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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 2023

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 2023 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2023

	Notes	Six months ended 30 June	
		2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Revenue	4	202,686	497,188
Cost of sales		<u>(191,765)</u>	<u>(422,979)</u>
Gross profit		10,921	74,209
Other income, gains and losses	5	7,063	7,769
Loss on disposal of subsidiaries		–	(3,297)
Selling and distribution costs		(5,586)	(10,561)
Administrative expenses		(24,569)	(40,141)
Other operating expenses		(2,333)	(6,951)
Finance costs	6	<u>(6,605)</u>	<u>(7,554)</u>
(Loss) profit before tax		(21,109)	13,474
Income tax expense	7	<u>–</u>	<u>(488)</u>
(Loss) profit for the period	8	<u>(21,109)</u>	<u>12,986</u>
(Loss) profit for the period attributable to owners of the Company		(21,050)	12,986
Non-controlling interest (“NCI”)		<u>(59)</u>	<u>–</u>
		<u>(21,109)</u>	<u>12,986</u>
			(Restated)
(Loss) earnings per share			
Basic and diluted	10	<u>(HK5.39) cents</u>	<u>HK3.55 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
(Loss) profit for the period	(21,109)	12,986
Other comprehensive expenses		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on arising on translation of foreign operations	(4,013)	(17,945)
Release of exchange reserve upon disposal of a subsidiary	<u> -</u>	<u> 2,876</u>
Other comprehensive expenses for the period	<u>(4,013)</u>	<u>(15,069)</u>
Total comprehensive expenses for the period	<u>(25,122)</u>	<u>(2,083)</u>
Total comprehensive expenses for the period		
Attributable to:		
Owners of the Company	(25,063)	(2,083)
NCI	<u>(59)</u>	<u> -</u>
	<u>(25,122)</u>	<u>(2,083)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2023

	Notes	At 30 June 2023 HK\$'000 (unaudited)	At 31 December 2022 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	11	111,937	114,817
Right-of-use assets	11	6,764	7,119
Rental deposits		414	414
Goodwill	15	673	–
Investment in associates		–	–
		<u>119,788</u>	<u>122,350</u>
Current assets			
Inventories		109,827	81,974
Trade receivables	12	128,082	71,503
Loan receivables		–	–
Prepayments, deposits and other receivables		27,421	15,354
Bank balances and cash		38,789	49,765
		<u>304,119</u>	<u>218,596</u>
Current liabilities			
Trade payables	13	170,616	137,111
Other payables and accruals		62,326	71,895
Contract liabilities		–	1,544
Borrowings	14	246,284	190,943
Lease liabilities		1,840	1,969
Tax payables		2,933	7,902
		<u>483,999</u>	<u>411,364</u>
Net current liabilities		<u>(179,880)</u>	<u>(192,768)</u>
Total assets less current liabilities		<u>(60,092)</u>	<u>(70,418)</u>
Non-current liabilities			
Convertible bonds	16	2,491	–
Lease liabilities		1,882	2,819
Deferred tax liabilities		16,411	16,411
		<u>20,784</u>	<u>19,230</u>
Net liabilities		<u>(80,876)</u>	<u>(89,648)</u>
Capital and reserves			
Share capital		5,098	3,662
Deficit		(85,800)	(93,310)
Capital deficiency attributable to owners of the Company		(80,702)	(89,648)
NCI		(174)	–
Capital deficiencies		<u>(80,876)</u>	<u>(89,648)</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. CORPORATE INFORMATION

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 Room 1002 10/F., 299 QRC, 287-299 Queen's Road, Central, Hong Kong. The Company's shares are listed on The Main Board of The Stock Exchange.

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

The condensed consolidated financial statements are presented in HK\$, which is also the functional currency of the Company.

2. BASIS OF PREPARATION OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The condensed consolidated financial statements for the six months ended 30 June 2023 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2022 (the "2022 Financial Statement").

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

For the six months ended 30 June 2023, the Group incurred a loss attributable to owners of the Company of approximately HK\$21,050,000 and as at 30 June 2023, the Group had net current liabilities of approximately HK\$179,880,000, net liabilities of approximately HK\$80,876,000 and capital deficiency attributable to owners of the Company amounted to approximately HK\$80,702,000. The Group's bank balances and cash amounted to approximately HK\$38,789,000, in contrast to its borrowings of approximately HK\$246,284,000 which are repayable within the next twelve months as disclosed in note 14.

