

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



WINSHINE SCIENCE COMPANY LIMITED

瀛晟科學有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 209)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2023**

SUMMARY OF RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Winshine Science Company Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2023, together with the comparative figures for the year ended 31 December 2022 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
Revenue	4	523,262	849,096
Cost of sales		<u>(483,996)</u>	<u>(751,213)</u>
Gross profit		39,266	97,883
Other income, gains and losses	5	10,300	8,217
Reversal of expected credit loss for loan receivables		600	400
Reversal of expected credit loss for trade receivables		3,273	8,181
Provision of expected credit loss for other receivables		–	(29,067)
Gain on disposal of subsidiaries		–	29,906
Selling and distribution costs		(1,608)	(7,557)
Administrative expenses		(53,752)	(64,417)
Gain arising from changes in fair value less costs to sell of biological assets		13	–
Other operating expenses		(5,503)	(17,426)
Finance costs	6	<u>(15,587)</u>	<u>(14,351)</u>
(Loss) profit before tax		(22,998)	11,769
Income tax expense	7	<u>(6,363)</u>	<u>(3,690)</u>
(Loss) profit for the year	8	<u>(29,361)</u>	<u>8,079</u>
(Loss) profit for the year attributable to:			
Owners of the Company		(28,650)	8,079
Non-controlling interest (“NCI”)		<u>(711)</u>	–
		<u>(29,361)</u>	<u>8,079</u>
(Loss) earnings per share	10		
Basic and diluted		<u>(HK6.36 cents)</u>	<u>HK2.21 cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	2023	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
(Loss) profit for the year	(29,361)	8,079
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
(Loss) gain on revaluation of properties	(1,114)	11,350
Deferred tax credit (charge) arising from revaluation of properties	<u>2,220</u>	<u>(463)</u>
	<u>1,106</u>	<u>10,887</u>
<i>Items that may be/have been reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	3,321	(16,821)
Release of exchange reserve upon disposal of subsidiaries	<u>–</u>	<u>7,149</u>
	<u>3,321</u>	<u>(9,672)</u>
Other comprehensive income for the year	<u>4,427</u>	<u>1,215</u>
Total comprehensive (expense) income for the year	<u>(24,934)</u>	<u>9,294</u>
Total comprehensive (expense) income for the year attributable to:		
Owners of the Company	(24,227)	9,294
NCI	<u>(707)</u>	<u>–</u>
	<u>(24,934)</u>	<u>9,294</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2023

	<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
Non-current assets			
Property, plant and equipment		115,364	114,817
Right-of-use assets		6,150	7,119
Rental deposit		164	414
Goodwill	<i>18</i>	740	–
Interests in associates		<u>–</u>	<u>–</u>
		122,418	122,350
Current assets			
Inventories	<i>12</i>	75,142	81,974
Biological assets		832	–
Trade receivables	<i>13</i>	70,482	71,503
Loan receivables	<i>11</i>	–	–
Prepayments, deposits and other receivables		26,116	15,354
Bank balances and cash		<u>119,335</u>	<u>49,765</u>
		291,907	218,596
Current liabilities			
Trade payables	<i>14</i>	170,541	137,111
Other payables and accruals		59,423	71,895
Contract liabilities		1,154	1,544
Borrowings	<i>15</i>	238,097	190,943
Lease liabilities		1,529	1,969
Tax payables		3,871	7,902
Convertible bonds	<i>17</i>	<u>2,476</u>	<u>–</u>
		477,091	411,364
Net current liabilities		<u>(185,184)</u>	<u>(192,768)</u>
Total assets less current liabilities		<u>(62,766)</u>	<u>(70,418)</u>

	<i>Notes</i>	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		1,858	2,819
Deferred tax liabilities		<u>16,245</u>	<u>16,411</u>
		<u>18,103</u>	<u>19,230</u>
Net liabilities		<u>(80,869)</u>	<u>(89,648)</u>
Capital and reserves			
Share capital	<i>16</i>	5,098	3,662
Deficit		<u>(85,153)</u>	<u>(93,310)</u>
Capital deficiency attributable to owners of the Company		(80,055)	(89,648)
NCI		<u>(814)</u>	<u>—</u>
Capital deficiencies		<u>(80,869)</u>	<u>(89,648)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2023

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**”).

