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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)

**FULFILMENT OF THE RESUMPTION GUIDANCE
AND
RESUMPTION OF TRADING**

BACKGROUND

As disclosed in the announcement of the Company dated 28 March 2019, the Company required additional time to provide the required information to the Former Auditors to perform the audit work in respect of the financial information of the Group for FY 2018 and the Company was not able to publish the 2018 Annual Results on or before 31 March 2019 and despatch the 2018 Annual Report to its Shareholders on or before 30 April 2019. The relevant audit issues are disclosed in the section headed “Audit Issues identified by the Former Auditors and the Relevant Remedial Actions” below. As a result of the delay in publication of the 2018 Annual Results and pursuant to the requirements under Rule 13.50 of the Listing Rules, the Company applied for a suspension of trading in its Shares on the Stock Exchange with effect from 9:00 a.m. on 1 April 2019.

FULFILMENT OF THE RESUMPTION GUIDANCE

On 21 June 2019, the Stock Exchange notified the Company of the following Resumption Guidance:

- (i) complete an appropriate independent investigation to address the audit issues identified by the Former Auditors and the Company, disclose the findings and take appropriate remedial actions;
- (ii) publish all outstanding financial results and address any audit modifications;

* For identification purpose only

- (iii) conduct an independent internal control review and demonstrate that the issuer has in place adequate internal control and procedures to comply with the Listing Rules; and
- (iv) announce all material information for the Shareholders and other investors to appraise the Company's position.

The Board is pleased to announce that the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, details of which are set out in the section headed "Fulfilment of the Resumption Guidance" below.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2019. As the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 27 February 2020.

This announcement is made by the board (the "**Board**") of directors (the "**Directors**") of Winshine Science Company Limited (the "**Company**", together with its subsidiaries, the "**Group**") pursuant to Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**") and the provisions of inside information under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

References are made to the announcements of the Company dated 28 March 2019, 1 April 2019, 16 April 2019, 19 June 2019, 25 June 2019, 2 September 2019, 2 October 2019, 30 October 2019, 1 November 2019 and 31 December 2019 in relation to, among other things, (i) the delay in publication of the annual results of the Group for the year ended 31 December 2018 ("**FY 2018**") (the "**2018 Annual Results**"); (ii) the delay in despatch of the annual report of the Group for FY 2018 (the "**2018 Annual Report**"); (iii) the delay in publication of the interim results of the Group for the six months ended 30 June 2019 (the "**2019 Interim Results**"); (iv) the delay in despatch of the interim report of the Group for the six months ended 30 June 2019 (the "**2019 Interim Report**"); (v) the resumption guidance issued by the Stock Exchange (the "**Resumption Guidance**"); (vi) suspension of trading in the shares (the "**Shares**") of the Company on the Stock Exchange with effect from 9:00 a.m. on 1 April 2019; (vii) key findings of the independent investigation; and (viii) results of internal control review (collectively, the "**Announcements**"). Unless otherwise defined, terms used in this announcement shall have the same meanings as those defined in the Announcements.

BACKGROUND

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- (iv) announce all material information for the Shareholders and other investors to appraise the Company’s position.

The Stock Exchange required the Company to remedy the issues causing its trading suspension and fully comply with the Listing Rules to the Stock Exchange’s satisfaction before trading in its securities is allowed to resume and, for this purpose, the Company has the primary responsibility to devise its action plan for resumption. The Stock Exchange also indicated that it may modify or supplement the Resumption Guidance if the Company’s situation changes.

Under Rule 6.01A(1) of the Listing Rules, the Stock Exchange may cancel the Company’s listing if trading in the Shares has remained suspended for 18 continuous months. In the case of the Company, the 18-month period expires on 30 September 2020. If the Company fails to remedy the issues causing its trading suspension, fully comply with the Listing Rules to the Stock Exchange’s satisfaction and resume trading in its Shares by 30 September 2020, the Listing Department will recommend the Listing Committee to proceed with the cancellation of the Company’s listing. Under Rules 6.01 and 6.10 of the Listing Rules, the Stock Exchange also has the right to impose a shorter specific remedial period where appropriate.

AUDIT ISSUES IDENTIFIED BY THE FORMER AUDITORS AND THE RELEVANT REMEDIAL ACTIONS

Details of the audit issues identified by the Former Auditors and the relevant remedial actions taken by the Company are as follows:

(i) Disposal (the “Disposal”) of 100% equity interest in Bright Triumph Development Limited (“Bright Triumph”)

References are made to the circular of the Company dated 31 May 2018 (the “**Circular**”) and the announcements of the Company dated 28 December 2017, 30 January 2018, 28 February 2018, 29 March 2018, 30 April 2018, 31 May 2018, 26 June 2018 and 23 April 2019 in relation to, among other things, the Disposal which constituted a major transaction of the Company. As stated in the Circular, Billion Pride, a wholly-owned subsidiary of the Company, as the vendor and Nanjing Sanyou as the purchaser entered into an agreement for sale and purchase dated 28 December 2017 (the “**Agreement for Sale and Purchase**”), pursuant to which Billion Pride conditionally agreed to sell and Nanjing Sanyou conditionally agreed to purchase the entire issued share capital of Bright Triumph for a consideration of HK\$142 million.