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

- i. The expiry date of the banking facilities of RMB160,000,000 (equivalent to approximately HK\$173,536,000), of which RMB138,920,000 (equivalent to approximately HK\$150,672,000) was utilised as of 30 June 2023, secured by the Group's leasehold buildings and leasehold lands under right-of-use assets due on 16 March 2024;
- ii. active cost-saving measures to control operating costs and administrative costs through various means has been implemented to improve operating cash flows at a level sufficient to finance the working capital requirements of the Group; and
- iii. considering other financing arrangements, if necessary, with a view to increasing the Group's equity and liquidity.

On the basis of the above considerations and taking into account the above measures, the directors of the Company are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the date of issuance of these condensed consolidated financial statements and accordingly, these condensed consolidated financial statements have been prepared on a going concern basis.

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 2023 are the same as those presented in the 2022 Financial Statements.

Application of amendments to HKFRSs

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

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

The application of the amendments to HKFRSs in the current interim 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.

4. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products and sale of agricultural products for the period. 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	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue from sales of finished goods of toy products	202,528	497,188
Revenue from sales of agricultural products	<u>158</u>	<u>–</u>
	<u>202,686</u>	<u>497,188</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 two reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

1. Toys: this segment derives its revenue from manufacturing for sale of toys.
2. Agricultural products: this segment derives its revenue from planting agricultural products for sale (new segment during the current period).

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 2023 and 2022 (unaudited)

	Toys		Agricultural products		Total	
	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000	2023 HK\$'000	2022 HK\$'000
Reportable segment revenue						
Revenue from external customers	<u>202,528</u>	<u>497,188</u>	<u>158</u>	<u>–</u>	<u>202,686</u>	<u>497,188</u>
Reportable segment (loss) profit before tax	<u>(12,881)</u>	<u>33,011</u>	<u>(278)</u>	<u>–</u>	<u>(13,159)</u>	<u>33,011</u>
Unallocated corporate income					2,252	3,623
Unallocated corporate expenses					<u>(10,202)</u>	<u>(23,160)</u>
(Loss) profit before tax					<u>(21,109)</u>	<u>13,474</u>
Other segment information (included in the measured of segment profit or loss or regularly provided to chief operating decision maker)						
Depreciation of property, plant and equipment	(5,758)	(6,077)	–	–	(5,758)	(6,077)
Depreciation of right-of-use assets	(1,173)	–	–	–	(1,173)	–
Write down of inventories, net	(4,716)	(4,882)	–	–	(4,716)	(4,882)
Gain on disposal of property, plant and equipment, net	–	398	–	–	–	398
Bank interest income	6	31	–	–	6	31
Interest expenses	(6,557)	(5,735)	–	–	(6,557)	(5,735)
Purchases of property, plant and equipment	<u>2,486</u>	<u>6,109</u>	<u>–</u>	<u>–</u>	<u>2,486</u>	<u>6,109</u>

(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 2023 (unaudited)

	Toys <i>HK\$'000</i>	Agricultural products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	338,548	4,256	342,804
Unallocated corporate assets			<u>81,103</u>
Total assets			<u><u>423,907</u></u>
Reportable segment liabilities	(439,962)	(283)	(440,245)
Unallocated corporate liabilities			<u>(64,538)</u>
Total liabilities			<u><u>(504,783)</u></u>

As at 31 December 2022 (audited)

	Toys <i>HK\$'000</i>	Agricultural products <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment assets	330,390	–	330,390
Unallocated corporate assets			<u>10,556</u>
Total assets			<u><u>340,946</u></u>
Reportable segment liabilities	(360,871)	–	(360,871)
Unallocated corporate liabilities			<u>(69,723)</u>
Total liabilities			<u><u>(430,594)</u></u>

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

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Net foreign exchange gain	5,517	2,440
Rental income	225	744
Bank interest income	14	34
Government grants	–	92
Gain on disposal of property, plant and equipment, net	–	398
Mould income	507	1,313
Sundry income	800	2,748
	<u>7,063</u>	<u>7,769</u>

6. FINANCE COSTS

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Interest on bank loans	3,004	2,905
Interest on corporate bonds	999	1,506
Interest on other loans	137	–
Imputed interest on convertible bonds	106	–
Interest on revolving loans	271	736
Interest on short-term loans	1,909	2,018
Interest on lease liabilities	179	389
	<u>6,605</u>	<u>7,554</u>

7. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
The PRC Corporate Income Tax ("CIT")		
Current period	—	488
Income tax expense	<u>—</u>	<u>488</u>

The PRC subsidiaries are subject to the PRC CIT at a rate of 25% for both periods.

