626**	15
	84,779	43,245

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$434,000 was provided for current year and the directors consider that the trade debtors are of good credit quality (2018: HK$138,000).

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:

	2019	2018
	HK$'000	*HK$'000*
Neither past due nor impaired	**73,452**	42,903
Past due but not impaired		
Less than 1 month past due	**10,701**	342
1 to 3 months past due	**626**	–
	84,779	43,245

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.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	HK$'000	*HK$'000*
Other receivables arising from agency services	**–**	11,708
Other receivables arising from subsidiaries in Hainan	**–**	7,844
Prepayments	**2,590**	7,372
Value-added tax recoverable arising from toys segment	**5,902**	3,805
Loan interest receivables	**1,820**	1,921
Rental deposits	**963**	985
Others	**5,813**	1,586
	17,088	35,221

16. TRADE PAYABLES

The following is trade payables presented based on the invoice dates.

	2019	2018
	HK$'000	*HK$'000*
0 to 30 days	**58,318**	56,155
31 to 90 days	**46,087**	38,964
Over 90 days	**43,754**	22,743
	148,159	117,862

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

17. OTHER PAYABLES AND ACCRUALS

	2019	2018
	HK$'000	*HK$'000*
Deposit received for disposal of a subsidiary *(note)*	**4,874**	25,891
Accrued staff cost	**11,787**	12,503
Accruals	**10,422**	9,768
Other payables	**7,326**	5,050
Tenant deposits received	**921**	829
	35,330	54,041

Note:

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. During the year ended 31 December 2019, the Group has refunded part of the deposit of approximately RMB18,320,000 (equivalent to approximately HK$20,908,000) to the Purchaser.

18. BORROWINGS

	2019		2018	
	Contractual interest rate *(%)*	***HK$'000***	Contractual interest rate (%)	*HK$'000*
Bank loans – secured *(note a)*	**Fixed rates of 3.35% to 5.22% per annum**	**154,715**	Fixed rates of 2.5% to 4.35% per annum	90,422
– secured *(note b)*	**Fixed rates of 4.00% per annum**	**54,726**	N/A	–
Corporate bonds – secured *(note c)*	**Fixed rates of 6.75% per annum**	**45,000**	Fixed rates of 6.0% per annum	45,000
Sub-total of secured borrowings		**254,441**		135,422
Revolving loans – unsecured *(note d)*	**Fixed rates of 12.00% per annum**	**–**	Fixed rates of 10.0% per annum	25,000
		254,441		160,422
Analysed as				
Non-current		**45,000**		–
Current		**209,441**		160,422
		254,441		160,422

The above loans are measured at amortised costs.

Notes:

(a) The bank borrowings were secured by mortgage over the Group's leasehold buildings and leasehold lands under right-of-use assets with aggregate carrying amount of approximately HK$102,000,000 and HK$3,729,000 respectively (2018: leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK$101,000,000 and HK$3,872,000 respectively).

The total banking facilities granted to the Group amounted to RMB150,000,000 (equivalent to approximately HK$167,452,000) (2018: RMB110,000,000 (equivalent to approximately HK$125,542,000)) of which approximately RMB138,590,000 (equivalent to HK$154,715,000) (2018: RMB79,228,000 (equivalent to HK$90,422,000)) were utilised as at 31 December 2019.

(b) The bank borrowings were secured by pledge over the Group's bank deposits of approximately HK$58,170,000 as at 31 December 2019 (2018: nil).

The total banking facilities amounted to RMB100,000,000 (equivalent to approximately HK$111,635,000) (2018: nil) are available to the Group when further security to be pledged to the bank, of which approximately RMB49,023,000 (equivalent to HK$54,726,000) (2018: nil) were utilised as at 31 December 2019.

(c) 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. At 27 December 2019 an extension deed has been signed, which the maturity date has been further extended to 31 March 2021. According to the extension deed, a first floating charge has been incorporated over the assets of a subsidiary of the Group as a security to the lender on 7 February 2020.

