WINSHINE
瀛晟科學

# WINSHINE SCIENCE COMPANY LIMITED
# 瀛 晟 科 學 有 限 公 司*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 209)**

## INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the "Board") of Winshine Science Company Limited (the "Company") hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2018 together with comparative figures as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
*FOR THE SIX MONTHS ENDED 30 JUNE 2018*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2018** | 2017 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| | | **(unaudited)** | (unaudited) |
| **Revenue** | 4 | **286,297** | 176,414 |
| Cost of sales | | **(254,915)** | (151,542) |
| **Gross profit (loss)** | | **31,382** | 24,872 |
| Other income and gain | 5 | **3,465** | 5,647 |
| Selling and distribution costs | | **(3,905)** | (2,182) |
| Administrative expenses | | **(31,013)** | (50,776) |
| Changes in fair value of financial assets | | **3,669** | (4,348) |
| Other operating expenses | | **(10,351)** | (3,680) |
| Finance costs | | **(5,218)** | (5,761) |
| **Loss before taxation** | 6 | **(11,971)** | (36,228) |
| Income tax expense | 7 | **(630)** | (410) |
| **Loss for the period** | | **(12,601)** | (36,638) |
| **Loss per share** | | | |
| Basic and diluted | 8 | **(HK0.34 cents)** | (HK1.13 cents) |

* *For identification purpose only*

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE SIX MONTHS ENDED 30 JUNE 2018*

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Loss for the period** | **(12,601)** | (36,638) |
| **Other comprehensive income (loss) for the period** | | |
| *Item that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translating foreign operations | **(3,338)** | 8,075 |
| Other comprehensive income (loss) for the period, net of tax | **(3,338)** | 8,075 |
| **Total comprehensive loss for the period** | **(15,939)** | (28,563) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 30 JUNE 2018*

| | Notes | At 30 June 2018 HK$'000 (unaudited) | At 31 December 2017 HK$'000 (audited) |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 10 | **122,983** | 123,283 |
| Prepaid land premiums | | **3,801** | 3,873 |
| Investment properties | | **59,661** | 101,926 |
| Deposit paid for construction of properties | | **–** | 65,438 |
| | | **186,445** | 294,520 |
| **Current assets** | | | |
| Financial assets at fair value through profit and loss | | **31,248** | 27,579 |
| Inventories | | **129,890** | 83,987 |
| Prepaid land premiums | | **143** | 143 |
| Trade receivables | 11 | **116,189** | 114,700 |
| Loan receivables | | **32,159** | 16,159 |
| Prepayments, deposits and other receivables | | **24,235** | 62,767 |
| Pledged bank deposits | | **10,675** | 21,474 |
| Cash and cash equivalents | | **101,592** | 131,523 |
| | | **446,131** | 458,332 |
| Assets classified as held for sale | | **152,776** | – |
| | | **598,907** | 458,332 |
| **Current liabilities** | | | |
| Trade and bills payables | 12 | **197,719** | 171,375 |
| Other payables and accruals | | **52,792** | 44,908 |
| Borrowings | | **192,558** | 184,662 |
| Tax payables | | **9,141** | 9,679 |
| | | **452,210** | 410,624 |
| Liabilities classified as held for sale | | **6,853** | – |
| | | **459,063** | 410,624 |
| **Net current assets** | | **139,844** | 47,708 |
| **Total assets less current liabilities** | | **326,289** | 342,228 |
| **Non-current liability** | | | |
| Deferred tax liabilities | | **9,060** | 9,060 |
| | | **9,060** | 9,060 |
| **Net assets** | | **317,229** | 333,168 |
| **Capital and reserves** | | | |
| **Equity** | | | |
| Share capital | | **366,186** | 366,186 |
| Reserves | | **(48,957)** | (33,018) |
| **Total equity** | | **(317,229)** | 333,168 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*FOR THE SIX MONTHS ENDED 30 JUNE 2018*

### 1. CORPORATE INFORMATION

The Company is a limited liability company incorporated in Bermuda. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located at Rooms 2202-2203, 22/F., Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong. 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 are manufacturing and trading of toys, securities investments and medical and health. The condensed consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

### 2. STATEMENT OF COMPLIANCE

These condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The preparation of the unaudited condensed consolidated financial statements in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and the reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2017, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs"). The condensed consolidated financial statements do not include all the information and disclosures required for an annual financial statements, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 31 December 2017.

