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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)

**ANNOUNCEMENT OF FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2022**

SUMMARY OF RESULTS

The board (the “**Board**”) of directors (the “**Directors**”) of Winshine Science Company Limited (the “**Company**”) is pleased to announce the audited consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2022, together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
Revenue	4	849,096	724,627
Cost of sales		<u>(751,213)</u>	<u>(687,370)</u>
Gross profit		97,883	37,257
Other income, gains and losses	5	8,217	(10,475)
Reversal (provision) of expected credit loss for loan receivables		400	(1,886)
Provision of expected credit loss for loan interest receivables		–	(217)
Reversal (provision) of expected credit loss for trade receivables		8,181	(9,453)
Provision of expected credit loss for other receivables		(29,067)	–
Impairment loss on property, plant and equipment		–	(30,704)
Impairment loss on right-of-use assets		–	(3,140)
Gain on disposal of subsidiaries	17	29,906	–
Selling and distribution costs		(7,557)	(5,710)
Administrative expenses		(64,417)	(66,966)
Changes in fair value of financial assets at fair value through profit or loss		–	100
Other operating expenses		(17,426)	(22,600)
Finance costs	6	<u>(14,351)</u>	<u>(16,079)</u>
Profit (loss) before tax		11,769	(129,873)
Income tax expense	7	<u>(3,690)</u>	<u>(6,142)</u>
Profit (loss) for the year	8	<u>8,079</u>	<u>(136,015)</u>
Profit (loss) for the year attributable to the owners of the Company		<u>8,079</u>	<u>(136,015)</u>
			(Restated)
Earnings (loss) per share	10		
Basic and diluted		<u>HK2.21 cents</u>	<u>(HK37.14 cents)</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit (loss) for the year	8,079	(136,015)
Other comprehensive income (expense)		
<i>Items that will not be reclassified to profit or loss:</i>		
Gain (loss) on revaluation of properties	11,350	(4,427)
Deferred tax charge arising from revaluation of properties	<u>(463)</u>	<u>(723)</u>
	10,887	(5,150)
<i>Items that may be/have been reclassified subsequently to profit or loss:</i>		
Exchange differences arising on translation of foreign operations	(16,821)	4,322
Release of exchange reserve upon disposal of subsidiaries	<u>7,149</u>	<u>–</u>
	(9,672)	4,322
Other comprehensive income (expense) for the year	<u>1,215</u>	<u>(828)</u>
Total comprehensive income (expense) for the year	<u>9,294</u>	<u>(136,843)</u>
Total comprehensive income (expense) for the year attributable to the owners of the Company	<u>9,294</u>	<u>(136,843)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2022

	<i>Notes</i>	2022 HK\$'000	2021 HK\$'000
Non-current assets			
Property, plant and equipment		114,817	106,673
Right-of-use assets		7,119	14,190
Investment properties		–	44,276
Rental deposit		414	309
Interests in associates		–	–
		<u>122,350</u>	<u>165,448</u>
Current assets			
Inventories	<i>12</i>	81,974	113,864
Trade receivables	<i>13</i>	71,503	134,162
Loan receivables	<i>11</i>	–	–
Prepayments, deposits and other receivables		15,354	15,603
Pledged bank deposits		–	1,190
Bank balances and cash		49,765	66,634
		<u>218,596</u>	<u>331,453</u>
Assets classified as held for sale		–	53,447
		<u>218,596</u>	<u>384,900</u>
Current liabilities			
Trade payables	<i>14</i>	137,111	254,353
Other payables and accruals		71,895	83,385
Contract liabilities		1,544	2,954
Borrowings	<i>15</i>	190,943	263,567
Lease liabilities		1,969	4,769
Tax payables		7,902	2,931
		<u>411,364</u>	<u>611,959</u>
Liabilities associated with assets classified as held for sale		–	5,380
		<u>411,364</u>	<u>617,339</u>
Net current liabilities		<u>(192,768)</u>	<u>(232,439)</u>
Total assets less current liabilities		<u>(70,418)</u>	<u>(66,991)</u>