The Former Auditors had concerns regarding the accounting treatment of the Disposal including but not limited to (i) whether Bright Triumph and its subsidiaries would cease to be subsidiaries of the Company for FY2018; and (ii) whether the financial results of Bright Triumph and its subsidiaries would cease to be consolidated into the 2018 Annual Results.

As disclosed in the announcement of the Company dated 23 April 2019, Billion Pride and Nanjing Sanyou entered into a termination agreement on 23 April 2019 to terminate the Agreement for Sale and Purchase. As a result, Bright Triumph and its subsidiaries remained as subsidiaries of the Company and the results of Bright Triumph and its subsidiaries were consolidated into the 2018 Annual Results.

(ii) Use of going concern basis underlying the preparation of the financial statements

On 25 September 2015, U Credit (HK) Limited (“**U Credit**”), a company incorporated in Hong Kong with limited liability and a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), conditionally agreed to grant to the Company a revolving loan facility in the amount of HK\$50 million (the “**Revolving Loan Facility**”) with a maturity date of 26 September 2018.

On 6 December 2016, the Company conditionally agreed to issue and Ace Honor Enterprise Limited (“**Ace Honor**”), a company incorporated in the British Virgin Islands with limited liability, conditionally agreed to subscribe for corporate bonds in the aggregate sum of HK\$45 million (the “**Corporate Bonds**”), carrying interest of 6% per annum, due on the second anniversary of their issue date pursuant to the terms and conditions of the subscription agreement entered into between the Company and Ace Honor.

The Company was not in the position to repay the Revolving Loan Facility and to redeem the Corporate Bonds. The Former Auditors considered that this affected the use of going concern basis underlying the preparation of the financial statements for FY2018.

In relation to this audit issue, the Company had negotiated with the relevant lenders to extend the maturity date of the borrowings. Ace Honor and the Company entered into a supplemental deed poll on 23 August 2019 to extend the maturity date of the Corporate Bonds to 30 September 2020. On 8 October 2019, U Credit agreed to extend the maturity date of the Revolving Loan Facility to 30 September 2020.

The statuses of the borrowings of the Group are as follows:

(a) Corporate Bonds

On 27 December 2019, the Group entered into a supplemental deed poll with Ace Honor before the financial year ended 31 December 2019 (“**FY 2019**”) to further extend the maturity date of the Corporate Bonds to 31 March 2021.

(b) Revolving Loan Facility

The Company has repaid all the outstanding balance of the Revolving Loan Facility before the end of FY2019 and such Revolving Loan Facility was unutilized as at 31 December 2019. The Group is also in the process of negotiating with U-Credit to further extend the maturity date of the Revolving Loan Facility. As at the date of this announcement, the Company currently has an unutilized banking facility of HK\$50,000,000 under the Revolving Loan Facility.

(c) Secured Bank Loan

Pursuant to a revolving loan agreement entered into with a bank, the bank granted the Group a totalling revolving loan facilities that:

- (i) amounting to a limit of RMB150 million (equivalent to approximately HK\$167.5 million) was secured by a mortgage over the Group’s leasehold buildings and right-of-use assets with aggregate carrying amounts of approximately HK\$102 million and approximately HK\$3.7 million respectively, of which totalling of RMB138.6 million

(equivalent to approximately HK\$154.7 million) was utilised and the balance of limit of RMB11.4 million (equivalent to approximately HK\$12.8 million) was unutilised and available to the Group as at 31 December 2019; and

- (ii) amounting to a limit of RMB100 million (equivalent to approximately HK\$111.6 million) are available to the Group when further security to be pledged to the bank, of which totalling of RMB49 million (equivalent to approximately HK\$54.7 million) was utilised with pledged over the Group's bank deposits of RMB53.4 million (equivalent to approximately HK\$59.6 million), the balance of the limit of RMB51 million (equivalent to approximately HK\$56.9 million) was unutilised and available to the Group as at 31 December 2019.

The above is preliminary information currently available to the Company which is unaudited and not reviewed by the Company's auditor or the audit committee of the Company.

