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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 2019

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 2019 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	HK\$'000	HK\$'000
		(unaudited)	(unaudited)
Revenue	4	165,402	286,297
Cost of sales		(153,688)	(254,915)
Gross profit		11,714	31,382
Other income, gains and losses	5	10,548	5,476
Selling and distribution costs		(2,306)	(3,905)
Administrative expenses		(30,545)	(32,947)
Research and development expenses		(1,185)	(856)
Changes in fair value of financial assets at fair value through profit or loss		(9,893)	3,669
Other operating expenses		(9,856)	(9,572)
Finance costs		(6,843)	(5,218)
Loss before tax		(38,366)	(11,971)
Income tax expense	6	(2,136)	(630)
Loss for the period	7	(40,502)	(12,601)
Loss for the period attributable to the owners of the Company		(40,502)	(12,601)
Loss per share			
Basic and diluted	8	(HK1.11 cents)	(HK0.34 cents)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2019

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss for the period	(40,502)	(12,601)
Other comprehensive income (expense)		
<i>Item that will not be reclassified to profit or loss:</i>		
Gain on revaluation of properties	<u>1,870</u>	<u>—</u>
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	<u>(977)</u>	<u>(3,338)</u>
Other comprehensive income (expense) for the period	<u>893</u>	<u>(3,338)</u>
Total comprehensive expense for the period	<u>(39,609)</u>	<u>(15,939)</u>
Total comprehensive expense for the period attributable to the owners of the Company	<u>(39,609)</u>	<u>(15,939)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2019

	Notes	At 30 June 2019 HK\$'000 (unaudited)	At 31 December 2018 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	10	133,293	126,570
Right-of-use assets	10	10,847	–
Prepaid land premiums		–	3,729
Investment properties		111,402	105,912
Loan receivables		–	13,987
Deferred tax assets		8,808	8,808
		<u>264,350</u>	<u>259,006</u>
Current assets			
Financial assets at fair value through profit or loss		7,687	17,580
Inventories		129,158	89,424
Prepaid land premiums		–	143
Trade receivables	11	88,481	43,245
Loan receivables		18,497	4,510
Amount due from a related company		–	228
Prepayments, deposits and other receivables		24,698	35,221
Bank balances and cash		59,919	75,489
		<u>328,440</u>	<u>265,840</u>
Current liabilities			
Trade payables	12	116,308	117,862
Other payables and accruals		30,691	54,041
Contract liabilities		1,620	1,745
Borrowings	13	283,819	160,422
Lease liabilities		3,540	–
Tax payables		2,143	2,133
		<u>438,121</u>	<u>336,203</u>
Net current liabilities		<u>(109,681)</u>	<u>(70,363)</u>
Total assets less current liabilities		<u>154,669</u>	<u>188,643</u>
Non-current liabilities			
Lease liabilities		3,572	–
Deferred tax liabilities		26,369	24,306
		<u>29,941</u>	<u>24,306</u>
Net assets		<u>124,728</u>	<u>164,337</u>
Capital and reserves			
Share capital		366,186	366,186
Deficit		(241,458)	(201,849)
Total equity		<u>124,728</u>	<u>164,337</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2019

1. CORPORATE INFORMATION

Winshine Science Company Limited (the “Company”) is a limited liability company incorporated in Bermuda. The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its address of 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”). Due to the delay in publication of the 2018 annual results and pursuant to the requirements of Rule 13.50 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”), trading in the shares of the Company on the Stock Exchange has been suspended with effect from 1 April 2019.

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

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

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

2. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The condensed consolidated financial statements do not include all the information required for a complete set of financial statement prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA and should be read in conjunction with the Group’s annual consolidated financial statements for the year ended 31 December 2018 (the “2018 Financial Statement”).

(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 six months ended 30 June 2019.