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries include manufacturing for sales of toys and the plantation of agricultural products for sales.

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

Basis of preparation of consolidated financial statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”). In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules on the Stock Exchange and by the Hong Kong Companies Ordinance.

The Group’s ability to continue as a going concern basis

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. The Group incurred a net loss attributable to owners of the Company of approximately HK\$28,650,000 for the year ended 31 December 2023. As at the same date, the Group had net current liabilities and net liabilities of approximately HK\$185,184,000 and HK\$80,869,000 respectively. The Group’s bank balances and cash amounted to approximately HK\$119,335,000 in contrast to its borrowings and convertible bond of approximately HK\$238,097,000 and HK\$2,476,000 respectively, which are repayable within the next twelve months.

These conditions indicate the existence of material uncertainties which may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of its business.

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

- i completed the issue of 101,964,566 shares at the subscription price of HK\$0.066 per subscription share to an independent third party and raised approximately HK\$6,500,000 net proceeds on 15 January 2024;
- ii extending the repayment terms and the expiry date of the Group’s banking facilities by entering into extension agreement with the lender after the end of the reporting period but before the consolidated financial statements are authorised for issue. The expiry date of the banking facilities of RMB160,000,000 (equivalent to approximately HK\$176,561,000), of which RMB147,799,000 (equivalent to approximately HK\$163,097,000) was utilised as of 31 December 2023, secured by the Group’s leasehold buildings and leasehold lands under right-of-use assets due on 16 March 2024 has been extended to 13 December 2024;

- iii. active cost-saving measures to control operating costs and administrative costs through various means has been implemented to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group; and
- iv. considering other financing arrangements, if necessary, with a view to increasing the Group's equity and liquidity.

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.

The consolidated financial statements have been prepared on the historical cost basis except for biological assets which are measured at their fair value less costs to sell and, certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

3. APPLICATION OF AMENDMENTS TO HKFRSs

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

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

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:

Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current ¹
Amendments to HKAS 1	Non-current Liabilities with Covenants ¹
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements ¹
Amendments to HKAS 21	Lack of Exchangeability ²

¹ Effective for annual periods beginning on or after 1 January 2024.

² Effective for annual periods beginning on or after 1 January 2025.

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

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.

4. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products and sales of agricultural products for the year. The revenue relates to revenue from contracts with customers which is within the scope of HKFRS 15. 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.

	2023	2022
	HK\$'000	HK\$'000
Revenue from sales of finished goods of toy products	522,827	849,096
Revenue from sales of agricultural products	435	–
	<u>523,262</u>	<u>849,096</u>

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 delivered or services provided. The Group has presented the following two reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

1. Toys: this segment derives its revenue from manufacturing for sales of toys.
2. Agricultural products: this segment derives its revenue from planting agricultural products for sales (segment resulted in the acquisition of subsidiaries for the year ended 31 December 2023).

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.

Segment revenue, results

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

For the years ended 31 December 2023 and 2022

	Toys		Agricultural products		Total	
	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue						
Revenue from external customers	<u>522,827</u>	<u>849,096</u>	<u>435</u>	<u>–</u>	<u>523,262</u>	<u>849,096</u>
Reportable segment (loss) profit before tax	<u>(7,262)</u>	<u>53,065</u>	<u>(3,338)</u>	<u>–</u>	<u>(10,600)</u>	<u>53,065</u>
Unallocated corporate income					<u>1,984</u>	<u>33</u>
Unallocated corporate expenses					<u>(14,382)</u>	<u>(41,329)</u>
(Loss) profit before tax					<u><u>(22,998)</u></u>	<u><u>11,769</u></u>

5. OTHER INCOME, GAINS AND LOSSES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Bank interest income	40	48
Loss on early termination of lease of investment property	–	(4,702)
Net foreign exchange gain	7,088	12,687
Mould income	1,276	2,739
Rental income	217	1,160
(Loss) gain on disposal of property, plant and equipment, net	(205)	519
Gain on disposal of associates	2,480	–
Gain on lease termination	–	1,321
Loss on deregistration of a subsidiary (<i>note ii</i>)	(1,095)	–
Government grants (<i>note i</i>)	–	752
Impairment loss on interests in associates	–	(10,000)
Sundry income	499	3,693
	<u>10,300</u>	<u>8,217</u>