	<i>Note</i>	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Non-current liabilities			
Lease liabilities		2,819	8,285
Deferred tax liabilities		<u>16,411</u>	<u>23,666</u>
		<u>19,230</u>	<u>31,951</u>
Net liabilities		<u><u>(89,648)</u></u>	<u><u>(98,942)</u></u>
Capital and reserves			
Share capital	<i>16</i>	3,662	366,186
Deficit		<u>(93,310)</u>	<u>(465,128)</u>
Capital deficiencies		<u><u>(89,648)</u></u>	<u><u>(98,942)</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2022

1. CORPORATE INFORMATION

Winshine Science Company Limited (the “**Company**”, together with its subsidiaries collectively referred to as the “**Group**”) is a limited liability company incorporated in Bermuda. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section in the annual report. The Company’s shares are listed on The Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

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

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

2. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

The Group’s ability to continue as a going concern

The Group continues to adopt the going concern basis in preparing its consolidated financial statements. As at 31 December 2022, the Group had net current liabilities and net liabilities of approximately HK\$192,768,000 and HK\$89,648,000 respectively. The Group’s bank balances and cash amounted to approximately HK\$49,765,000 in contrast to its borrowings of approximately HK\$190,943,000 which are repayable within the next twelve months.

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

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

- i. completing the two Convertible Bonds Subscription Agreements which the company has entered with the subscribers, pursuant to which the relevant subscribers have conditionally agreed to subscribe for and the Company has conditionally agreed to issue convertible bonds in aggregate principal amounts of up to HK\$22,500,000 and HK\$14,000,000 respectively based on the initial conversion price of HK\$0.25 and HK\$0.22 per conversion share respectively on 14 October 2022 and 16 December 2022;
- ii. extending the repayment terms and the expiry date of the Group’s banking facilities by entering into extension agreement with the lender after the end of the reporting period but before the consolidated financial statements are authorised for issue. The expiry date of the banking facilities of RMB141,000,000 (equivalent to approximately HK\$157,842,000), of which RMB100,301,000 (equivalent to approximately HK\$112,281,000) was utilised as of 31 December 2022, secured by the Group’s leasehold buildings and leasehold lands under right-of-use assets due on 9 March 2023 has been extended to 16 March 2024 with the limit of banking facilities revised to RMB160,000,000 (equivalent to approximately HK\$179,111,000);

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

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at revalued amounts or fair values at the end of each reporting period, as explained in the accounting policies set out in the annual report.

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

3. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
Amendments to HKFRS 16	Lease Liability in Sale and Leaseback ³
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ¹
Amendments to HKAS 8	Disclosure of Accounting Estimates ¹
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

4. REVENUE AND OPERATING SEGMENTS

Revenue represents revenue arising on sale of toy products for the year. All revenue is recognised at a point in time upon delivery of the goods to customers.

The Group manufactured toy products in accordance with the performance obligations as set out in each sales contracts with its customers. The performance obligations in sales contracts have an original expected duration of one year or less. The Group has applied the practical expedient in HKFRS 15 and hence information about the Group's remaining performance obligations that are unsatisfied (or partially satisfied) as at 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.

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Revenue from sales of finished goods of toy products	<u>849,096</u>	<u>724,627</u>

The Group is organised into and its businesses are managed by divisions, which are a mixture of both business lines and geographical locations. Information reported internally to the executive directors of the Company, being the chief operating decision maker, for the purposes of resources allocation and performance assessment of segment performance focuses on types of goods delivered or services provided. The Group has presented the following three reportable segments. No operating segments have been aggregated in arriving at the following reportable segments of the Group.

