SUNLIGHT TECHNOLOGY HOLDINGS LIMITED
深藍科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1950)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2019

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2019, revenue was approximately RMB182,681,000 (2018: approximately RMB167,307,000), representing a year-on-year increase of 9.2%.

For the year ended 31 December 2019, gross profit was approximately RMB61,995,000 (2018: approximately RMB50,688,000), representing a year-on-year increase of 22.3%.

For the year ended 31 December 2019, profit attributable to owners of the Company was approximately RMB24,124,000 (2018: approximately RMB30,790,000), representing a year-on-year decrease of 21.6%, mainly due to the incurrence of listing expenses, which are non-recurring in nature. The adjusted net profit[Note] was approximately RMB35,761,000 for the year ended 31 December 2019.

For the year ended 31 December 2019, basic earnings per share of the Company were RMB3.22 cents (2018: RMB4.11 cents).

The Board has resolved not to declare any final dividend for the year ended 31 December 2019.

Note: The adjusted net profit represents the Group's profit excluding the effect of listing expenses.

The board (the "Board") of directors (the "Directors") of Sunlight Technology Holdings Limited (the "Company") is pleased to announce the annual results of the Company and its subsidiaries (collectively, the "Group", "We" and "Our") for the year ended 31 December 2019 (the "Reporting Period") prepared in accordance with the International Financial Reporting Standards, together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2019

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Revenue	*6*	**182,681**	167,307
Cost of sales		**(120,686)**	(116,619)
Gross profit		**61,995**	50,688
Other revenue	*7*	**2,833**	4,936
Other gains	*8*	**163**	1,764
Selling and distribution expenses		**(7,498)**	(7,005)
Administrative and general expenses		**(16,208)**	(14,546)
Finance costs	*9*	**(672)**	(530)
Listing expenses		**(11,637)**	–
Profit before tax	*10*	**28,976**	35,307
Income tax expenses	*11*	**(4,852)**	(4,517)
Profit for the year		**24,124**	30,790
Other comprehensive loss			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operation		**(121)**	–
Other comprehensive loss for the year		**(121)**	–
Total comprehensive income for the year		**24,003**	30,790
Profit for the year attributable to owners of the Company		**24,124**	30,790
Total comprehensive income for the year attributable to owners of the Company		**24,003**	30,790
Earnings per share for profit attributable to owners of the Company			
Basic and diluted (RMB cents)	*13*	**3.22**	4.11

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Notes	**2019** **RMB'000**	2018 *RMB'000*
Non-current assets			
Property, plant and equipment		**62,049**	63,420
Right-of-use assets/prepaid lease payments		**17,181**	17,181
Deferred tax assets		**69**	90
		79,299	80,691
Current assets			
Inventories		**17,651**	12,962
Trade and bills receivables	*14*	**84,601**	67,532
Prepayments, deposits and other receivables		**7,350**	2,884
Pledged bank deposits		**2,544**	1,560
Bank balances and cash		**14,226**	10,162
		126,372	95,100
Current liabilities			
Trade and bills payables	*15*	**30,391**	23,732
Other payables and accruals		**4,465**	7,046
Deferred income		**137**	137
Tax payables		**2,446**	3,843
Amounts due to shareholders		**1,378**	–
Bank and other borrowings		**21,727**	10,000
Dividend payables		**–**	2,907
		60,544	47,665
Net current assets		**65,828**	47,435
Total assets less current liabilities		**145,127**	128,126
Non-current liability			
Deferred income		**821**	958
Net assets		**144,306**	127,168
Capital and reserves			
Share capital		**670**	36,000
Reserves		**143,636**	91,168
Total equity		**144,306**	127,168

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION

Sunlight Technology Holdings Limited (the "**Company**") was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 29 January 2019 under the name of Darkblue Technology Co. Ltd.. On 29 January 2019, the name of the Company changed to Sunlight Technology Co., Ltd. then changed to Sunlight Technology Holdings Limited on 9 May 2019. The registered office address is at 89 Nexus Way, Camana Bay, Grand Cayman KY1-9009, Cayman Islands. The head office and principal place of the Group is at No.2 Jiangshan Road, Meicheng Town, Jiande County, Hangzhou City, Zhejiang Province, PRC, respectively.