Notes:

- (i) During the year ended 31 December 2022, the Group recognised government grants of HK\$752,000 in respect of COVID-19 related subsidies, which related to Employment Support Scheme provided by the Hong Kong government.
- (ii) During the year ended 31 December 2023, the Group deregistered a wholly owned subsidiary in the People's Republic of China (the "PRC") and completed on 21 August 2023. Loss on deregistration of a subsidiary at the date of deregistration was approximately HK\$1,095,000.

6. FINANCE COSTS

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Interest on bank loans	6,974	5,069
Interest on corporate bond	3,038	3,038
Interest on other loans	–	110
Interest on revolving loans	980	1,379
Interest on short-term loans	3,714	3,949
Interest on lease liabilities	358	806
Imputed interest on convertible bonds	523	–
	<u>15,587</u>	<u>14,351</u>

7. INCOME TAX EXPENSE

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Hong Kong Profits Tax		
Current year	–	–
PRC Enterprise Income Tax		
Current year	4,094	9,235
Japan Corporate Income Tax		
Current year	<u>5</u>	<u>–</u>
	4,099	9,235
Deferred tax expense (credit)	<u>2,264</u>	<u>(5,545)</u>
Income tax expense	<u><u>6,363</u></u>	<u><u>3,690</u></u>

8. (LOSS) PROFIT FOR THE YEAR

(Loss) profit for the year has been arrived at after charging (crediting):

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Employee benefit expense (including directors' remunerations):		
Wages and salaries	95,140	114,809
Other employee benefits	1,348	1,200
Contributions to defined contribution retirement plans	<u>9,594</u>	<u>10,819</u>
	<u><u>106,082</u></u>	<u><u>126,828</u></u>
Auditors' remuneration	1,400	1,429
Cost of inventories recognised as an expense (included in cost of sales)	478,136	739,063
Depreciation of property, plant and equipment	11,452	6,180
Depreciation of right-of-use assets	1,696	4,067
Write down of inventories, net (included in cost of sales)	5,449	11,882
Short-term lease charges in respect of land and buildings	669	978
Over-provision for litigation (included in other operating expenses)	–	(2,652)
Professional fee (included in other operating expenses)	<u>5,072</u>	<u>12,166</u>

9. DIVIDENDS

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

10. (LOSS) EARNINGS PER SHARE

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
(Loss) earnings		
(Loss) earnings attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	<u>(28,650)</u>	<u>8,079</u>
	<i>'000</i>	<i>'000</i>
Number of shares		
Weighted average number of ordinary shares in issue	<u>450,401</u>	<u>366,186</u>

No adjustment was made in calculating diluted loss per share for the year ended 31 December 2023 as the conversion of convertible bonds would result in decrease in loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share (2022: No diluted earnings per share was presented as there were no potential ordinary shares in issue).

11. LOAN RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Fixed-rate loan receivables	16,126	16,733
Less: provision of expected credit loss	<u>(16,126)</u>	<u>(16,733)</u>
	<u>—</u>	<u>—</u>

12. INVENTORIES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Raw materials	22,786	23,831
Work in progress	34,357	36,117
Finished goods	<u>17,999</u>	<u>22,026</u>
	<u>75,142</u>	<u>81,974</u>

13. TRADE RECEIVABLES

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
Trade receivables, gross	71,657	75,951
Less: provision of expected credit loss	<u>(1,175)</u>	<u>(4,448)</u>
Trade receivables, net	<u>70,482</u>	<u>71,503</u>

At as 31 December 2023, the gross carrying amount of trade receivables arising from contracts with customers amounted to approximately HK\$71,657,000 (2022: HK\$75,951,000).

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

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 30 days	30,820	68,251
31 to 90 days	39,385	315
Over 90 days	<u>277</u>	<u>2,937</u>
	<u>70,482</u>	<u>71,503</u>

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 60 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.