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

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

For the six months ended 30 June 2019, the Group incurred a loss of approximately HK\$40,502,000 with net cash used in operating activities of approximately HK\$102,859,000 for the six months ended 30 June 2019 and as at 30 June 2019, the Group had net current liabilities of approximately HK\$109,681,000. The Group’s bank balances and cash amounted to approximately HK\$59,919,000, in contrast to its borrowings of approximately HK\$283,819,000, of which HK\$45,000,000 were overdue which have become repayable on demand as at 30 June 2019 (the “Bonds”), and approximately HK\$238,819,000 are repayable within the next twelve months as disclosed in note 13.

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

- (i) in negotiating with respective lenders to renew and extend existing borrowings upon their maturities; and
- (ii) implementing an active cost-saving measures to control administrative costs through various channels to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group.

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

- (a) an extension agreement for the borrowings of HK\$45,000,000 has been entered into between the Company and the holder of the Bonds to extend the repayment terms of overdue bonds to 30 September 2020, details of which are set out in note 13 to the condensed consolidated financial statements;
- (b) an extension agreement in connection with the unsecured loan of approximately HK\$50,000,000 has been entered into between the Company and a substantial shareholder of the Company prior to its maturity date on 8 October 2019 to extend the repayment due date to 30 September 2020, details of which are set out in note 13 to the condensed consolidated financial statements; and
- (c) the secured bank loan of HK\$168,819,000 was revolved with repayment due date extended to 19 June 2020 pursuant to a loan revolving agreement entered into with the bank, details of which are set out in note 13 to the condensed consolidated financial statements.

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

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period.

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the 2018 Financial Statements.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

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 period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 “Leases”

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 “Leases” (“HKAS 17”), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of staff quarters that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying assets to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

Leasehold land and building

For payments of a property interest which includes both leasehold land and building elements, the entire property is presented as property, plant and equipment of the Group when the payments cannot be allocated reliably between the leasehold land and building elements.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 “Financial Instruments” (“HKFRS 9”) and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 Revenue from Contracts with Customers (“HKFRS 15”) to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

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; and
- (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	1,443
Non-current	5,748
	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 (<i>note</i>)	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.

- Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.

The following adjustments were made to the amounts recognised in the condensed 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 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 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

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

4. REVENUE AND OPERATING SEGMENTS

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

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Revenue from sales of finished goods of toy products	<u>165,402</u>	<u>286,297</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 or services delivered or provided. The Group has presented the following three reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

1. Securities investments: this segment derives its revenue from dividends received from equity securities investments.
2. Toys: this segment derives its revenue from manufacturing for sale of toys.
3. Medical and health: this segment is under development stage in which research and development expenses for the medical and health technology development have been incurred.

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

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

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

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

(a) Segment revenue and results

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

For the six months ended 30 June 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	-	-	165,402	286,297	-	-	165,402	286,297
Reportable segment (loss)								
profit before tax	(9,894)	3,668	(13,065)	4,623	(1,185)	(856)	(24,144)	7,435
Unallocated corporate income							10,548	2,382
Unallocated corporate expenses							(24,770)	(21,788)
Loss before tax							(38,366)	(11,971)
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	-	-	(4,332)	(4,069)	-	-	(4,332)	(4,069)
Depreciation of right-of-use assets	-	-	(433)	-	-	-	(433)	-
Amortisation of prepaid land premiums	-	-	-	(72)	-	-	-	(72)
Reversals (write down) of inventories, net	-	-	828	(1,756)	-	-	828	(1,756)
Gain (loss) on disposal of property, plant and equipment, net	-	-	70	(53)	-	-	70	(53)
Changes in fair value of financial assets at fair value through profit or loss	(9,893)	3,669	-	-	-	-	(9,893)	3,669
Bank interest income	-	-	15	239	-	-	15	239
Interest expense	-	-	(5,155)	(3,849)	-	-	(5,155)	(3,849)
Research and development expenses	-	-	-	-	(1,185)	(856)	(1,185)	(856)
Purchases of property, plant and equipment	-	-	9,956	4,465	-	-	9,956	4,465