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.

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 Corporate 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.

8. (LOSS) PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2023 HK\$'000 (unaudited)	2022 HK\$'000 (unaudited)
Employee benefit expenses (including directors' remunerations):		
Wages and salaries	38,828	111,400
Other employee benefits	22	660
Contributions to defined contribution retirement plans	9,035	6,017
	<u>47,885</u>	<u>118,077</u>
Cost of inventories recognised as an expense (included in cost of sales) (<i>note a</i>)	187,119	427,678
Depreciation of property, plant and equipment	5,758	6,163
Depreciation of right-of-use assets	1,173	2,213
Write down of inventories, net (included in cost of sales)	4,716	4,882
Lease payments not included in the measurement of lease liabilities	179	372

Note:

- (a) Cost of inventories included sub-contracting cost amounting to HK\$45,640,000 (six months ended 30 June 2022: HK\$66,942,000).

9. DIVIDENDS

No dividends were paid, declared 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 (six months ended 30 June 2022: HK\$ Nil).

10. (LOSS) EARNINGS PER SHARE

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

	Six months ended 30 June	
	2023	2022
	HK\$'000	HK\$'000
	(unaudited)	(unaudited) (Restated)
(Loss) earnings		
(Loss) profit attributable to owners of the Company for the purposes of basic and diluted (loss) earnings per share	<u>(21,050)</u>	<u>12,986</u>
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<u>390,787</u>	<u>366,186</u>

The weighted average number of ordinary shares during the period ended 30 June 2022 have been adjusted for the share consolidation completed on 30 November 2022.

No adjustment was made in calculating diluted loss per share for the period ended 30 June 2023 as the conversion of convertible bonds would result in decrease in loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share (six months ended 30 June 2022: no diluted earning per share is presented as there were no potential dilutive shares in issue).

11. 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\$2,486,000 (six months ended 30 June 2022: HK\$6,130,000) and HK\$1,357,000 of property, plant and equipment from the acquisition of subsidiaries during the six months ended 30 June 2023. The Group disposed of machinery and equipment with an aggregate carrying amount of approximately HK\$280,000 (six months ended 30 June 2022: HK\$231,000).

During the current interim period, no new lease agreement for the use of an office, accordingly right-of-use assets (six months ended 30 June 2022: HK\$2,020,000) have been recognised during the current period. The Group is required to make fixed monthly payments during the contract period.

12. TRADE RECEIVABLES

The Group's trading terms with its customers are mainly on credit with credit periods generally ranging from 30 to 60 days. The Group seeks to maintain strict control over its outstanding receivables, and overdue balances are reviewed regularly by management. Trade receivables are non-interest bearing. All of the trade receivables are expected to be recovered within one year.

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

	At 30 June 2023 <i>HK\$'000</i> (unaudited)	At 31 December 2022 <i>HK\$'000</i> (audited)
0 to 30 days	81,172	68,251
31 to 90 days	36,926	315
Over 90 days	<u>9,984</u>	<u>2,937</u>
	<u>128,082</u>	<u>71,503</u>

13. TRADE PAYABLES

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

	At 30 June 2023 <i>HK\$'000</i> (unaudited)	At 31 December 2022 <i>HK\$'000</i> (audited)
0 to 30 days	117,247	74,351
31 to 90 days	32,407	19,472
Over 90 days	<u>20,962</u>	<u>43,288</u>
	<u>170,616</u>	<u>137,111</u>