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

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

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

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

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

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

Segment revenue and results

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

For the years ended 31 December 2022 and 2021

	Securities investments		Toys		Medical and health		Total	
	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000	2022 HK\$'000	2021 HK\$'000
Reportable segment revenue								
Revenue from external customers	<u>-</u>	<u>-</u>	<u>849,096</u>	<u>724,627</u>	<u>-</u>	<u>-</u>	<u>849,096</u>	<u>724,627</u>
Reportable segment profit (loss) before tax	<u>-</u>	<u>93</u>	<u>53,065</u>	<u>(69,118)</u>	<u>-</u>	<u>-</u>	<u>53,065</u>	<u>(69,025)</u>
Unallocated corporate income							<u>33</u>	<u>4,018</u>
Unallocated corporate expenses							<u>(41,329)</u>	<u>(64,866)</u>
Profit (loss) before tax							<u><u>11,769</u></u>	<u><u>(129,873)</u></u>

5. OTHER INCOME, GAINS AND LOSSES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Bank interest income	48	70
Loss on early termination of lease classified as investment property	(4,702)	–
Changes in fair value of investment properties	–	(15,986)
Net foreign exchange gain (loss)	12,687	(2,948)
Mould income	2,739	3,041
Rental income	1,160	1,595
Gain on disposal of property, plant and equipment, net	519	65
Gain on lease termination	1,321	–
Government grants (<i>note</i>)	752	–
Impairment loss on interests in associates	(10,000)	–
Investment project recovery	–	1,454
Sundry income	3,693	2,234
	<u>8,217</u>	<u>(10,475)</u>

Note:

During the year ended 31 December 2022, the Group recognised government grants of HK\$752,000 in respect of COVID-19 related subsidies, which relates to Employment Support Scheme provided by the Hong Kong government.

6. FINANCE COSTS

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Interest on bank loans	5,069	6,584
Interest on corporate bonds	3,038	3,038
Interest on other loans	110	–
Interest on revolving loans	1,379	2,622
Interest on short-term loans	3,949	3,294
Interest on lease liabilities	806	541
	<u>14,351</u>	<u>16,079</u>

7. INCOME TAX EXPENSE

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Hong Kong Profits Tax		
Current year	–	–
The People's Republic of China (the "PRC") Enterprise Income Tax		
Current year	<u>9,235</u>	<u>–</u>
	9,235	–
Deferred tax (credit) expense	<u>(5,545)</u>	<u>6,142</u>
Income tax expense	<u>3,690</u>	<u>6,142</u>

8. PROFIT (LOSS) FOR THE YEAR

Profit (loss) for the year has been arrived at after charging (crediting):

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Employee benefit expense (including directors' remunerations):		
Wages and salaries	114,809	124,333
Other employee benefits	1,200	2,140
Contributions to defined contribution retirement plans	<u>10,819</u>	<u>10,409</u>
	<u>126,828</u>	<u>136,882</u>
Auditors' remuneration	1,429	1,833
Cost of inventories recognised as an expense (included in cost of sales)	739,063	661,222
Depreciation of property, plant and equipment	6,180	12,678
Depreciation of right-of-use assets	4,067	5,206
Impairment loss on property, plant and equipment	–	30,704
Impairment loss on right-of-use assets	–	3,140
Write down of inventories, net (included in cost of sales)	11,882	26,091
Short-term lease charges in respect of land and buildings	978	1,063
(Over-provision) provision for litigation (included in other operating expenses)	(2,652)	14,515
Professional fee (included in other operating expenses)	<u>12,166</u>	<u>4,778</u>

9. DIVIDENDS

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

10. EARNINGS (LOSS) PER SHARE

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Earnings (loss) attributable to owners of the Company for the purposes of basic and diluted earnings (loss) per share	<u>8,079</u>	<u>(136,015)</u>
	Number of Share	
	2022 '000	2021 '000 (Restated)
Weighted average number of ordinary shares in issue	<u>366,186</u>	<u>366,186</u>

The weighted average number of ordinary shares during the year ended 31 December 2021 have been adjusted for the share consolidation completed on 30 November 2022.

No diluted earnings (loss) per share for both years was presented as there were no potential ordinary shares in issue.

11. LOAN RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Fixed-rate loan receivables	16,733	17,223
Less: provision of expected credit loss	<u>(16,733)</u>	<u>(17,223)</u>
	<u>—</u>	<u>—</u>

12. INVENTORIES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Raw materials	23,831	21,163
Work in progress	36,117	57,216
Finished goods	<u>22,026</u>	<u>35,485</u>
	<u>81,974</u>	<u>113,864</u>

13. TRADE RECEIVABLES

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Trade receivables, gross	75,951	146,790
Less: provision of expected credit loss	<u>(4,448)</u>	<u>(12,628)</u>
Trade receivables, net	<u>71,503</u>	<u>134,162</u>

At as 31 December 2022, the gross carrying amount of trade receivables arising from contracts with customers amounted to approximately HK\$75,951,000 (2021: HK\$146,790,000).