The Company's ultimate holding company is Sunlight Global Investment Limited ("**Sunlight Global**"), a company incorporated in the British Virgin Islands ("**BVI**"). Sunlight Global is ultimately controlled by Mr. Chen Hua.

The Company is an investment holding company and its subsidiaries (the "**Group**") are principally engaged in the manufacturing and sales of faux leather chemicals.

The shares of the Company (the "**Shares**") have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") by way of international placing and Hong Kong public offer (collectively the "**Global Offering**") on 12 March 2020 (the "**Listing Date**").

The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Company. All values are rounded to the nearest thousands ("**RMB'000**") except otherwise indicated.

2. REORGANISATION

In connection with the listing of the Shares on the Main Board of the Stock Exchange, the Company underwent a reorganisation (the "**Reorganisation**").

Pursuant to the Reorganisation as fully explained in "History, Development and Reorganisation – Reorganisation" of the Prospectus of the Company dated 27 February 2020 (the "**Prospectus**"), the company became the holding company of the companies now comprising the Group on 18 April 2019. The Companies now comprising the Group were under the common control of Mr. Chen Hua and Ms. Liu Jing, two of controlling shareholder of the Company before and after the Reorganisation. Accordingly, the consolidated financial statements have been prepared on the basis by applying the principles of merger accounting as if the Reorganisation has been completed at the beginning of the reporting period.

The consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows include the results and cash flows of the companies now comprising the Group have been prepared as if the current group structure upon completion of the Reorganisation had been in existence throughout the reporting period or since their respective date of incorporation, where there is a shorter period. The consolidated statements of financial position of the Group as at 31 December 2018 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure upon completion of the Reorganisation had been in existence as at those dates, taking into account the respective dates of incorporation.

All intra-group transactions and balances have been eliminated on combination.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, the following new and revised IFRSs issued by the International Accounting Standards Board (the "**IASB**"), which are effective for the Group's financial year beginning on or after 1 January 2019.

IFRS 16	Leases
IFRIC-Int 23	Uncertainty over Income Tax Treatment
Amendment to IFRS 9	Prepayment Features with Negative Compensation
Amendment to IAS 19	Plan Amendment, Curtailment or Settlement
Amendment to IAS 28	Long-term Interests in Associates and Joint Ventures
Amendment to IFRSs	Annual Improvements to IFRSs 2015–2017 Cycle

Except as described below, the application of the new and revised IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

IFRS 16 Leases

IFRS 16 replaces IAS 17, Leases, and the related interpretations, IFRIC 4, Determining whether an arrangement contains a lease, SIC 15, Operating leases-incentives, and SIC 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and recognised if any cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

As at 31 December 2018, the Group had no any non-cancellable operating lease commitments, therefore, the application of IFRS 16 would not have any impact on opening balance of equity at 1 January 2019, except for the following table summarises the impact of transition of IFRS 16 at 1 January 2019. Line items that were not affected by the adjustments have not been included.

		Carrying amount previously reported at 31 December 2018	Impact on adoption of IFRS 16 Reclassification	Carrying amount as restated 1 January 2019
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Right-of-use assets	*(a)*	–	17,572	17,572
Prepaid lease payments	*(a)*	17,572	(17,572)	–

Note

(a) Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of IFRS 16, the current and non-current portion of prepaid lease payments amounting to RMB391,000 and RMB17,181,000 respectively were reclassified to right-of-use assets.

At the date of this report, the Group has not early adopted the following New and Revised IFRSs that have been issued but not yet effective:

IFRS 3 (Amendments)	Definition of a Business[3]
IFRS 10 and IAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associates or Joint Venture[1]
IFRS 17	Insurance Contract[2]
IAS 1 and IAS 8 (Amendments)	Definition of Material[4]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[4]

1 Effective for annual periods beginning on or after a date to be determined.

2 Effective for annual periods beginning or after 1 January 2021.

3 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

4 Effective for annual periods beginning on or after 1 January 2020.

The directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements has been prepared in accordance with accounting policies which conform with International Financial Reporting Standards ("**IFRSs**") issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

5. SEGMENT INFORMATION

(i) Operating segment information

The Group's most senior executive management has been identified as the chief operating decision maker who reviews the Group's internal reporting in order to assess performance and allocate resources. The Group's most senior executive management has determined the operating segments based on these reports.

The Group's most senior executive management assesses the performance based on a measure of profit after income tax and considers all businesses to be included in a single operating segment.