The measurement basis used in the preparation of these condensed consolidated financial statements is the historical cost basis except for certain properties and financial instruments that are measured at fair values.

## 3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new standards, amendments and interpretations to Hong Kong Financial Reporting Standards ("HKFRSs") that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, Financial instruments
- HKFRS 15, Revenue from contracts with customers
- HK(IFRIC) 22, Foreign currency transactions and advance consideration

The Group has not applied any new standard, amendment or interpretation that is not yet effective for the current accounting period. Details of the changes in accounting policies for HKFRS 9, HKFRS 15 and HK(IFRIC) 22 are discussed in note 3(a), 3(b) and 3(c) respectively.

Upon initial application of the above new standards, amendments and interpretations, there is no significant impact to the Group's financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 and no restatement to the comparative information are required.

### (a) HKFRS 9, Financial instruments

HKFRS 9 replaces HKAS 39, Financial instruments: recognition and measurement. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

(i) Classification of financial assets and financial liabilities HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

Non-equity financial assets held by the Group are classified into one of the following measurement categories:

- amortised cost, if the financial asset is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the financial asset is calculated using the effective interest method;

- FVOCI - recycling, if the contractual cash flows of the financial asset comprise solely payments of principal and interest and the financial asset is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the financial asset is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss; or

- FVPL, if the financial asset does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the financial asset (including interest) are recognised in profit or loss.

Investment in equity securities are classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss.

The Group's financial assets measured at amortised cost and FVPL continue with their respective classification and measurements upon initial application of HKFRS 9. The Group does not have any financial assets classified as FVOCI.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVPL that is attributable to changes of that financial liabilities' credit risk to be recognized in other comprehensive income (non-recycling).

The Group does not have any financial liabilities designated at FVPL and therefore the new requirement on financial liabilities does not have any impact on the Group.

*(ii)* *Impairment*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost. Financial assets measured at fair value through profit or loss are not subject to the ECL assessment.

Measurement of ECLs
ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive). ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial assets, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

As a result of this change in accounting policy on financial assets impairment, there is no significant impact to the Group's financial statements and accordingly no adjustment to the opening balance of equity at 1 January 2018 and no restatement to the comparative information are required.

**(b) HKFRS 15, Revenue from contracts with customers**

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services.

*(i) Timing of revenue recognition*

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised goods or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised goods or service is regarded as being transferred over time:

A - When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B - When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C - When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have any impact on the timing the Group recognises revenue.

*(ii)* *Presentation of contract assets and liabilities*

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue.

HKFRS 15 does not prohibit an entity from using alternative descriptions in the statement of financial position for contract assets and contract liabilities, provided that sufficient information is available for a financial statements user to distinguish between receivables and contract assets, payables and contract liabilities. The Group does not have any significant contract asset and liability.

*(iii)* *Disclosures*

HKFRS 15 requires that an entity shall disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

**(c) HK(IFRIC) 22, Foreign currency transactions and advance consideration**

This interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income arising from a transaction in which an entity receives or pays advance consideration in a foreign currency. The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any significant impact on the financial position and the financial result of the Group.

## 4. SEGMENT REPORTING

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of the Group's revenue is as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Revenue** | | |
| Sale of goods | **286,297** | 176,414 |

The Group is organised and its businesses are managed by divisions, which are a mixture of both business lines and geographical location. However, based on the information that is reported internally to the executive directors of the Company, being the chief operating decision maker of the Group, for the purposes of resources allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

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

2. Manufacturing and trading of toys: this segment derives its revenue from manufacturing and trading of toys.

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

In accordance with HKFRS 8, segment information disclosed in these condensed consolidated financial statements has been prepared in a manner consistent with the information used by the chief operating decision maker for the purposes of assessing segment performance and allocating resources among segments. In this regard, 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 deposit paid for construction of properties, deposits paid for purchase of property, plant and equipment, certain property, plant and equipment, loan receivables, certain prepayments, deposits and other receivables and certain cash and cash equivalents, which are grouped as unallocated corporate assets.