(b) Segment assets and liabilities

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

As at 30 June 2019 (unaudited)

	Securities investments <i>HK\$'000</i>	Toys <i>HK\$'000</i>	Medical and health <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	7,692	411,382	–	419,074
Unallocated corporate assets				<u>173,716</u>
Total assets				<u><u>592,790</u></u>
Reportable segment liabilities	–	(394,860)	–	(394,860)
Unallocated corporate liabilities				<u>(73,202)</u>
Total liabilities				<u><u>468,062</u></u>

As at 31 December 2018 (audited)

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

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

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Bank interest income	86	351
Loan interest income	1,258	1,501
Change in fair value of investment properties	6,021	–
Net foreign exchange gain	1,279	1,934
Rental income	773	768
Mould income	73	260
Gain on disposal of property, plant and equipment, net	70	77
Sundry income	988	585
	<u>10,548</u>	<u>5,476</u>

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”)	–	630
Current period		
Deferred tax expense	<u>2,136</u>	<u>–</u>
Income tax expense	<u>2,136</u>	<u>630</u>

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 condensed consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

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 periods.

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.

7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging the following items:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Employee benefit expense (including directors' remuneration):		
Wages and salaries	52,154	87,706
Other employee benefits	1,931	2,281
Contributions to defined contribution retirement plans	5,643	6,501
	59,728	96,488
Sub-contracting labour cost	8,837	23,905
Cost of inventories recognised as an expense (included in cost of sales)	155,764	249,732
Depreciation of property, plant and equipment	4,738	4,783
Depreciation of right-of-use assets	1,650	–
Amortisation of prepaid land premiums	–	72
(Reversals) write down of inventories, net (included in cost of sales)	(828)	1,756
Operating lease changes in respect of land and buildings	1,115	2,510

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	
	2019	2018
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Loss		
Loss attributable to owners of the Company		
for the purposes of basic and diluted loss per share	(40,502)	(12,601)
	'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 six months periods ended 30 June 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.

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. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the current interim period, the Group acquired certain property, plant and equipment with an aggregate carrying amount of approximately HK\$9,970,000 (for the six months ended 30 June 2018: HK\$4,928,000). The Group disposed of machinery and equipment with an aggregate carrying amount of approximately HK\$1,707,000 (for the six months ended 30 June 2018: HK\$306,000).

During the current interim period, the Group entered into a new lease agreement for the use of a factory for three years. The Group is required to make fixed monthly payments during the contract period. On lease commencement, the Group recognised HK\$1,461,000 of right-of-use assets and HK\$1,461,000 lease liabilities.

11. TRADE RECEIVABLES

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

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

	As at 30 June 2019 <i>HK\$'000</i> (unaudited)	As at 31 December 2018 <i>HK\$'000</i> (audited)
0 to 30 days	49,885	29,817
31 to 90 days	37,598	13,413
Over 90 days	998	15
	88,481	43,245

12. TRADE PAYABLES

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

	As at 30 June 2019 <i>HK\$'000</i> (unaudited)	As at 31 December 2018 <i>HK\$'000</i> (audited)
0 to 30 days	70,840	56,155
31 to 90 days	25,310	38,964
Over 90 days	20,158	22,743
	116,308	117,862

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

13. BORROWINGS

	At 30 June 2019 (unaudited)		At 31 December 2018 (audited)	
	Contractual		Contractual	
	interest rate		interest rate	
	(%)	HK\$'000	(%)	HK\$'000
Bank loans	Fixed rates of		Fixed rates of	
– secured (note a)	3.0% to 5.65%		2.5% to 4.35%	
	per annum	168,819	per annum	90,422
Corporate bonds	Fixed rate of		Fixed rate of	
– secured (note b)	6.75% per		6.0% per	
	annum	45,000	annum	45,000
Term loan	Fixed rate of			
– secured (note c)	12.0% per			
	annum	10,000	N/A	N/A
Sub-total of secured borrowings		223,819		135,422
Revolving loans	Fixed rate of		Fixed rate of	
– unsecured (note d)	10.0% per		10.0% per	
	annum	50,000	annum	25,000
Term loan	Fixed rate of			
– unsecured (note e)	18.0% per			
	annum	10,000	N/A	N/A
Sub-total of unsecured borrowings		60,000		25,000
Total borrowings		283,819		160,422
Analysed as				
Current		283,819		160,422
		283,819		160,422