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	68,251	85,010
31 to 90 days	315	48,239
Over 90 days	<u>2,937</u>	<u>913</u>
	<u>71,503</u>	<u>134,162</u>

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

14. TRADE PAYABLES

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

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
0 to 30 days	74,351	138,740
31 to 90 days	19,472	49,627
Over 90 days	43,288	65,986
	<u>137,111</u>	<u>254,353</u>

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

15. BORROWINGS

	2022		2021	
	Contractual interest rate (%)	<i>HK\$'000</i>	Contractual interest rate (%)	<i>HK\$'000</i>
Bank loans				
– secured	Fixed rates ranging from 4.00% to 5.85% per annum	112,281	Fixed rates ranging from 3.10% to 5.00% per annum	167,567
Corporate bonds				
– secured	Fixed rate at 6.75% per annum	45,000	Fixed rate at 6.75% per annum	45,000
Term loans				
– secured	Fixed rate at 12.00% per annum	17,000	Fixed rate at 12.00% per annum	17,000
– secured	Fixed rate at 12.00% per annum	15,000	Fixed rate at 12.00% per annum	15,000

	2022		2021
	Contractual interest rate (%)	HK\$'000	Contractual interest rate (%)
			HK\$'000
Other loan			
– secured	Fixed rate at 2.50% per month	612	–
		<u>612</u>	<u>–</u>
Sub-total of secured borrowings		<u>189,893</u>	<u>244,567</u>
Revolving loan			
– unsecured	Fixed rate at 12.00% per annum	–	Fixed rate at 12.00% per annum
			19,000
Other loan			
– unsecured	Fixed rate at 2.50% per month	1,050	–
		<u>1,050</u>	<u>–</u>
Sub-total unsecured borrowings		<u>1,050</u>	<u>19,000</u>
		<u>190,943</u>	<u><u>263,567</u></u>

The above loans are measured at amortised costs.

16. SHARE CAPITAL

	Number of shares		Amount	
	2022 '000	2021 '000	2022 HK\$'000	2021 HK\$'000
Authorised:				
At 1 January				
Ordinary shares of HK\$0.10 (2021: HK\$0.10) each	7,000,000	7,000,000	700,000	700,000
Share sub-division (<i>note c</i>)	<u>63,000,000</u>	<u>–</u>	<u>–</u>	<u>–</u>
At 31 December				
Ordinary shares of HK\$0.01 (2021: HK\$0.10) each	<u>70,000,000</u>	<u>7,000,000</u>	<u>700,000</u>	<u>700,000</u>
Issued and fully paid:				
At 1 January				
Ordinary shares of HK\$0.10 (2021: HK\$0.10) each	3,661,865	3,661,865	366,186	366,186
Share consolidation (<i>note a</i>)	(3,295,679)	–	–	–
Share reduction (<i>note b</i>)	<u>–</u>	<u>–</u>	<u>(362,524)</u>	<u>–</u>
At 31 December				
Ordinary shares of HK\$0.01 (2021: HK\$0.10) each	<u>366,186</u>	<u>3,661,865</u>	<u>3,662</u>	<u>366,186</u>

Notes:

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

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

17. DISPOSAL OF SUBSIDIARIES

A. Enormous Fortune

On 21 March 2022, Billion Pride Group Limited, a direct wholly-owned subsidiary of the Company, being the vendor (the “**Vendor**”) and an independent third party, being the purchaser (the “**Purchaser A**”) entered into a sale and purchase agreement, pursuant to which, the Vendor agreed to sell and Purchaser A agreed to acquire 60% equity interest in Enormous Fortune Business Limited (“**Enormous Fortune**”, together with its subsidiaries, the “**Disposal Group A**”), incorporated in the British Virgin Islands, and sale loan represented 60% of the shareholder’s loan at cash consideration of HK\$15,000,000. The major asset of Disposal Group A is an investment property located in Hainan, the PRC. The disposal was completed on 21 March 2022, on which date the Group lost control of the Disposal Group A. The sale loan was approximately HK\$42,992,000 on the date of disposal. Disposal Group A was then reclassified as interest in associates. The fair value of the 40% retained interest in Disposal Group A at the date on which control was lost is regarded as the initial recognition of the interests in associates was HK\$10,000,000.

