

STATEMENT OF DISCIPLINARY ACTION

Exchange's Disciplinary Action against Winshine Science Company Limited
(Stock Code: 209) and six directors

SANCTIONS AND DIRECTIONS

The Listing Committee of the Exchange (**Listing Committee**)

CRITICISES:

(1) **Winshine Science Company Limited** (Stock Code: 209) (**Company**);

CENSURES:

(2) **Mr Wei Guo**, former executive director and chief executive officer of the Company (**Mr Wei**);

(3) **Mr Xing Wei**, former executive director and chairman of the Company (**Mr Xing**); and

(4) **Mr Li Fang**, former independent non-executive director of the Company (**Mr Li**);

ALSO CRITICISES:

(5) **Mr Lin Shao Peng**, non-executive director of the Company (**Mr Lin**);

(6) **Mr Lai Ming Wai**, former independent non-executive director of the Company (**Mr Lai**); and

(7) **Mr Lau Shun Pong Johnson**, former independent non-executive director of the Company (**Mr Lau**);

AND STATES in the Exchange's opinion, by reason of Mr Wei's and Mr Xing's respective wilful and/or persistent failure to discharge their responsibilities under the Listing Rules, had either of them remained on the board of directors of the Company, his retention of office would have been prejudicial to the interests of investors.

(The directors identified at (2) to (7) above are collectively referred to as **Relevant Directors**.)

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AND FURTHER DIRECTS:

Mr Lin and Mr Lai to attend 18 hours of training on regulatory and legal topics including Listing Rule compliance (**Training**). The Training must include three hours on each of (a) directors' duties; (b) the CG Code; and (c) the Listing Rule requirements for Chapter 13, within 90 days from the publication of the statement of disciplinary action; and

Mr Lau and Mr Li to attend 18 hours of Training. The Training must include three hours on each of (a) directors' duties; (b) the CG Code; and (c) the Listing Rule requirements for Chapter 13, as a pre-requisite of any future appointment as a director of any company listed or to be listed on the Exchange.

SUMMARY OF FACTS

The Company did not (i) timely publish its financial results for the year ended 31 December 2018 and the six months ended 30 June 2019; and (ii) publish its unaudited financial results for the year ended 31 December 2018. For the years ended 31 December 2016 and 31 December 2017, the Company's review of the Group's selected internal control cycles did not cover all material controls and the Company did not provide an explanation for such deviation as required under Code Provision C.2.1 of the Corporate Governance Code under Appendix 14 to the Listing Rules (**CG Code**).

The delay in the publication of the Company's financial results was caused by the additional time it required to provide information requested by its then auditors in relation to certain outstanding audit issues including, inter alia, the transactions (**Undisclosed Transactions**) not reflected in the books and records of its subsidiary (**Subsidiary**), and loans advanced from the Subsidiary to external entities (**Advances**).

The report of the independent forensic investigation on the Undisclosed Transactions and the Advances revealed, between February 2018 and January 2019, Mr Wei procured the Subsidiary to (i) transfer approximately RMB2.27 million to six recipients outside the Group; and (ii) made loans and/or payments to seven entities outside the Group with an outstanding amount of approximately RMB7.04 million as at 31 December 2018, including unsecured and interest-free loans to his wholly-owned company, in the sum of approximately RMB5 million. Mr Wei neither notified nor sought approval from the Board. The other Relevant Directors became aware of the Undisclosed Transactions and the Advances when informed by the Company's then auditors in March 2019.

The Company then conducted an internal control review, which identified significant and material deficiencies of the Group's internal controls at the material time. Those deficiencies contributed to Mr Wei being able to procure the payments and/or loans of the Undisclosed Transactions and the Advances, even though he did not hold any position at the Subsidiary. The Undisclosed Transactions and Advances contributed to the Company's delay in financial reporting and breach of the Listing Rules.

Although the Company had appointed an independent professional firm to review the Group's selected internal control cycles for each of the two years ended 31 December 2017, the material internal control deficiencies subsequently identified suggested that such reviews were inadequate and/or ineffective.