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

Segment profit or loss before taxation exclude unallocated interest income and unallocated corporate expenses which are not directly attributable to the business activities of any operating segment.

## (a) Segment results, assets and liabilities

For the periods ended 30 June 2018 and 2017

| | Securities investments | | Manufacturing and trading of toys | | Medical and health | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Reportable segment revenue** | | | | | | | | |
| Revenue from external customers | **–** | – | **286,297** | 176,414 | **–** | – | **286,297** | 176,414 |
| **Reportable segment (loss) profit before taxation** | **3,668** | (5,499) | **4,623** | (98) | **(856)** | (4,507) | **7,435** | (10,104) |
| Unallocated corporate income | | | | | | | **2,382** | 3,096 |
| Unallocated corporate expenses | | | | | | | **(21,788)** | (29,220) |
| **Loss before taxation** | | | | | | | **(11,971)** | (36,228) |
| **Other segment information (included in the measure of segment profit or loss or regularly provided to chief operating decision maker)** | | | | | | | | |
| Depreciation of property, plant and equipment | **–** | – | **(4,069)** | (4,033) | **–** | – | **(4,069)** | (4,033) |
| Amortisation of prepaid land premiums | **–** | – | **(72)** | (75) | **–** | – | **(72)** | (75) |
| Write down of inventories, net | **–** | – | **(1,756)** | (1,175) | **–** | – | **(1,756)** | (1,175) |
| Gain/(loss) on disposal of property, plant and equipment, net | **–** | – | **(53)** | 3,304 | **–** | – | **(53)** | 3,304 |
| Research and development expenses | **–** | – | **–** | – | **(856)** | (4,507) | **(856)** | (4,507) |
| Changes in fair value of financial assets | **3,669** | (4,348) | **–** | – | **–** | – | **3,669** | (4,348) |
| Bank interest income | **–** | – | **239** | 23 | **–** | – | **239** | 23 |
| Interest expense | **–** | – | **(3,849)** | (4,415) | **–** | – | **(3,849)** | (4,415) |
| **Addition to non-current assets** | | | | | | | | |
| Property, plant and equipment | **–** | – | **4,465** | 4,781 | **–** | – | **4,465** | 4,781 |

**(b) Reconciliation of reportable segment, assets and liabilities**

**As at 30 June 2018**

| | Securities investments *HK$'000* | Manufacturing and trading of toys *HK$'000* | Medical and health *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Reportable segment assets | **31,248** | **411,647** | **–** | **442,895** |
| Unallocated corporate assets | **–** | **–** | **–** | **342,457** |
| Total assets | | | | **785,352** |
| Reportable segment liabilities | **–** | **(378,416)** | **–** | **(378,416)** |
| Unallocated corporate liabilities | | | | **(89,707)** |
| Total liabilities | | | | **(468,123)** |

**As at 31 December 2017**

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

*Note:* There were no inter-segment sales in both periods.

## 5. OTHER INCOME AND GAIN

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Bank interest income | **351** | 69 |
| Other interest income | **1,501** | 1,929 |
| Change in fair value of investment properties | **–** | 637 |
| Rental income | **768** | 1,437 |
| Mould income | **260** | 1,044 |
| Sundry income | **585** | 531 |
| | **3,465** | 5,647 |

## 6. LOSS BEFORE TAXATION

The Group's loss before taxation is arrived at after charging the following:

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Employee benefit expense (including directors' remuneration): | | |
| Wages and salaries | **87,706** | 75,323 |
| Other employee benefits | **2,281** | 1,530 |
| Contributions to defined contribution retirement plans | **6,501** | 5,792 |
| | **96,488** | 82,645 |
| Cost of inventories | **249,732** | 137,229 |
| Depreciation of property, plant and equipment | **4,783** | 4,483 |
| Amortisation of prepaid land premiums | **72** | 75 |
| Write down of inventories, net | **1,756** | 1,175 |
| Provision for loss on disposal of asset held for sale | **3,923** | – |
| Interest on borrowings | **5,218** | 5,761 |

## 7. INCOME TAX EXPENSE

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| Current tax | | |
| PRC Enterprise Income Tax ("EIT") | **630** | 305 |
| Deferred taxation | | |
| Current period | **–** | 105 |
| | **630** | 410 |

Hong Kong Profits Tax has been calculated at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period. No Hong Kong Profits Tax has been provided for in the condensed consolidated financial statements as the Group has no assessable profits for both periods.

Enterprise Income Tax in the PRC has been calculated based on the estimated assessable profits of subsidiaries operating in the PRC at 25%.

## 8. LOSS PER SHARE

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

| | Six months ended 30 June | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| | **(unaudited)** | (unaudited) |
| **Loss** | | |
| Loss attributable to owners of the Company for the purposes of basic and diluted loss per share | **(12,601)** | (36,638) |
| | ***'000*** | *'000* |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic and diluted loss per share | **3,661,865** | **3,248,605** |

The computation of diluted loss per share for the six months periods ended 30 June 2018 and 2017 does not assume the exercise of share options granted by the Company since such assumed exercise would be anti-dilutive.

## 9. DIVIDENDS

No dividends were paid or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

## 10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired certain property, plant and equipment totalling approximately HK$4,928,000 (six months ended 30 June 2017: HK$6,867,000). The Group disposed of machinery and equipment with carrying amounts totalling approximately HK$306,000 (six months ended 30 June 2017: HK$360,000).

## 11. TRADE RECEIVABLES

The following is an analysis of the trade receivables by age, presented based on the invoice date and net of allowance for doubtful debts:

| | **As at 30 June 2018** *HK$'000* **(unaudited)** | As at 31 December 2017 *HK$'000* (audited) |
|---|---|---|
| 0 to 30 days | **86,663** | 77,526 |
| 31 to 90 days | **21,005** | 37,134 |
| Over 90 days | **8,521** | 40 |
| | **116,189** | 114,700 |

*Notes:*

(i) All of the trade receivables are expected to be recovered within one year.

(ii) 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.

## 12. TRADE AND BILLS PAYABLES

The ageing analysis of the trade and bills payables as at the end of the reporting period is as follows:

| | **As at 30 June 2018** *HK$'000* **(unaudited)** | As at 31 December 2017 *HK$'000* (audited) |
|---|---|---|
| 0 to 30 days | **135,420** | 96,591 |
| 31 to 90 days | **39,040** | 53,991 |
| Over 90 days | **23,259** | 20,793 |
| | **197,719** | 171,375 |

*Note:* The trade and bills payables are expected to be settled within one year.

## INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2018 (30 June 2017: nil).

## BUSINESS REVIEW

Continued to benefit from a popular product series in the toys division, the Group reported an increase of revenue for the first half of 2018 to HK$286,297,000 from that of HK$176,414,000 for the first half of 2017. Gross profit rose accordingly to HK$31,382,000 from that of HK$24,872,000. Loss before taxation was reduced by 67% over the same period of 2017 (2017: Loss of HK$36,228,000) to HK$11,971,000. Performance of the securities investments division also improved and recorded segment profit of HK$3,668,000 (2017: Loss of HK$5,499,000). The Group did not record any revenue in the medical and health industry which was still in the research and development stage.

### *Toys Division*

The toys division continued to improve performance and its turnover for the first half of 2018 recorded year-over-year increase of 62% to HK$286,297,000, as a result of a popular product series successfully developed by its customers. Due to rise of raw material cost and shortage in skilled workers, its gross profit only climbed 26% to HK$31,382,000 from the corresponding period of 2017 of HK$24,872,000. And as the turnover increased, additional staff and overtime and other peripheral expenses also grew accordingly. Benefited from a reduction in the finance expense, the toys division turned around and recorded a segment profit of HK$4,623,000 (2017: Segment loss of HK$98,000).