B. Bright Triumph

In 2021

On 15 November 2021, the Company, the Vendor and an independent third party, being the purchaser (the “**Purchaser B**”) entered into a sale and purchase agreement, pursuant to which, the Vendor agreed to sell, and Purchaser B agreed to acquire all the issued shares of Bright Triumph Development Limited (“**Bright Triumph**”, together with its subsidiaries, the “**Disposal Group B**”) and sale loan at a consideration of HK\$49,000,000. A deposit of HK\$28,492,000 (representing 60% of the consideration, amounted to HK\$29,400,000, with HK\$908,000 being outstanding from the Purchaser) was received and included in “Other payables and accruals” at 31 December 2021. The relevant assets and liabilities classified as held for sale on 31 December 2021 were approximately HK\$53,447,000 and approximately HK\$5,380,000 respectively.

In 2022

The disposal of Disposal Group B was completed on 30 September 2022, on which date the Group lost control of the Disposal Group B. The sale loan was approximately HK\$132,538,000 on the date of disposal. All the assets and liabilities associated to the Disposal Group B were derecognised on the date of disposal. Further to a supplemental agreement subsequently entered between the Vendor and Purchaser B, both the Vendor and Purchaser B had agreed to adjust the cash consideration to approximately HK\$37,137,000.

The net liabilities of subsidiaries at the date of disposal were as follows:

	Disposal Group A	Disposal Group B	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Property, plant and equipment	1	2,295	2,296
Investment properties	37,418	45,338	82,756
Prepayments and other receivables	2	1,247	1,249
Bank balances and cash	152	93	245
Shareholders' loans	(66,549)	(132,538)	(199,087)
Other payables and accruals	(6,295)	(17,214)	(23,509)
Deferred tax liabilities	(105)	–	(105)
	<u>(35,376)</u>	<u>(100,779)</u>	<u>(136,155)</u>
Net liabilities disposed of	<u>(35,376)</u>	<u>(100,779)</u>	<u>(136,155)</u>

The gain from disposal of subsidiaries are analysed as follows:

Total cash consideration	15,000	37,137	52,137
Fair value of interest retained	10,000	–	10,000
Assignment of shareholders' loans	(42,992)	(132,538)	(175,530)
Net liabilities disposed of	35,376	100,779	136,155
Release of asset revaluation reserve	–	(1)	(1)
Release of exchange reserve	2,876	4,273	7,149
Release of statutory reserve	–	(4)	(4)
	<u>20,260</u>	<u>9,646</u>	<u>29,906</u>
Gain on disposal of subsidiaries	<u>20,260</u>	<u>9,646</u>	<u>29,906</u>
Net cash inflow on disposal of subsidiaries:			
Cash consideration received	15,000	28,537	43,537
Less: Bank balances and cash disposed of	(152)	(93)	(245)
	<u>14,848</u>	<u>28,444</u>	<u>43,292</u>
Net cash inflow as at 31 December 2022	<u>14,848</u>	<u>28,444</u>	<u>43,292</u>
Outstanding consideration receivable	–	8,600	8,600
	<u>14,848</u>	<u>37,044</u>	<u>51,892</u>

18. LITIGATION

As at 31 December 2022, other payables in the amount of RMB1,414,000 (approximately HK\$1,583,000) of 海南瀛晟御馬文化投資有限公司(“瀛晟御馬”), a subsidiary of the Company, were claimed by certain creditors for overdue settlement of RMB1,400,000 (approximately HK\$1,567,000) together with legal fee of RMB14,000 (approximately HK\$16,000).