Furthermore, Mr Wei and Mr Xing did not respond to the enquiries from the Listing Division (**Division**).

LISTING RULE REQUIREMENTS

Listing Rules 13.46(2)(a), 13.48(1), 13.49(1) and 13.49(6) stipulate the timelines for the publication and distribution of a listed issuer's interim and annual results and reports.

Listing Rule 13.49(3)(i) stipulates the timeline for a listed issuer to publish its unaudited financial results, if it is unable to timely publish its annual results in accordance with Rule 13.49(1).

Under Code Provision C.2.1 of the CG Code, the board should ensure that a review of the issuer's and its subsidiaries' internal control systems has been conducted at least annually and report to shareholders that it has done so in its Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls. The issuer must give considered reasons for any deviation of the same in its Corporate Governance Report.

Listing Rule 3.08 provides that directors, both collectively and individually, are expected to fulfil duties of skill, care and diligence to a standard at least commensurate with the standard established by Hong Kong law. These duties include:

- (a) acting honestly and in good faith in the interests of the company as a whole;
- (b) acting for proper purpose;
- (c) being answerable to the issuer for the application or misapplication of its assets;
- (d) avoiding actual and potential conflicts of interest and duty;
- (e) disclosing fully and fairly his interests in contracts with the issuer; and
- (f) applying such degree of skill, care and diligence as may reasonably be expected of a person of his/her knowledge and experience and holding his/her office within the issuer.

Pursuant to the Declaration and Undertaking with regard to Directors in the form set out in Appendix 5B to the Listing Rules (**Director's Undertaking**), each director is required to (i) comply with the Listing Rules to the best of his ability; (ii) use his best endeavours to procure the Company's compliance with the Listing Rules; and (iii) cooperate in any investigation conducted by the Division.

LISTING COMMITTEE'S FINDINGS OF BREACH

The Listing Committee found as follows:

- (1) The Company breached Listing Rules 13.46(2)(a), 13.48(1), 13.49(1), 13.49(3)(i) and 13.49(6) and Code Provision C.2.1 of the CG Code;
- (2) Mr Wei breached Listing Rules 3.08(a) to (f) and his Director's Undertaking to comply with the Listing Rules to the best of his ability, use his best endeavours to procure the Company's compliance with the Listing Rules, and cooperate in any investigation conducted by the Division:
 - (a) he procured the Subsidiary to provide unsecured and interest-free loans to entities outside the Group without any benefits identified for the Group;
 - (b) he failed to bring the Undisclosed Transactions and the Advances to the Board for discussion or submit a proposal for the Board's evaluation;
 - (c) he instructed the Subsidiary to provide loans, without any written agreement and/or interest, to his wholly-owned company, and without notifying the Board of such conflict;
 - (d) he failed to ensure the Company's compliance with the Listing Rules and that the Company maintained adequate and effective internal controls at the relevant time; and
 - (e) he failed to cooperate in the Division's investigation.
- (3) Mr Xing breached Listing Rule 3.08(f) and his Director's Undertaking to comply with the Listing Rules to the best of his ability, use his best endeavours to procure the Company's compliance with the Listing Rules, and cooperate in any investigation conducted by the Division:
 - (a) he failed to ensure the Company's compliance with the Listing Rules and that the Company maintained adequate and effective internal controls at the relevant time; and
 - (b) he failed to cooperate in the Division's investigation.
- (4) Mr Lin, Mr Lai, Mr Lau, Mr Li breached Listing Rule 3.08(f) and their Directors' Undertakings to comply with the Listing Rules to the best of their abilities, use their best endeavours to procure the Company's compliance with the Listing Rules, since they failed to ensure the Company's compliance with the Listing Rules and that the Company maintained adequate and effective internal controls at the relevant time.

CONCLUSION

The Listing Committee decided to impose the sanctions and directions set out in this Statement of Disciplinary Action.

For the avoidance of doubt, the Exchange confirms that the above sanctions apply only to the Company and the Relevant Directors, and not to any other past or present members of the board of directors of the Company.

Hong Kong, 12 July 2021