14. TRADE PAYABLES

The following is an ageing analysis of trade payables presented based on the invoice date:

	2023 <i>HK\$'000</i>	2022 <i>HK\$'000</i>
0 to 30 days	79,205	74,351
31 to 90 days	45,181	19,472
Over 90 days	<u>46,155</u>	<u>43,288</u>
	<u>170,541</u>	<u>137,111</u>

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

15. BORROWINGS

	2023		2022
	Contractual interest rate (%)	<i>HK\$'000</i>	Contractual interest rate (%)
			<i>HK\$'000</i>
Bank loans			
– secured	Fixed rates ranging from 3.85% to 6.30% per annum	163,097	Fixed rates ranging from 4.00% to 5.85% per annum 112,281
Corporate bond			
– secured	Fixed rate at 6.75% per annum	45,000	Fixed rate at 6.75% per annum 45,000
Term loans			
– secured	Fixed rate at 12.00% per annum	17,000	Fixed rate at 12.00% per annum 17,000
– secured	Fixed rate at 12.00% per annum	5,000	Fixed rate at 12.00% per annum 15,000
Other loan			
– secured		–	Fixed rate at 2.50% per month 612
Sub-total of secured borrowings		<u>230,097</u>	<u>189,893</u>
Revolving loan			
– unsecured	Fixed rate at 12.00% per annum	8,000	Fixed rate at 12.00% per annum –
Other loan			
– unsecured		–	Fixed rate at 2.50% per month 1,050
Sub-total unsecured borrowings		<u>8,000</u>	<u>1,050</u>
		<u>238,097</u>	<u>190,943</u>

The above loans are measured at amortised costs.

16. SHARE CAPITAL

	Number of shares		Amount	
	2023	2022	2023	2022
	'000	'000	HK\$'000	HK\$'000
Authorised:				
At 1 January				
Ordinary shares of HK\$0.10 (2022: HK\$0.10) each	70,000,000	7,000,000	700,000	700,000
Share sub-division (<i>note c</i>)	<u>-</u>	<u>63,000,000</u>	<u>-</u>	<u>-</u>
At 31 December				
Ordinary shares of HK\$0.01 (2022: HK\$0.01) each	70,000,000	<u>70,000,000</u>	700,000	<u>700,000</u>
Issued and fully paid:				
At 1 January				
Ordinary shares of HK\$0.10 (2022: HK\$0.10) each	366,186	3,661,865	3,662	366,186
Share consolidation (<i>note a</i>)	-	(3,295,679)	-	-
Share reduction (<i>note b</i>)	-	-	-	(362,524)
Issue of shares upon conversion of convertible bonds (<i>note 17</i>)	143,636	<u>-</u>	1,436	<u>-</u>
At 31 December				
Ordinary shares of HK\$0.01 (2022: HK\$0.01) each	509,822	<u>366,186</u>	5,098	<u>3,662</u>

Notes:

- (a) Pursuant to the special resolution passed at the special general meeting of the Company held on 28 November 2022, the Company completed a share consolidation of every ten (10) issued shares of HK\$0.10 each in the issued share capital of the Company into one (1) consolidated share of HK\$1.00 each with effect from 30 November 2022.
- (b) Immediately following the share consolidation in note (a) above, the issued share capital of the Company of HK\$366,186,472.90 divided into 366,186,472 consolidated shares of HK\$1.00 each was reduced to HK\$3,661,864.72 divided into 366,186,472 new shares by cancelling the paid-up capital of the Company to the extent of HK\$0.99 on each of the then consolidated share, such that the par value of each of the issued consolidated share was reduced from HK\$1.00 to HK\$0.01. The share reduction resulted in a debit of share capital of the Company with credit arising therefrom transferred to the accumulated losses.
- (c) Immediately following the capital reduction in note (b) above, each of the authorised shares of par value of HK\$0.10 each was sub-divided into ten (10) new shares of par value of HK\$0.01 each.

Details of all the above changes are set out in the Company's circular dated 3 November 2022.

17. CONVERTIBLE BONDS

On 14 October 2022 (after trading hours), the Company entered into the Convertible Bonds Subscription Agreements with two subscribers (Convertible Bonds A), pursuant to which the subscribers have conditionally agreed to subscribe for, and the Company has conditionally agreed to issue, convertible bonds in an aggregate principal amount of up to HK\$22,500,000 based on the initial conversion price of HK\$0.25 per conversion share.