### *Securities investments*

Affected by the escalating China US trade tensions, deleveraging and tightening measures in China and potential US interest rate hikes, investors became more bearish and cautious amid the volatile stock market in the first half. The Hang Seng Index points dropped by 3.2% from 29,919 points as at 31 December 2017 to 28,955 points as at 30 June 2018, reaching the highest and the lowest points of 33,484 and 28,169 respectively. Average daily turnover further increased by 66.5% from HK$76 billion in the first half of 2017 to HK$126.6 billion in the first half of 2018. For the period ended 30 June 2018, the securities investments division reported segment profit of HK$3,668,000 (2017: loss of HK$5,499,000). As at 30 June 2018, the Group's securities portfolio was valued at HK$31,248,000 (2017: HK$27,579,000) on a fair value basis.

### *Medical and Health Division*

During the first half of 2018, the Group continued to carry out research and development studies on the pre-clinical research project about the studies of genetically engineered bacteria for targeted cancer therapy ("Project GEB").

Previously the project team have generated the first-generation anti-cancer bacteria and evaluated the safety and efficacy of the bacteria in vitro and in various murine tumor models, confirming that the first-generation anti-cancer bacteria were capable of repressing the growth of a wide range of common cancers and improving survival of cancer-carrying mice. Based on these achievements, the project team generated 13 candidates of the second-generation anti-cancer bacteria by designing new anti-cancer strategies and genetically engineered the bacteria accordingly. The new anti-cancer strategies included direct tumor killing mechanisms, indirect tumor killing via anticancer immune responses, and nutrient exhaustion within tumors. After in vitro and in vivo assessments of the newly generated anti-cancer bacteria were performed, it was discovered that 4 of the 13 second-generation anti-cancer bacteria were superior to the first-generation of bacteria in terms of anticancer efficacy. Given the novelty of these findings, the project team requested a professional patent agency to file a PCT patent application for the 4 newly discovered anti-cancer strategies.

During the period, a total of approximately HK$856,000 research and development expenses were incurred in the medical and health division. The division did not record any income as the studies were still at the preliminary stage.

In the second half year, more studies will place on improving the efficacy of the anti-cancer bacteria by employing new therapeutic strategies and combining multiple anti-cancer mechanisms. In addition, attempts will also be made towards evaluating the role of the anti-cancer bacteria as vaccines preventing cancer relapse. Meanwhile, a genetic engineering platform has also been set up so as to speed up the progress of the Project GEB.

***Completion of disposal of 100% equity interest in Bright Triumph Development Ltd. ("Bright Triumph")***

The Company announced on 28 December 2017 that it entered into sale and purchase agreement to conditionally sell the entire share capital of Bright Triumph Development Ltd. ("Bright Triumph") at a consideration of HK$142,000,000. The principal assets of Bright Triumph, held through its indirect subsidiary Yi Nuo Technology (Suzhou) Company Ltd. included mainly land and buildings at Jiangsu Suzhou, and deposits paid for construction of properties. The Group has received HK$28,400,000, being 20% of the consideration in March 2018 already. On the special general meeting held on 26 June 2018, the shareholders of the Company approved the transaction. The transaction is completed in August 2018 and the Group will receive a total of HK$56,800,000 in September in accordance with the sale and purchase agreement. The Group will receive the remaining consideration in two instalments of HK$28,400,000 each payable within 3 months and 6 months upon completion respectively.

The disposal can provide the Group more funding and flexibility to develop the existing business and to look for other new opportunities and explore potential developments of the company land held in Hainan Province.