According to the judgement of Xiuying District People’s Court of Haikou Municipality issued on 3 January 2023, it was concluded 瀛晟御馬 should settle the overdue amount of RMB1,400,000 together with the legal cost.

The directors of the Company are of the view that the litigation has no significant impact on the Group’s financial position and its operating result for the year ended 31 December 2022 as all the above payable amount has already been recorded in the consolidated financial statements as at 31 December 2022.

19. EVENTS AFTER END OF THE REPORTING PERIOD

Subsequent to 31 December 2022 and up to the date of this report, the following events took place:

- (a) On 14 October 2022 (after trading hours), the Company entered into the Convertible Bonds Subscription Agreements with two subscribers, 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, a total of 90,000,000 conversion shares will be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds in full. The gross proceeds from the convertible bonds subscription (before deducting related expenses) are estimated to be up to HK\$22.5 million. The net proceeds from the convertible bonds subscription (after deducting related expenses) are estimated to be approximately HK\$22 million and the Company intends to use such net proceeds primarily for investment in a watermelon planting project in Japan (which, if materialized, will be pledged in favour of one of the subscriber, and any remaining proceeds for the working capital requirement of the Group.

At the date of this report, the issuance of convertible bonds has not been completed.

- (b) On 16 December 2022, the Company entered into a Convertible Bond Subscription Agreement with the subscriber, 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, a total of 63,636,363 conversion shares will be allotted and issued upon exercise of the conversion rights attaching to the convertible bond in full. The gross proceeds from the convertible bond subscription (before deducting related expenses) are estimated to be HK\$14 million. The net proceeds from the convertible bond subscription (after deducting related expenses) are estimated to be approximately HK\$13.8 million and the Company intends to use such net proceeds for the working capital requirement of the Group.

At the date of this report, the issuance of convertible bond has not been completed.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2022.

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion, the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

Material uncertainties relating to going concern

As explained in a note to the consolidated financial statements, as at 31 December 2022, the Group had net current liabilities and net liabilities of approximately HK\$192,768,000 and HK\$89,648,000, respectively, and the Group's bank balances amounted to approximately HK\$49,765,000, in contrast to its borrowings of approximately HK\$190,943,000, which are repayable within the next twelve months. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the date of this report and have undertaken a number of measures to improve the Group's liquidity and financial position which are set out in note 2 to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, on the bases and assumption that the lenders have no current intention to exercise their right to demand immediate repayment of the borrowings. The validity of which depends on the outcome of the measures, which are subject to multiple uncertainties, including (i) the successful completion of the issuance for two convertible bonds; (ii) the successful negotiations with the lenders for further renewal of or extension for repayment of those outstanding borrowings, which will be matured after twelve months from the end of the reporting period; (iii) the successful cost saving measures to improve operating cash flows of the Group; (iv) successfully obtaining of additional new sources of financing as and when needed.

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

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

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's reporting process.

MANAGEMENT DISCUSSION AND ANALYSIS

FINAL DIVIDEND

The Board does not recommend the payment of final dividend in respect of the year ended 31 December 2022 (“**FY2022**”) (2021: nil).

BUSINESS REVIEW

The main divisions of the Group based on the principal activities of the Group include the manufacturing for sale of toys (the “**Toys Division**”) and securities investments (the “**Securities Investments Division**”).

For FY2022, the Group recorded revenue of approximately HK\$849.1 million, representing an increase of approximately 17.2% as compared to the revenue of approximately HK\$724.6 million for the year ended 31 December 2021 (“**FY2021**”).

The increase of revenue was mainly due to the improved performance of our Toys Division of approximately HK\$124.5 million. Gross profit for the year amounted to approximately HK\$97.9 million, representing an increase of approximately 162.7% as compared with that of approximately HK\$37.3 million in FY2021 as a result of improvements in the performance of the Toys Division.

For FY2022, the net profit of the Group amounted to approximately HK\$8.1 million as compared with the net loss approximately HK\$136.0 million in FY2021. The decrease in net loss of the Group and turn out to net profit was mainly due to (i) the revenue generated from a major customer purchase orders was increased; (ii) net foreign exchange gain; and (iii) no further impairment loss on property, plant and equipment as mentioned above.