The issue of the Convertible Bonds A were completed on 20 April 2023 and 22 May 2023 and the Company has issued an aggregate principal amount of HK\$2,500,000 and HK\$20,000,000 respectively of the convertible bonds. Subscribers to the convertible bonds are entitled to convert at a conversion price of HK\$0.25 per share and a maximum of 90,000,000 shares. If the convertible bonds have not been converted, they will be redeemed by the Company on the maturity date of the convertible bonds on 31 December 2024.

On 16 December 2022, the Company entered into a Convertible Bond Subscription Agreement with the subscriber (Convertible Bonds B), pursuant to which the subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to issue to the subscriber, convertible bond in an aggregate principal amount of HK\$14,000,000. The initial conversion price of HK\$0.22 per conversion share.

The issue of the Convertible Bonds B was completed on 20 April 2023 and the Company has issued an aggregate principal amount of HK\$14,000,000 of the convertible bonds. Subscribers to the convertible bonds are entitled to convert at a conversion price of HK\$0.22 per share and a maximum of 63,636,362 shares. If the convertible bonds have not been converted, they will be redeemed by the Company on the maturity date of the convertible bonds on 31 December 2023.

At initial recognition, the equity component of the above convertible bonds was separated from the liability component. The equity element is presented in equity heading “convertible bonds equity reserve” of HK\$124,000. The effective interest rate of the liability component ranged from 16.56% to 16.81%. On 31 May 2023, Convertible Bonds A with principal amount of HK\$20,000,000 and Convertible Bonds B with principal amount of HK\$14,000,000 were converted into 80,000,000 ordinary shares and 63,636,362 ordinary shares respectively. Convertible Bonds A with the principal amount of HK\$2,500,000 remained outstanding as at 31 December 2023.

The movement of the liability component of the convertible bonds for the year is set out below:

	<i>HK\$'000</i>
At 1 January 2023	–
Issue of convertible bonds	36,176
Effective interest expense	523
Interest paid	(291)
Accrued interest	(236)
Conversion of convertible bonds into shares	<u>(33,696)</u>
At 31 December 2023	<u><u>2,476</u></u>

18. ACQUISITION OF SUBSIDIARIES

On 24 May 2023, the Group acquired 100% of the issued share capital of Huge Advanced Group and shareholder's loan owing by Huge Advanced Group at a total cash consideration of HK\$1,700,000. Huge Advanced Investment Holding Limited, being an investment holding company, holds 78.9% equity interest in a company incorporated in Japan and is principally engaged in the plantation of agricultural products for sale which is regarded as a subsidiary of the Company upon the completion of the acquisition.

The non-controlling interests (21.1%) in Huge Advanced Group's subsidiary-名鮮株式會社 recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net liabilities of 名鮮株式會社 and amounted to HK\$107,000.

As the Shareholders are aware from the annual report of the Company for the year ended 31 December 2021, the Group has been developing a business in the agricultural sector through, among others, the management and operation of the brand "Cangshan Vegetables (蒼山蔬菜)" and the equipment and facilities of the Lanling Agricultural Products Wholesale Market. The acquisition will provide synergies and complement the Group's existing business in the agricultural sector, help to diversify its business and create higher returns for the Shareholders. The Board considered that the acquisition is a good investment opportunity for the Group in light of the high demand for fruit in Japan and the Japanese government's initiatives to promote the farming industry in Japan, and will therefore create better returns for the Shareholders.