In light of the aforesaid and based on the preliminary assessment of the Board based on information currently available, the Board believes that the Group's financial position can be improved and will have sufficient financial resources to meet its financial obligation as and when they fall due in the next twelve months. Accordingly, it is expected that the consolidated financial statements for FY2019 will be prepared on a going concern basis and there will not be material audit issue on going-concern basis for the annual results of FY 2019. The Company is in the process of preparing the annual results for FY 2019. Further details of the Group's financial performance for FY 2019 will be announced in due course.

(iii) Direct confirmation received by the Former Auditors from a debtor of the Group

As disclosed in the announcement of the Company dated 6 May 2019, the Former Auditors received a direct confirmation from a debtor of the Group during the course of their audit which indicated that the confirmed balances/transactions (the "**Transactions**") appeared to have involved arrangements with certain former Directors that were not reflected in the books and records of a wholly-owned subsidiary of the Group.

The Former Auditors were unable to continue with the audit work unless a full explanation and appropriate audit evidence regarding the Transactions were provided to them.

The Special Investigation Committee, comprising Mr. Liu Michael Xiao Ming, an executive Director and the chief executive officer of the Company, Mr. Kwok Kim Hung Eddie, an independent non-executive Director, and Mr. Ng Wai Hung, an independent non-executive Director, was established on 18 May 2019 for the purpose of, including but not limited to, investigating and reporting on various matters and events relating to the Transactions, and recommending remedial actions to the Company. The Company also engaged FTI Consulting to perform the Independent Investigation into the Transactions. In addition, the Company engaged the Internal Control Adviser to conduct internal control review of the Company and certain selected subsidiaries of the Company. For the results of the Internal Control Review and key findings of the Independent Investigation, please refer to the announcements of the Company dated 30 October 2019.

(iv) Advancement of funds

During the period from April 2018 to July 2018, a wholly-owned subsidiary of the Company advanced loans in the amount of approximately RMB7.04 million in aggregate (the “**Loans**”) to several entities outside the Group.

The Former Auditors considered the recoverability and purpose of the Loans to be factors affecting their audit work.

The Company instructed FTI Consulting to include the Loans within the scope of the Independent Investigation and the Internal Control Adviser to review on how to improve the internal control systems and procedures of the Group to prevent similar incidents from happening again. For the results of the Internal Control Review and key findings of the Independent Investigation, please refer to the announcements of the Company dated 30 October 2019.

The current Directors have no relationship with any of the former Directors and senior management involved in the incidents giving rise to the audit issues mentioned above and the disclaimer opinion for the 2018 Annual Results, nor do the current Directors have any involvements in the incidents mentioned above.

FULFILMENT OF THE RESUMPTION GUIDANCE

The Board is pleased to announce that the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, details of which are set out below.

(i) Complete an appropriate independent investigation to address the audit issues identified by the Former Auditors and the Company, disclose the findings and take appropriate remedial actions

The Company has conducted an independent investigation to address the audit issues (iii) and (iv) above and has published the results of the Independent Investigation on 30 October 2019. For further details on the Independent Investigation, please refer to the announcement of the Company dated 30 October 2019.

The Special Investigation Committee has reviewed and accepted the key findings of the Independent Investigation. The Special investigation Committee is of the unanimous view that:

- (a) Mr. Wei, a former director of the Company, effected the Transactions in pursue of business opportunities for the Group, which included the development of the Horse Racing Project and the Tea Bag Business. Mr. Wei effected those transfers through the intermediaries to maintain the confidentiality of the Company's business and to prevent the Company's business strategy from being disclosed to any potential competitors which could damage their business prospects;
- (b) there is no intention of fraud in regards to the Transactions and the Loans. In the report of the Independent Investigation, FTI Consulting stated that the Transactions and the Loans were effected with the intention to pursue business opportunities for the Group and there was no substantial loss for the Group;
- (c) the payments effected in connection to the Transactions and the Loans at the time were due to a lack of appropriate internal controls which concurred with view of FTI Consulting;
- (d) there is room for improvement on the Group's internal control systems and procedures; and
- (e) the four horses mentioned in sub-section headed "Transaction with Company L" in the announcement of the Company dated 30 October 2019 would be recognised as assets for FY2019 which concurred with the view of the Board.

The Board has taken the following remedial actions to address the concerns identified in the Independent Investigation:

- (a) the internal control systems and procedures of the Group has been reviewed so as to minimize the possibility of any fund outflow which does not relate to any agreements, arrangements or transactions to which the Group is not a party to, and to ensure compliance with the Listing Rules by properly and timely identifying and reporting the relevant transactions to the Board;
- (b) the reporting mechanism of the subsidiaries of the Group has been improved, including monthly reporting of the financial and operation conditions of the relevant companies;
- (c) the Internal Control Adviser has been engaged to conduct an internal control review of the Company and selected subsidiaries of the Company;
- (d) the payments authorities of the current Directors and directors and/or management of the subsidiaries of the Group have been strengthened and improved in accordance with the recommendations provided by the Internal Control Adviser to strength the relevant internal controls; and
- (e) the employment of the relevant employee and former Director involved in the Transactions and the Loans were terminated by the Group.