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

14. BORROWINGS

	At 30 June 2023 (unaudited)		At 31 December 2022 (audited)	
	Contractual interest rate (%)	HK\$'000	Contractual interest rate (%)	HK\$'000
Bank loans				
– secured (note a)	Fixed rates of 4.00% to 5.85% per annum	150,672	Fixed rates of 4.00% to 5.85% per annum	112,281
Corporate bonds				
– secured (note b)	Fixed rate at 6.75% per annum	45,000	Fixed rate at 6.75% per annum	45,000
Term loans				
– secured (note c)	Fixed rate at 12.00% per annum	17,000	Fixed rate at 12.00% per annum	17,000
– secured (note d)	Fixed rate at 12.00% per annum	15,000	Fixed rate at 12.00% per annum	15,000
Other loans				
– secured (note e)	Fixed rate at 2.50% per month	612	Fixed rate at 2.50% per month	612
Sub-total of secured borrowings		228,284		189,893
Revolving loans				
– unsecured (note f)	Fixed rate at 12.00% per annum	10,000	–	–
– unsecured (note g)	Fixed rate at 2.50% per month	–	Fixed rate at 2.50% per month	1,050
– unsecured (note h)	Fixed rate at 12.00% per annum	8,000	–	–
Sub-total of unsecured borrowings		18,000		1,050
		246,284		190,943
			At 30 June 2023	At 31 December 2022
			HK\$'000	HK\$'000
			(unaudited)	(audited)
Analysed as Current			246,284	190,943

The above loans are measured at amortised costs.

Notes:

- (a) The bank borrowings were secured by the Group's leasehold buildings and leasehold lands under right-of-use assets with aggregate carrying amount of approximately HK\$102,000,000 and HK\$3,227,000 respectively (31 December 2022: leasehold buildings and leasehold lands under right-of-use assets with aggregate carrying amount of approximately HK\$102,000,000 and HK\$3,299,000 respectively).

On 9 March 2023, an extension agreement for the banking facilities was entered into between the Group and the bank, of which the total banking facilities granted revised to RMB160,000,000, (equivalent to approximately HK\$173,536,000) (31 December 2022: RMB141,000,000 (equivalent to approximately HK\$157,842,000)) and extend the facilities to 16 March 2024.

As at 30 June 2023, the total banking facilities utilised with carrying amount of RMB138,920,000 (equivalent to approximately HK\$150,672,000) (31 December 2022: RMB100,301,000 (equivalent to approximately HK\$112,281,000)).

- (b) On 7 December 2016, corporate bonds amounted to HK\$45,000,000 were issued by the Company, bearing interest of 6% per annum and payable semi-annually in arrears, and with maturity in two years, of which are secured by 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. On 27 December 2019, an extension deed had been signed, which the maturity date had been extended to 31 March 2021. On 29 March 2021, another extension deeds was signed, whereby the maturity date was further extended to 31 March 2022. On 29 March 2022, another extension deeds were signed whereby the maturity date was further extended to 31 March 2023.

- (c) On 13 May 2020, the Group has obtained a term loan of HK\$11,000,000 at a fixed rate of 12% per annum from an independent third party, with a maturity in one year. The loan is secured by pledge of shares of a subsidiary of the Group and a first floating charge over the assets of a subsidiary of the Group to the lender. The term loan is payable on its maturity date of 13 May 2021. On 13 March 2021, the Group has entered into an extension agreement to extend the maturity date to 13 May 2022. On 30 June 2021, an additional loan was obtained from the same independent third party amounted of HK\$6,000,000 under the same term. On 19 April 2022, the Group had extended the maturity date to 13 May 2023.
- (d) On 25 January 2021, the Group obtained another term loan of HK\$15,000,000 at a fixed rate of 12% per annum from another independent third party, with a maturity in one year. The loan is secured by first floating charge over all the undertaking, property and assets of a subsidiary of the Group to the lender. The term loan is payable on its maturity date of 27 April 2021. On 29 March 2021, the Group had entered into an extension agreement to extend the maturity date to 27 April 2022. On 19 April 2022, the Group had extended the maturity date to 27 April 2023.