(d) As at 31 December 2019 and 31 December 2018, the Group's revolving loans without utilisation (2018: utilised with carrying amount of HK$25,000,000), were granted by a substantial shareholder of the Company and guaranteed by the Company. The revolving loans had unutilised amount of HK$50,000,000 (2018: HK$25,000,000) as at 31 December 2019. As at 8 October 2019, the Group has entered into an extension agreement to extend the maturity date to 30 September 2020. At 31 December 2019, the Group has entered into another extension agreement to further extend the maturity date to 31 March 2021.

19. EVENTS AFTER END OF THE REPORTING PERIOD

(i) On 8 January 2020, the Group entered into a sale and purchase agreement with a third party ("Third Party Purchaser"). Pursuant to the sale and purchase agreement ("Agreement"), the Group agreed to sell its 100% equity interest in a subsidiary ("Disposed Subsidiary"), which is engaged in research activities of genetically engineered bacteria for targeted cancer therapy for a cash consideration of HK$8,000,000.

During the year ended 31 December 2019, the Group received half of the consideration from the Third Party Purchaser. According to the Agreement, the transaction will be completed once the remaining consideration has been paid by the Third Party Purchaser to the Company within six months from the signing of the Agreement.

(ii) Since late 2019 to the beginning of 2020, a novel coronavirus broke out in Wuhan, the PRC. As the coronavirus rapidly spreads, it became a worldwide concern. It poses challenges across various industries as well as people's livelihoods. The Group is taking actions to minimise the impact of the coronavirus outbreak to its business operation. The Group adopted precautionary measures to protect its workplace from outbreak. Besides, the Group is also closely communicating with the business partners including the Group's customers and suppliers in order to manage the schedules on the planning of sales and purchases. The financial effects of the coronavirus outbreak on the Group's financial performance and financial position cannot be determined at this stage.

MANAGEMENT DISCUSSION AND ANALYSIS

FINAL DIVIDEND

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2019 (2018: nil).

BUSINESS REVIEW

For the financial year ended 31 December 2019 ("FY 2019"), the Group recorded revenue of approximately HK$649.5 million, representing an increase of 2% from the revenue of approximately HK$636.9 million for the year ended 31 December 2018 ("FY 2018"). The increase was mainly due to the performance of our toy's division. Gross profit for the year amounted to HK$74.9million, increased by 7% compared with that of HK$69.7 million in FY 2018 as a result of increase on product selling price.

The securities investments division recorded a loss of HK$10.7 million in FY 2019, compared with HK$10 million in FY 2018, representing an increase of 7% year-on-year.

For the FY 2019, the Group reduce its net loss by 72% to HK$42.4 million compared with HK$153.6 million in FY 2018. The main reason for the decrease was the impairment of assets during the FY 2018.

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

Toys Division

For the FY2019, revenue of the toys division increased by 2% to HK$649.5 million as a result of a continued popular product series developed and marketed by one of its major customers. As the keen the result of increment on product selling price and increase on machinery in production, the gross profit increased to HK$74.9 million (2018: 69.7 million). As a result, the toys division increased reported segment profit after taxation of HK$13.1 million for 2019 (2018: HK$7.4 million).

Securities Investments Division

During the year, the Hong Kong stock market has experienced significant downturn, 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$10.7 million loss, representing a 7% increase as compared with FY 2018. As at FY 2019, the Group securities portfolio was valued at HK$6.9 million (FY 2018: HK$17.6 million). The Group did not receive any dividend income in both FY 2019 and FY 2018.

Medical and Health Division

During the year, the Group continued its medical research project in Success Impact Corporation. The project was mainly about the preclinical research studies of genetically engineered bacteria for targeted cancer therapy. The project was disposed for a consideration of HK$8,000,000 after the year ended. The net proceeds arising from the Disposal are approximately HK$8,000,000 which will be used for working capital of the Group and investment in other business.

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 FY2019, the Group had net current liabilities of HK$65,649,000 (FY 2018: HK$70,363,000) comprising cash and cash equivalents of HK$89,280,000 (FY 2018: HK$75,489,000) (excluding pledged bank deposits).