The fair value of the identifiable assets and liabilities of Huge Advanced Group acquired as at its date of acquisition is as follows:

	<i>HK\$'000</i>
Property, plant and equipment	1,378
Inventories	9
Biological assets	86
Trade and other receivables	4
Bank balances and cash	1
Shareholder's loan	(1,982)
Trade and other payables	(2)
Tax payables	(3)
	<u>(509)</u>
Add: Assignment of shareholder's loan	1,373
Non-controlling interest	107
Goodwill	740
Less: Deferred tax adjustment	(11)
	<u>2,209</u>
Total consideration	<u>1,700</u>
Net cash inflow arising on acquisition:	
Cash consideration paid	–
Cash and cash equivalents acquired	1
	<u>1</u>
Net cash inflow as at 31 December 2023	<u>1</u>
Outstanding payable	<u>(1,700)</u>

19. EVENTS AFTER END OF THE REPORTING PERIOD

Subsequent to 31 December 2023 and up to the date of this report, the following events took place:

Issue of New Shares

On 15 January 2024, the Company allotted and issued an aggregate of 101,964,566 ordinary shares of HK\$0.01 each for cash at the net issue price of approximately HK\$0.066 per new share under the general mandate giving rise to net proceeds of HK\$6,500,000.

EXTRACTS FROM 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 2023.

DISCLAIMER OF OPINION

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.

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to going concern

As explained in note 3.1 to the consolidated financial statements, the Group incurred a net loss attributable to owners of the Company of approximately HK\$28,650,000 for the year ended 31 December 2023. As at the same date, the Group had net current liabilities and net liabilities of approximately HK\$185,184,000 and HK\$80,869,000, respectively, and the Group's bank balances amounted to approximately HK\$119,335,000, in contrast to its borrowings and convertible bond of approximately HK\$238,097,000 and HK\$2,476,000 respectively, which are repayable within the next twelve months. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the date of this report and have undertaken a number of measures to improve the Group's liquidity and financial position which are set out in note 3.1 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis on the bases and assumption that the lenders have no current intention to exercise their right to demand immediate repayment of the borrowings, the validity of which depends on the outcome of the measures which are subject to multiple uncertainties, including (i) the successful negotiations with the lenders for further renewal of or extension for repayment of those borrowings which will mature after twelve months from the end of the reporting period; (ii) the successful cost saving measures to improve operating cash flows of the Group; and (iii) successfully obtaining of additional new sources of financing as and when needed.

Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in the note 3.1 to the consolidated financial statements, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets to their net realisable amounts, and to provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

We consider that the going concern basis of preparation of the consolidated financial statements has been adequately disclosed in the consolidated financial statements. Up to the date of our report, no agreement or information or indication of the lender's current intention for the further renewal of or extension for repayment of those outstanding corporate bonds and term loans is available. In this circumstance, we were unable to obtain sufficient appropriate audit evidence in relation to the adoption of the going concern basis in preparing the consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend in respect of the year ended 31 December 2023 (2022: nil).

BUSINESS REVIEW

The main divisions of the Group based on the principal activities of the Group include the manufacturing for sale of toys (the "**Toys Division**") and the plantation and sales of agricultural products (the "**Agricultural Products Division**").

For FY2023, the Group recorded revenue of approximately HK\$523.3 million, representing a decrease of approximately 38.4% as compared to the revenue of approximately HK\$849.1 million for the year ended 31 December 2022 ("**FY2022**").

The decrease of revenue was mainly due to the worse performance of our Toys Division of approximately HK\$325.8 million. Gross profit for the year amounted to approximately HK\$39.2 million, representing a decrease of approximately 60.0% as compared with that of approximately HK\$97.9 million in FY2022 as a result of the worse performance of the Toys Division.

For FY2023, the net loss of the Group amounted to approximately HK\$29.4 million as compared with the net profit approximately HK\$8.1 million in FY2022. The decrease in net profit of the Group and turn out to net loss was mainly due to the decrease in the revenue generated from a major customer purchase orders.

The following will discuss the detailed performance of each division of the Group.

Toys Division

For FY2023, revenue of the Toys Division decreased by approximately 38.4% to HK\$522.8 million. The gross profit decreased to approximately HK\$39.2 million as compare to HK\$97.9 million in FY2022. The decrease in both revenue and gross profit of the Toys Division were mainly due to the decrease in purchase orders from the largest customer headquartered in the United States of America (the “USA”). The decrease in gross profit margin was mainly due to elevated discounts offered to its customers in response to a volatile and challenging consumer environment. The Toys Division recorded a reported segment loss before taxation of approximately HK\$7.26 million in FY2023, as compared to the turnout of the reportable segment profit before taxation of approximately HK\$53.1 million in FY2022. Such reported segment loss before taxation of the Toys Division were mainly due to decrease in gross profit attributable to the Toys Division.