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

Toys Division

For FY2022, revenue of the Toys Division increased by approximately 17.2% to HK\$849.1 million. The gross profit increased to approximately HK\$97.9 million as compare to HK\$37.3 million in FY2021. The increase in both revenue and gross profit of the Toys Division were mainly due to the increase in purchase orders from the largest customer headquartered in the United States of America (the “USA”). The Toys Division recorded a reported segment profit before taxation of approximately HK\$53.1 million in FY2022, as compared to the turnout of the reportable segment loss of approximately HK\$69.1 million in FY2021. Such reported segment profit before taxation of the Toys Division were mainly due to net foreign exchange gain, significantly decrease in the impairment loss on property, plant and equipment and increase in gross profit attributable to the Toys Division.

Securities Investments Division

Since the Hong Kong stock market was seriously affected by fluctuating pandemic situation through out 2022, the Group adopted a conservative strategy in managing its investment portfolio. No investment and no profit was recorded in 2022 (Profit in 2021: HK\$93,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

Due to the classification of the Group’s borrowing as current liability discussed immediately below, at the end of FY 2022, the Group had net current liabilities of approximately HK\$192.8 million (2021: HK\$232.4 million) comprising cash and cash equivalents (excluding pledged bank deposits) of approximately HK\$49.8 million (2021: HK\$66.6 million).

The capital deficiencies attributable to owners of the Company amounted to approximately HK\$89.6 million as at 31 December 2022, as compared to the capital deficiencies attributable to owners of the Company of approximately HK\$98.9 million as at 31 December 2021, mainly as a result of the operating profit incurred by the Group during the year. The Group financed its operations through a combination of debt financing and shareholder’s equity. The Group’s gearing ratio was determined as its net debt divided by total equity plus net debt where net debt included borrowings, trade and bills payables and other payables and accruals less pledged bank deposits and cash and cash equivalents. The gearing ratio of the Group as at 31 December 2022 was approximately 134% (2021: 123%).

Despite the loss incurred by the Group and the net liabilities status at the end of FY2022, the Group has proposed to issue the convertible bonds on date 14 October 2022 and 16 December 2022. Therefore, the Group has sufficient cash to support the Group’s ongoing business operations.

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

DETAILS OF AUDIT QUALIFICATION AND RESPONSE FROM THE COMPANY

Details of the Audit Qualification

For the year ended 31 December 2022, the Group had net current liabilities and net liabilities of approximately HK\$192,768,000 and HK\$89,648,000, respectively during the year ended 31 December 2022, and the Group's bank balances amounted to approximately HK\$49,765,000, in contrast to its borrowings approximately HK\$190,943,000, which are repayable within the next twelve months. These conditions indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. In this regard, the auditor of the Company issued a disclaimer of opinion on the consolidated financial statement of the Group for the year ended 31 December 2022 on material uncertainty on the Group's ability to continue as a going concern (the "**Audit Qualification**").

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

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

Management's position

In view of the Audit Qualification, the management of the Group (including the Directors) (the "**Management**") has given consideration related to the Group's current liquidity, performance and available sources of financing in assessing the Group's ability to continue as a going concern. Taking into account the successful and continued implementation of various measures such as including the successful completion of issuance of two convertible bonds, successful negotiations with the lenders regarding the extension of the maturity of all outstanding borrowings, the Management believes that the Group should have sufficient working capital for a period of not less than 12 months from 31 December 2022, and hence it was appropriate to prepare the Group's consolidated financial statements on a going concern basis.

There was no disagreement between the Management and the Auditors regarding the Audit Qualification, considering that the consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of the measures under management's assumptions, which are subject to certain uncertainties, including the Group's ability to generate operating cash flows and to obtain additional sources of financing. While the Company is of the view that it has already provided all available information and documents to demonstrate that the Group will have sufficient working capital for the 12 months after the year ended 31 December 2022, the Company also acknowledges the uncertainties raised by the Auditors specified above in that such uncertainties cannot be satisfied with the mere provision of documents and information.