The above loans are measured at amortised costs.

Notes:

- (a) The bank loans were secured by mortgage over the Group's leasehold buildings and prepaid land premiums with aggregate carrying amount of approximately HK\$101,000,000 (31 December 2018: HK\$101,000,000) and approximately HK\$3,801,000 (31 December 2018: HK\$3,872,000) respectively.

The total banking facilities granted to the Group amounted to RMB150,000,000 (equivalent to approximately HK\$170,513,000) (31 December 2018: RMB110,000,000 (equivalent to approximately HK\$125,542,000)) of which RMB148,510,000 (equivalent to approximately HK\$168,819,000) (31 December 2018: RMB79,228,000 (equivalent to approximately HK\$90,422,000)) were utilised as at 30 June 2019.

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

- (b) On 7 December 2016, corporate bonds amounted to HK\$45,000,000 were issued by the Company, bearing interest of 6.0% per annum and payable semi-annually in arrears, and with maturity in two years, of which are secured by pledge of shares of a subsidiary of the Company.

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

- (c) On 10 May 2019, the Group has obtained a term loan of HK\$10,000,000 at a fixed interest rate of 12.0% per annum from a substantial shareholder of the Company, repayable within six months. The term loan was secured by a mortgage over the shares of a subsidiary of the Group.
- (d) As at 30 June 2019 and 31 December 2018, the Group's revolving loans utilised with carrying amount of HK\$50,000,000 (31 December 2018: HK\$25,000,000), repayable within one year, were granted by a substantial shareholder of the Company and guaranteed by the Company. The revolving loans had unutilised amount of HK\$25,000,000 as at 31 December 2018 (30 June 2019: nil). Prior to the maturity date of such revolving loans, the Group has entered into an extension agreement to further extend the maturity date to 30 September 2020.
- (e) On 25 May 2019, the Group has obtained a term loan of HK\$10,000,000 at a fixed interest rate of 18.0% per annum from a third party. The loan is unsecured and has an original maturity date on 29 August 2019 and extended to 16 September 2019. The loan has been subsequently fully repaid in September 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019 (30 June 2018: nil).

BUSINESS REVIEW

For the interim period ended 30 June 2019, the Group recorded a revenue of HK\$165.4 million, representing a decrease of 42.2% from the revenue of HK\$286.3 million for the interim period at 30 June 2018. The revenue decrease was mainly due to the uncertainty attributable to a trade war during the period in 2019 and an unfavourable comparison to an outstanding first half of 2018 when the success of a product launch by a key customer boosted revenue.

The securities investment division recorded a loss of HK\$9.9 million in the interim period on 30 June 2019, compared with a profit of HK\$3.7 million in the interim period ending 30 June 2018, representing an increase of losses of 369.6% year-on-year.

For the period ended 2019, the Group net loss increased by 221.4% to HK\$40.7 million compared with HK\$12.6 million in last year period ended. The main reason for the loss increase was the decrease in revenue, and consequent reduction of gross profits, and the loss on securities investment division. The Group did not record any revenue in the medical and health industry which was still in the research and development stage.