The Company will also review the structure, size and composition of the Board and its senior management team more regularly in order to ensure they possess the necessary experience and skills to carry out their duties in managing the business operations of the Group properly and effectively and will conduct regular training sessions for all directors, senior management and other officers of the Group to ensure that necessary financial and internal control measures can be implemented and observed.

(ii) Publish all outstanding financial results and address any audit modifications

The Company has published the 2018 Annual Results, the 2018 Annual Report, the 2019 Interim Results and the 2019 Interim Report on 30 October 2019, 4 November 2019, 6 November 2019 and 11 November 2019, respectively.

There was a disclaimer relating to the auditors' opinion for FY2018 as there was (a) scope limitations concerning the Group's deposit paid for refurbishment of properties and other receivables (the "**Receivables**"); and (b) scope limitation on inability to obtain sufficient appropriate audit evidence concerning the Transactions and the Loans. In respect of the disclaimer relating to the Receivables, full impairment losses have been made in FY2018. In respect of the disclaimer relating to the Transactions and Loans, (i) the amount relating to the service fee had been recognised in the profit or loss for FY 2018 and the remaining amounts from the Transactions and Loans were refunded or repaid to the Group subsequently after FY2018; (ii) the Group did not suffer substantial loss as a result of the Transactions and Loans; (iii) the relevant personnel of the Transactions and Loans concerned have already left the Group; and (iv) the Company has put in the place adequate internal control system and procedures as recommended by the Internal Control Adviser. Details of the audit modifications and additional information regarding the disclaimer of audit opinion are included in the 2018 Annual Report.

In light of the disclaimer opinions issued in the auditor's report of FY2018, the Company has also consulted the auditors of the Group, Moore Stephens CPA Limited (the "**Auditors**"), that the disclaimer opinions will be removed from the auditor's report on the consolidated financial statements for FY2019 on the basis that:

- (i) scope limitation concerning the Receivables - full impairment losses on relevant Receivables have been made during FY2018 and no carried forward impact was expected on the consolidated financial statements for FY2019; and
- (ii) scope limitation on inability to obtain sufficient appropriate audit evidence concerning the Transactions and Loans - the amounts relating to the Transactions and the Loans with regard to the disclaimer opinion were either repaid to the Group or recognised as expenses during FY2018 and FY2019, such that these amounts recorded as other receivables in the consolidated statement of financial position as of 31 December 2018 will not be carried forward to the consolidated statement of financial position as of 31 December 2019, and accordingly no carried forward impact was expected on the consolidated financial statements for FY2019.

Hence, the disclaimer opinions will be removed from the auditor's report of FY2019 on such basis. If there are no other circumstances that would have caused the Auditors to further amend the auditors' opinion on the consolidated financial statements of the Group for FY2019, the Auditors expect a qualified opinion in respect of comparability of the corresponding figures on the consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for FY2018 in the auditor's report for FY2019.

(iii) Conduct an independent internal control review and demonstrate that the issuer has in place adequate internal control and procedures to comply with the Listing Rules

The Company has published the results of the Internal Control Review in the announcement dated 30 October 2019. As disclosed in the announcement of the Company dated 30 October 2019, a follow up review has been conducted by the Internal Control Adviser and the Group has implemented enhanced internal control measures to remedy all major internal control deficiencies identified by the Internal Control Adviser, except for the update of the bank accounts' authorised signatories as more time is needed for the bank to proceed with their administrative procedure. As at the date of this announcement, all authorised signatories of all material bank accounts of the Group have been updated, except for one dormant bank account which the Company is in the process of closing of such bank account

(iv) Announce all material information for the Shareholders and other investors to appraise the Company's position

Save as disclosed in the Announcements, there is no other material information that needs to be disclosed and brought to the attention of the Shareholders and potential investors of the Company to appraise the Company's position.

RESUMPTION OF TRADING

At the request of the Company, trading in the Shares on the Stock Exchange has been suspended since 9:00 a.m. on 1 April 2019. As the Resumption Guidance has been fully fulfilled to the Stock Exchange's satisfaction, an application has been made by the Company to the Stock Exchange for the resumption of trading in the Shares with effect from 9:00 a.m. on 27 February 2020.

By Order of the Board

Zhao Deyong

Chairman

Hong Kong, 26 February 2020

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.