- (e) On 1 August 2022, the Group obtained a loan of HK\$612,000 at a fixed rate of 2.50% per month from a major shareholder of associates, which is maturity in one year. The loan is secured by the pledge of 40% shares of interest in associates.
- (f) The revolving loan was granted by a substantial shareholder of the Company, guaranteed by the Company and repayable within one year. On 8 October 2019, the Group entered into an extension agreement to extend the maturity date to 30 September 2020. On 31 December 2019, the Group entered into another extension agreement to further extend the maturity date to 31 March 2021. According to the extension deed, a first floating charge incorporated over the assets of a subsidiary of the Group as a security to the lender, which was executed on 7 February 2020. On 29 March 2021, the Group entered into an extension agreement to further extend the maturity date to 31 March 2022. On 31 March 2022, the Group entered into an extension agreement to further extend the maturity date to 31 March 2023. On 31 March 2023, the Group entered into a supplemental loan agreement to revise the aggregate principal amount from HK\$50,000,000 to HK\$35,000,000. Additional loans of HK\$8,000,000 and HK\$2,000,000 were entered on 19 April 2023 and 1 June 2023 respectively under the same terms. The revolving loans utilised with carrying amount of HK\$10,000,000 and had an unutilised amount of HK\$25,000,000 as at 30 June 2023.
- (g) On 30 September 2022, the Group obtained a loan of HK\$1,000,000 at a fixed rate of 2.50% per month from a purchaser of the Bright Triumph Development Limited, which is unsecured and with a maturity in one year. During the period ended 30 June 2023, the whole outstanding amount of the revolving loans was repaid.
- (h) On 24 May 2021, the Group has obtained a revolving loan for an aggregate principal amount of HK\$50,000,000 at a fixed rate of 12% per annum from an independent third party, with a maturity in one year. The loan is guaranteed by the Company. On 19 April 2022, the Group entered into an extension agreement to further extend the maturity date to 24 May 2023. The revolving loans utilised with carrying amount of HK\$8,000,000 had unutilised with amount of HK\$42,000,000 as at 30 June 2023.

15. ACQUISITION OF SUBSIDIARIES

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

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

	Total (Unaudited) HK\$'000
Property, plant and equipment	1,357
Inventories	77
Trade and other receivables	3
Bank balances and cash	1
Shareholder's loan	(1,459)
Trade and other payables	(522)
Contract liabilities	(2)
Tax payables	(2)
	<u>(547)</u>
Add: Assignment of shareholder's loan	1,459
Non-controlling interest	115
Goodwill	673
	<u>1,700</u>
Net cash inflow arising on acquisition:	
Cash consideration paid	–
Cash and cash equivalents acquired	1
	<u>1</u>
Net cash inflow as at 30 June 2023	<u><u>1</u></u>
Outstanding consideration payables	<u>(1,700)</u>
	<u><u>(1,700)</u></u>

The Group recognised a goodwill of approximately HK\$673,000 in the business combination.

Revenue of approximately HK\$158,000 and net loss of approximately HK\$278,000 from Huge Advanced Group were contributed to the Group for the period from 24 May 2023 to 30 June 2023.

16. CONVERTIBLE BONDS

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

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

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

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

At initial recognition, the equity component of the above convertible bonds was separated from the liability component. The equity element is presented in equity heading “convertible bonds equity reserve” of HK\$130,000. The effective interest rate of the liability component ranging from 16.70% to 17.24%.

On 31 May 2023, Convertible Bonds A with principal amount of HK\$20,000,000 and Convertible Bonds B with principal amount of HK\$14,000,000 were converted into 80,000,000 ordinary shares and 63,636,362 ordinary shares respectively. Convertible Bonds A with the principal amount of HK\$2,500,000 remained outstanding as at 30 June 2023.

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

	Total (unaudited) HK\$'000
At 1 January 2023	–
Issue of convertible bonds	36,370
Effective interest expense	106
Interest paid	(45)
Accrued interest	(61)
Conversion of convertible bonds into shares	<u>(33,879)</u>
At 30 June 2023	<u><u>2,491</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2023 (30 June 2022: nil).

BUSINESS REVIEW

The Group is principally engaged in the manufacturing and trading of toys and the plantation and sales of agricultural products.

For the interim period ended 30 June 2023, we faced numerous challenges in our operating environment.

For the global toy industry, as a result of entering an interest rate hike cycle and economic recession, non-essential goods (including toys) began to experience a slowdown. Major customer pulled back on orders, which further compounded inventory issues. Against this backdrop, overall toy sales in the US, our largest market, declined by over 50% dramatically as compared to the interim period ended 30 June 2022.