Audit committee's views towards the Audit Qualification

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

Proposed plans to address the Audit Qualification

The Board is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration of the point (i) to (iv) as set out in note 2 to the consolidated financial statements. The management recognises that further equity funding is required to resolve auditor's concern on the going concern issue. As such, the management will commence to contact potential investors with a view to raise equity funds by way of placing of new shares of the Company under a general mandate and/or rights issues. The management will vigorously consider any feasible plan from the potential underwriter and will proceed as and when appropriate and practicable. The management intends to conduct the equity fund activities and successfully raise fund for the Group by the end of 2023.

In view of the foregoing, and assuming all of the Company's plans or actions can be completed as planned, including the obtaining of alternative financing, and no new circumstances and conditions have occurred, subject to satisfactory completion of review of the Management's assessment of the Group's going concern and the Auditors being satisfied with the documents, information and evidence to be provided by the Company going forward, the Directors are of the view that the Group will have sufficient working capital to meet its financial obligations as and when they fall due in the next twelve months from the year ended of 31 December 2022 and the Company is hopeful that that the Disclaimer may be removed in connection with the audit of the consolidated financial statements of the Group for the year ending 31 December 2023.

PROSPECTS

We anticipate that 2023 is a year where we will see many things return to normal. The Toys Division experienced tremendous pressure on product margins and turnover in FY2022 and has already managed to restart its operation after a closed down period due to COVID-19. The Toys Division is expected to continue to perform satisfactorily.

Starting in 2022, the Board is looking for different business opportunities to diversify our principal business activities and moving toward more profitable businesses in order to maintain competitiveness and ensure shareholder returns. Cost cutting measures within the Group were put in place to reduce operating costs. The Board has also decided to give the Company a better financial position to meet the future challenges.

In order to explore opportunities and provide sufficient fund for the general working capital, the Group proposed to issue of the Convertible Bonds amounting to HK\$22.5 million and HK\$14 million on 14 October 2022 and 16 December 2022 respectively. One of the possible investments is a watermelon planting project in Japan. The possible investment is in line with the Group's plan to develop a business in the agricultural sector. One of the executive Directors of the Company, possesses experience in the agriculture products industry which may help to analysis on the risks and returns on the investments.

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

CORPORATE GOVERNANCE

During FY2022, the Company had complied with all the applicable code provisions of the Corporate Governance Code set out in Appendix 14 of the Listing Rules.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 December 2022, the Group employed 1,696 employees (2021: 2,468) with staff costs amounted to approximately HK\$126.8 million (2021: approximately HK\$136.2 million). Remuneration policies are reviewed annually by the management of the Company. The Group's remuneration policy is structured to consider comparable position in the market and the prevailing business scale of the Group.

SUBSEQUENT EVENT

Referring to the Company's announcement on 14 October 2022 and 16 December 2022, the Company entered into the CB Subscription Agreements with each of the Subscribers. Up to the date of the announcement, the issuance of convertible bonds has not been completed.

Save as above, subsequent to 31 December 2022 and up to the date of this announcement, the Board is not aware of any significant event affecting the Group and requiring disclosure.

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

During FY2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

AUDIT COMMITTEE

The annual results for FY2022 have been reviewed by the Audit Committee of the Company. The consolidated financial statements of the Group for FY2022 have been audited by the Company's auditor, Confucius International CPA Limited (the "Auditors"). The financial information set out in this announcement represents an extract from these consolidated financial statements.

ANNUAL GENERAL MEETING

The forthcoming annual general meeting of the Company will be held on 16 June 2023 and the notice of annual general meeting will be published and despatched in accordance with the requirements under the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 June 2023 to 16 June 2023 (both days inclusive), during which no transfer of shares will be registered. In order to be entitled to attend the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, no later than 4:30 p.m. on 9 June 2023.

APPRECIATION

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

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

Hong Kong, 30 March 2023

As at the date of this announcement, the Board comprises two Executive Directors, namely Mr. Zhao Deyong (Chairman) and Dr. Liao Wenjian (Chief Executive Officer); 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 Mr. Zhao Yong.

* *For identification purpose only*