Agricultural Products Division

On 24 May 2023, the Company indirectly acquired 78.9% of equity interest of 名鮮株式會社 which is principally engaged in the plantation and sales of agricultural products in Japan. For FY2023, revenue of agricultural products was generated in HK\$0.44 million. The Agricultural Products Division recorded a reported segment loss before taxation of approximately HK\$3.3 million, which was mainly due to the plantation and sales of agricultural products in Japan were under the development stage in FY2023. The management plans to extend the plantation and sales of agricultural products in Japan.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At the end of FY 2023, the Group had net current liabilities of approximately HK\$185.2 million (2022: HK\$192.8 million) comprising cash and cash equivalents of approximately HK\$119.3 million (2022: HK\$49.8 million).

The capital deficiencies attributable to owners of the Company amounted to approximately HK\$80.0 million as at 31 December 2023, as compared to the capital deficiencies attributable to owners of the Company of approximately HK\$89.6 million as at 31 December 2022, mainly as a result of the conversion of convertible bonds into shares less 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, convertible bond, trade and other payables and accruals less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group as at 31 December 2023 was approximately 131% (2022: 134%).

Despite the loss incurred by the Group and the net liabilities status at the end of FY2023, the Group has proposed to issue the shares under the general mandate on 15 January 2024. Therefore, the Group has sufficient cash to support the Group’s ongoing business operations.

The 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

DETAILS OF AUDIT QUALIFICATION AND RESPONSE FROM THE COMPANY

Details of the Audit Qualification

For the year ended 31 December 2023, the Group had net current liabilities and net liabilities of approximately HK\$185,184,000 and HK\$80,869,000, respectively during the year ended 31 December 2023, and the Group's bank balances amounted to approximately HK\$119,335,000, in contrast to its borrowings and convertible bond approximately HK\$238,097,000 and HK\$2,476,000 respectively, which are repayable within the next twelve months. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. In this regard, the auditor of the Company issued a disclaimer of opinion on the consolidated financial statement of the Group for the year ended 31 December 2023 on material uncertainty on the Group's ability to continue as a going concern (the "**Audit Qualification**").

Actual or potential impact of the Audit Qualification on the Group's financial position

The Audit Qualification does not itself show any actual impact on the Group's financial position. As set out in note to the consolidated financial statements, the consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period. Should the Group fail to achieve the intended effects resulting from the plans and measures as mentioned in note to the consolidated financial statements, it might not be able to operate as a going concern, and adjustments would have to be made to write down the carrying amounts of the Group's assets, provide for any further liabilities that may arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

Management's position

In view of the Audit Qualification, the management of the Group (including the Directors) (the "**Management**") has given consideration related to the Group's current liquidity, performance and available sources of financing in assessing the Group's ability to continue as a going concern. Taking into account the successful and continued implementation of various measures such as including the successful completion of issuance of shares under the general mandate, successful negotiations with the lenders regarding the extension of the maturity of all outstanding borrowings, the Management believes that the Group should have sufficient working capital for a period of not less than 12 months from 31 December 2023, and hence it was appropriate to prepare the Group's consolidated financial statements on a going concern basis.

There was no disagreement between the Management and the Auditors regarding the Audit Qualification, considering that the consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of the measures under management's assumptions, which are subject to certain uncertainties, including the Group's ability to generate operating cash flows and to obtain additional sources of financing. While the Company is of the view that it has already provided all available information and documents to demonstrate that the Group will have sufficient working capital for the 12 months after the year ended 31 December 2023, the Company also acknowledges the uncertainties raised by the Auditors specified above in that such uncertainties cannot be satisfied with the mere provision of documents and information.

Audit committee's views towards the Audit Qualification

The audit committee reviewed and agreed with the management's position concerning the action plan of the Group to address the Audit Qualification disclosed above. The Audit Committee has also discussed with the Management and the Auditors to understand the reason for the Disclaimer and the views of the Board and the Auditors. The Audit committee concurs with the Management's position and views with respect to the Disclaimer and the Group's ability to continue as a going concern, the actions to be implemented by the management of the Group.