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

At 30 June 2018, the Group had current assets of HK$598,907,000 (31 December 2017: HK$458,332,000) comprising cash and cash equivalents of 101,592,000 (31 December 2017: HK$131,523,000) (excluding pledged bank deposits). The Group's current ratio, calculated as current assets divided by current liabilities of HK$459,063,000 (31 December 2017: HK$410,624,000), remained at healthy ratio of 1.30 (31 December 2017: 1.12). At the period end, the Group's trading securities amounted to HK$31,248,000, representing an increase of 13.3% from that of the previous year end (31 December 2017: HK$27,579,000). The Group's borrowings at 30 June 2018 were mainly denominated in Hong Kong dollars and Renminbi in the proportion of 94,5% and 5.5% (31 December 2017: 85% and 15%) respectively. All borrowings totaling HK$192,558,000 (31 December 2017: HK$184,662,000).

As of 30 June 2018, the equity attributable to owners of the Company decreased by 4.8% to HK$317,229,000 (31 December 2017: HK$333,168,000) mainly as a result of the loss incurred during the period. 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 less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group at 30 June 2018 was approximately 51.1% (31 December 2017: 43%).

Despite the loss incurred by the Group, the financial position of the Group remained solid with sufficient cash and available financial resources to support the Group's ongoing business operations.

## UPDATE ON USE OF PROCEEDS OF FUND RAISING ACTIVITIES OF THE COMPANY

In April 2017, the Company completed the issue of new shares under specific mandate of 680,000,000 subscription shares, representing 18.57% of total issued shares of the Company immediately after completion of the issue of new shares. The new shares are issued at the subscription price of HK$0.18 per subscription share and the gross proceeds and net proceeds raised from the issue of new shares are approximately HK$122,400,000 and HK$121,600,000 respectively.

An analysis of the use of net proceeds up to 30 June 2018 is set out below:

| | **Intended use of net proceeds** *HK$'000* | **Actual use of net proceeds up to 31 December 2017** *HK$'000* | **Actual use of net proceeds up to 30 June 2018** *HK$'000* | **Unutilised amount of net proceeds up to 30 June 2018** *HK$'000* |
|---|---|---|---|---|
| Possible investment in new projects | 56,600 | 56,600 | – | – |
| Money lending business | 30,000 | 7,800 | 16,000 | 6,200 |
| General operating expenses | 25,000 | 20,000 | 5,000 | – |
| Development of existing business | 10,000 | 4,600 | 5,400 | – |
| **Total** | 121,600 | 89,000 | 26,400 | 6,200 |

## PROSPECTS

Performance of the toys division remains positive in the third quarter, but has been undermined by the increasing cost of production such as rising packing material cost and the increased minimum wage in Zhongshan City. Although RMB continues to weaken in July and August, the economic benefit enjoyed by the toys division is limited as it has entered into currency forward contract to partially hedge its RMB exposure. With no resolution to trade war in sight, the customers become more cautious in placing orders. It is expected that the business environment will become more challenging in the second half year. The toys division will continue to invest in production automation equipment so to increase efficiency and reduce the rising cost pressure. On the securities investments division, the Group will adopt a cautious approach in managing its investment portfolio while it will carry on the research and development studies on the Project GEB in its medical and health division.

## CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2018 except for the following deviation with reason as explained.

### Responsibilities of Directors

***Code Provision A.6.7***

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.

***Deviation***

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

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted its own code of conduct regarding directors' dealings in the Company's securities (the "Own Code") on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Specific enquiries have been made with the Directors and they have confirmed their compliance with the Own Code and the Model Code during the six months ended 30 June 2018.

## REVIEW OF INTERIM FINANCIAL STATEMENTS

The audit committee of the Company has reviewed with the management the accounting principles and policies adopted by the Company and the unaudited condensed consolidated results for the six months ended 30 June 2018. The audit committee was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures were made.

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

During the six months ended 30 June 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board
**Xing Wei**
*Chairman*

Hong Kong, 28 August 2018

*As at the date of this announcement, the Board comprises two Executive Directors, being Mr. Xing Wei (Chairman) and Mr. Wei Guo (Chief Executive Officer); one Non-executive Director, namely Mr. Lin Shaopeng; and three Independent Non-executive Directors, namely Mr. Li Fang, Mr. Lau Shun Pong Johnson and Mr. Lai Ming Wai.*

* *For identification purpose only*