Toys Division

For the interim period ended 30 June 2019, revenue of toys division decreased by 42% to HK\$165.4 million. The significant decrease was mainly due to the unfavourable comparison with an outstanding performance in the period of 2018 and a trade war that delayed order placement. As a result of the trade war between the People's Republic of China ("PRC") and United States of America, the customers shifted parts of their supply from the PRC. This conflict put pressure on product margins and new orders, causing decrease of gross profit margin from 11.0% to 7.1% and HK\$19.7 million decrease in the gross profit, resulting in the division loss of HK\$13.1 million compared with a HK\$4.6 million profit in the same period in 2018. However, as discussed below in Prospects, toys revenue recovered up to the end of September 2019.

Securities investments

During the interim period end, the Hong Kong stock market experienced a significant downturn, as factors such as China-US trade war, US interest rate hike and uncertainty about Brexit all caused huge volatility. The Group adopted a conservative strategy in managing its investment portfolio during the year. The securities investments division recorded a HK\$9.9 million loss, representing a 369.6% decrease as compared with interim period in 2018. At the end of 30 June 2019, the Group securities portfolio was valued at HK\$7.7 million compared with the end of 2018 at HK\$17.6 million on a fair value basis. The Group did not receive any dividend income in both interim periods.

Medical and Health Division

During the first half of 2019 and 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.

During the period, a total of approximately HK\$1.2 million (2018: HK\$0.9 million) 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.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 30 June 2019, the Group had current assets of HK\$328,440,000 (31 December 2018: HK\$265,840,000) comprising cash and cash equivalents of HK\$59,919,000 (31 December 2018: HK\$75,489,000). The Group's current ratio, calculated as current assets divided by current liabilities of HK\$438,121,000 (31 December 2018: HK\$336,203,000), remained at a ratio of 0.75 (31 December 2018: 0.79).

At the period end, the Group's trading securities amounted to HK\$7,687,000, representing a decrease of 56.3% from that of the previous year ended 31 December 2018: HK\$17,580,000. The Group's borrowings at 30 June 2019 and at 31 December 2018 were all denominated in Hong Kong dollars. All borrowings totalling HK\$283,819,000 (31 December 2018: HK\$160,442,000).

As of 30 June 2019, the equity attributable to owners of the Company decreased by 24.1% to HK\$124,728,000 (31 December 2018: HK\$164,337,000) 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 payables and other payables less cash and cash equivalents. The gearing ratio of the Group at 30 June 2019 was approximately 77.8% (31 December 2018: 61.0%).

Despite the loss incurred by the Group and the net current liabilities status at the interim period in 2019, 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. Looking forward, the key to the Company's successes lies in a continued improvement of the profitability of our toys business and, more importantly, re-deployment of our energy and assets in high growth and more profitable businesses. We are confident that we stand a good chance in those endeavors.

PROSPECTS

The Company introduced significant changes in the year 2019 in terms of board of directors and the financial statements. The board of directors were all newly appointed in the year 2019 and the new board immediately implemented policies to set the Company in a right direction. The new board is looking for different business opportunity to diversify our principal business activities. Cost cutting measures were put in place to reduce operating costs.

Despite the revenue drop of 42.2% for the interim period on 30 June 2019, up to 30 September 2019, the unaudited revenue recovered to HK\$508 million, narrowing the revenue gap between 2018 and 2019 to 7% as compared with the same period last year. Looking forward, we are cautiously optimistic as our toys division continues to perform successfully in the marketplace and the new Board sets to start to explore new business opportunity on a much lower management cost.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019 except for the following deviation with reason as explained.

Responsibilities of Directors

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 Directors 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. However, there was one Independent Non-executive Director presented at the 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 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 auditors of the Group as they were unable to commit to the timetable set by the Board regarding the completion of the audit work on the consolidated financial statements of the Group for the year ended 31 December 2018. Subsequently, the Company appoint Moore Stephens CPA Limited as the auditors of the Group with effect from 6 June 2019.

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

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 2019.

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 2019. 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 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

CONTINUED SUSPENSION OF TRADING

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

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

Hong Kong, 6 November 2019

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

* *For identification purpose only*