Proposed plans to address the Audit Qualification

The Board is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration of the point (i) to (iii) as set out in note 2 to the consolidated financial statements. The management recognises that further equity funding is required to resolve auditor's concern on the going concern issue. As such, the management will commence to contact potential investors with a view to raise equity funds by way of placing of new shares of the Company under a general mandate and/or rights issues. The management will vigorously consider any feasible plan from the potential underwriter and will proceed as and when appropriate and practicable. The management intends to conduct the equity fund activities and successfully raise fund for the Group by the end of 2024.

In view of the foregoing, and assuming all of the Company's plans or actions can be completed as planned, including the obtaining of alternative financing, and no new circumstances and conditions have occurred, subject to satisfactory completion of review of the Management's assessment of the Group's going concern and the Auditors being satisfied with the documents, information and evidence to be provided by the Company going forward, the Directors are of the view 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 year ended of 31 December 2023 and the Company is hopeful that that the Disclaimer may be removed in connection with the audit of the consolidated financial statements of the Group for the year ending 31 December 2024.

PROSPECTS

We anticipate that 2024 is a challenging year. Inflation, despite a slowdown, remains a notable challenge. The Toys Division experienced tremendous pressure on product margins and turnover in FY2023, the Toys Division is expected to continue facing challenges in 2024.

The Board is looking for different business opportunities to diversify our principal business activities and moving toward more profitable businesses in order to maintain competitiveness and ensure shareholder returns. Cost cutting measures within the Group were put in place to reduce operating costs. The Board has also decided to give the Company a better financial position to meet the future challenges.

In order to explore opportunities and provide sufficient fund for the general working capital, the Group issued new shares under the General Mandate at the amount of approximately HK\$6.5 million on 15 January 2024. During the year, the Group has acquired the subsidiary which engaged in the plantation and sale of agricultural products in Japan. This investment is in line with the Group's plan to develop a business in the agricultural sector.

Looking forward, we are cautiously optimistic as our Toys Division and Agricultural Products Division continue to improve their performances and the Board shall continue to explore more new business opportunities on a much lower management cost and look for more new potential customers to increase the market shares.

CORPORATE GOVERNANCE

During the financial year ended 31 December 2023, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Part 2 of Appendix C1 of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2023, the Group employed 1,513 employees (2022: 1,696) with staff costs amounted to approximately HK\$106.1 million (2022: approximately HK\$126.8 million). Remuneration policies are reviewed annually by the management of the Company. The Group's remuneration policy is structured to consider comparable position in the market and the prevailing business scale of the Group.

SUBSEQUENT EVENT

Referring to the Company's announcement on 2 January 2024 and 15 January 2024, the Company allotted and issued an aggregate of 101,964,566 ordinary shares of HK\$0.01 each for cash at the net issue price of approximately HK\$0.066 per new share under the general mandate on 15 January 2024. Save as above, subsequent to 31 December 2023 and up to the date of this report, the Board is not aware of any significant event affecting the Group and requiring disclosure.

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

During the year ended 31 December 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The annual results for FY2023 have been reviewed by the Audit Committee of the Company. The consolidated financial statements of the Group for FY2023 have been audited by the Company's auditor, Confucius International CPA Limited (the "**Auditors**"). The financial information set out in this announcement represents an extract from these consolidated financial statements.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on 17 June 2024 and the notice of annual general meeting will be published and despatched in accordance with the requirements under the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 June 2024 to 17 June 2024 (both days inclusive), during which no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on 7 June 2024.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all our shareholders, customers, bankers and other business associates for their continuing trust and support to the Group. I would also like to thank all Directors, the management team and our staff for their dedication, commitment and loyalty to the Group.

By Order of the Board
Winshine Science Company Limited
Jiang Qinghui
Chairman

Hong Kong, 28 March 2024

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Jiang Qinghui (Chairman) and Mr. Weng Zudian (Chief Executive Officer); one Non-executive Director, namely Mr. Lin Shaopeng; and three Independent Non-executive Directors, namely Mr. Kwok Kim Hung Eddie, Mr. Chan Cheuk Ho and Mr. Zhao Yong.

* *For identification purpose only*