During the interim period ended 30 June 2023, the revenue derived from the plantation and sales of agricultural products is HK\$0.16 million (for the interim period ended 30 June 2022: HK\$ Nil).

Gross profit for the interim period ended 30 June 2023 amounted to approximately HK\$10.9 million, representing an decrease of approximately HK\$63.3 million compared with that of approximately HK\$74.2 million for the interim period ended 30 June 2022.

The Group recorded a loss of approximately HK\$21.1 million for the interim period ended 30 June 2023 and a profit of approximately HK\$13.0 million for the interim period ended 30 June 2022, representing an decrease of approximately HK\$34.1 million.

Toys Division

For the interim period ended 30 June 2023, revenue of toys division decreased by 59.3% to HK\$202.5 million. The revenue decrease was mainly attributable to the decrease in purchase orders from a major customer headquartered in the United States of America (the “USA”).

Lower gross profit margin for the interim period ended 30 June 2023 reflected elevated discounts and writedowns to reduce our inventory level in response to a volatile and challenging consumer environment.

Plantation and Sales of Agricultural Products

On 20 May 2023, the Company indirectly acquired 78.9% of equity interest of 名鮮株式會社 which is principally engaged in the plantation and sales of agricultural products in Japan.

Revenue of agricultural products was generated in HK\$0.16 million during the interim period ended 30 June 2023.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

At 30 June 2023, the Group had current assets of HK\$304,119,000 (31 December 2022: HK\$218,596,000) comprising cash and cash equivalents (excluding pledge bank deposits) of HK\$38,789,000 (31 December 2022: HK\$49,765,000). The Group's current ratio, calculated as current assets divided by current liabilities of HK\$483,999,000 (31 December 2022: HK\$411,364,000), remained at a ratio of 0.63 (31 December 2022: 0.53).

At the period end, the Group's borrowings at 30 June 2023 were all totalling HK\$246,284,000 (31 December 2022: HK\$190,943,000).

As of 30 June 2023, the capital deficiencies attributable to owners of the Company decreased by 9.8% to HK\$80,876,000 (31 December 2022: HK\$89,648,000) mainly as a result of the issue of convertible bonds in the aggregate principal amount of HK\$36,370,000 were completed outweigh the loss for 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 2023 was approximately 122% (31 December 2022: 134%).

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

Faced with the challenging economy, the Group will diversify its businesses in addition to the enhancement of its existing businesses and explore sales opportunities. In relation to cost control, the Group will continue to streamline the operational procedures to enhance the efficiency and implement various measures to minimize the costs. We remain confident in the long-term growth of USA's economy and the continuous improvement of toys consumption.

The acquisition of plantation and sales of agricultural products business will provide synergies and complement the Group's existing business in the agricultural sector. In light of the high demand for fruit in Japan and the Japanese government's initiatives to promote the farming industry in Japan, and will therefore create better returns for the Shareholders.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2023 except for the following deviation with reason as explained.

Responsibilities of Directors

Code Provision C.1.6

Pursuant to Code C.1.6, 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. Generally, they should also attend general meetings to gain and develop a balanced understanding of the views of shareholders.

Deviation

One Executive Director of the Company was unable to attend the annual general meeting of the Company held on 16 June 2023 due to other prior business engagement. However, there were two Executive Directors, one Non-executive Director and three Independent Non-executive Directors presented at the meeting to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

Following the retirement of Mr. Ng Wai Hung ("Mr. Ng") as an independent non-executive Director with effect from the conclusion of the AGM on 16 June 2023, Mr. Ng ceased to be the chairman of the remuneration committee and a member of the audit committee and the nomination committee of the Company. The Company was unable to comply with the requirements under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules.

However, following the appointment of Mr. Chan Cheuk Ho as an independent non-executive Director on 23 June 2023, the number of independent non-executive Directors was complied with Rule 3.10(1) of the Listing Rules, and the compositions the Audit Committee and Remuneration Committee were complied with Rule 3.21 and Rule 3.25 of the Listing Rules respectively.

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 2023.

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 2023. 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 2023, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

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

Hong Kong, 29 August 2023

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

* *For identification purpose only*