The equity attributable to owners of the Company decreased by 27% to HK$120,279,000 (2018: HK$164,337,000) mainly as a result of the operating 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 as at 31 December 2019 was 71% (2018: 61%).

Despite the loss incurred by the Group and the net current liabilities status at the end of FY 2019, the, 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.

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

Looking ahead to 2020, the toys division is expected to continue to perform satisfactorily. Although it will also face with challenges such as Corona Virus, China-US trade war, rising raw material costs and labor cost in the Pearl Delta Region, the division will strive to minimize the negative impacts by bringing in more automation into its production process. The Group is looking for different business opportunities to diversify our business activities beside current toy and medical and health segments. Cost cutting measures were put in place to reduce operating costs.

Looking forward, the group is cautiously optimistic as the toys division continues to perform successfully in the marketplace and the board of directors sets to start to explore new business opportunities and implement measurements to lower the management costs.

CORPORATE GOVERNANCE

During the financial year ended 31 December 2019, 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.

Two Executive Director and one Non-executive Director of the Company were unable to attend the special general meeting of the Company held on 10 May 2019 due to other prior business engagements. One Non-executive Director of the Company was unable to attend the annual general meeting of the Company held on 4 December 2019 due to other prior business engagement. However, there were at least 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 ("Moore Stephens") 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 2019 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 Stephens, it has issued a qualified 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 2019 as set out in the preliminary announcement have been agreed by the Group's auditor, 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 2019.

Qualified Opinion

We have audited the consolidated financial statements of Winshine Science Company Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages [•] to [•], which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects on the corresponding comparative figures of the matters described in the section of "Basis for Qualified Opinion" of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Qualified Opinion

Comparative information of the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows

As detailed in our auditor's report dated 30 October 2019 on the consolidated financial statements of the Group for the year ended 31 December 2018, we expressed a disclaimer of opinion on the consolidated financial statements due to the scope limitations concerning the matters described in (i) and (ii) below.

(i) Impairment losses on the Group's deposit paid for refurbishment of properties and other receivables

During the year ended 31 December 2018, the Group recognised impairment losses on (i) deposit paid in 2016 for refurbishment of properties amounting to approximately RMB54.7 million (equivalent to approximately HK$64.6 million) and (ii) other receivables which arose in February 2016 in connection with an acquisition of certain assets and assumption of certain liabilities through the acquisition of the entire equity interest of a subsidiary, amounting to approximately RMB33.2 million (equivalent to approximately HK$39.3 million). We were unable to obtain sufficient appropriate audit evidence to satisfy ourselves about the nature and validity of the deposits paid in 2016 and 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 other receivables and the deposits for the refurbishment of the properties referred to above should be recognised in financial years prior to the year ended 31 December 2018.

(ii) 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 recognised certain transactions (the "Transactions") and loans (the "Loans") made by a subsidiary of the Group established in Hainan, the PRC in respect of which 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, and whether any party related to related parties of the Group was involved in the transactions, particularly given the influence and involvement of a former director of the Company (the "Ex-Director") in the arrangements for the Transactions given the discovery of discrepancies between the direct confirmation received from the Debtor (as defined in the 2018 Audit Report) 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 satisfy ourselves that the Ex-Director was not related to those counterparties, other than those whom expressively identified as such by the Ex-Director, for the Loans and short-term fund advance arrangements under the Transactions and thus that these parties were not related parties in accordance with Hong Kong Accounting Standard 24 "Related Party Disclosures". Accordingly, we were unable to conclude whether the associated related party transaction disclosures in respect of the financial year ended 31 December 2018 were complete and accurate as well as satisfying ourselves about the nature and the underlying commercial reasons of entering into the above transactions.

Any adjustments found to be necessary in respect of the matters described in (i) and (ii) above might have significant effects on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the year ended 31 December 2018. Our audit opinion on the consolidated financial statements for the year ended 31 December 2018 was modified accordingly. Our opinion on the current year's consolidated financial statements is also modified because of the possible effects of these matters on the comparability of the current year's figures and the corresponding figures.

We conducted our audit on the consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion on the consolidated financial statements.

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

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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

Hong Kong, 18 March 2020

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*