The Group is principally engaged in the manufacturing and sales of faux leather chemicals. Information reported to the Group's most senior executive management for the purpose of resources allocation and performance assessment, focuses on the operating result of the Group as a whole as the Group's resources are integrated and no discrete operating segment financial information is available. Accordingly, no operating segment information is presented.

(ii) Geographical information

The Group's operation is principally in the PRC and all its non-current assets are situated in the PRC.

The Group's revenue are derived from the PRC and overseas (i.e. Mexico, Brazil, Turkey and Vietnam) based on the location of goods delivered as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
The PRC	**179,006**	163,629
Overseas	**3,675**	3,678
	182,681	167,307

(iii) Information about a major customer

Revenue from a customer during the years contributing individually over 10% of the Group's revenue is as follows:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Company A	**25,056**	26,764

6. REVENUE

Revenue represents the amounts received and receivable from the sales of faux leather chemicals, net of discounts, sales return and sales related taxes during the years.

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers:		
Recognised at a point in time		
Sales of faux leather chemicals	**182,681**	167,307

The Group has applied the practical expedient under IFRS 15 so that transaction price allocated to unsatisfied performance obligations under contracts for sales of faux leather chemicals are not disclosed as such contracts have an original expected duration of one year or less.

7. OTHER REVENUE

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Bank interest income	**50**	67
Government grants *(note (a))*	**2,017**	4,117
Sundry income	**766**	752
	2,833	4,936

Note:

(a) Government grants represent various form of subsidies granted to the Group by the local governmental authorities in the PRC for compensation of expenses incurred by the Group. These grants are generally made for business support and awarded to enterprises on a discretionary basis. The Group received these government grants in respect of its investments in the PRC. There are no unfulfilled conditions or contingencies relating to these grants.

8. OTHER GAINS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Reversal of/(provision for) impairment loss on:		
– trade and bills receivables	**137**	(206)
– other receivables	**7**	66
Bad debt written off on trade and bills receivables	**–**	(6)
Gain on disposal of properties, plant and equipment	**19**	1,910
	163	1,764

9. FINANCE COSTS

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Interest on bank and other borrowings wholly repayable within five years	**672**	530

10. PROFIT BEFORE TAX

Profit before tax is arrived at after charging/(crediting):

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Auditors' remuneration *(Note (a))*	**445**	75
Listing expenses	**11,637**	–
Cost of inventories sold	**120,686**	116,619
Depreciation and amortisation		
– Depreciation of property, plant and equipment	**6,507**	6,628
– Depreciation of right-of-use assets	**391**	–
– Amortisation of prepaid lease payment	**–**	391
	6,898	7,019
Less: amount included in cost of sales	**(5,120)**	(4,903)
	1,778	2,116

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Directors' remuneration	**950**	699
Staff costs (excluding directors' remuneration)		
– wages, salaries, allowances and bonus	**10,911**	10,573
– contributions to retirement benefits schemes	**2,344**	2,173
	13,255	12,746
Less: amounts included in cost of sales	**(4,797)**	(4,155)
	8,458	8,591
Written off/(reversal of) on inventories	**156**	(582)
Exchange gain	**(6)**	(118)
Research and development expenses	**8,112**	7,249

Note:

(a) Exclude services for the listing of the Company.

11. INCOME TAX EXPENSES

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
PRC Enterprise Income Tax ("**EIT**")		
– Current income tax	**4,831**	4,462
Deferred tax	**21**	55
Total tax charge for the year	**4,852**	4,517

The PRC

The income tax provision of the Group in respect of its operations in the PRC was calculated at tax rate of 25% on the assessable profits for the reporting period, based on the existing legislation, interpretations and practices in respect thereof.

Zhejiang Sunlight is approved as "high and new technology enterprise" and accordingly, it is subject to a reduced preferential corporate income tax rate of 15% for the reporting period.

Cayman Islands, BVI and Hong Kong

No Provision for taxation has been recognised for companies incorporated in the Cayman Islands, BVI and Hong Kong as they are not subject to any tax during the year ended 31 December 2019.

Withholding Tax in Mainland China ("WHT")

According to the New Corporate Income Tax Law ("**New EIT Law**"), distribution of profits earned by companies in Mainland China since 1 January 2008 to foreign investors is subject to withholding tax of 5% or 10%, depending on the country of incorporation of the foreign investor, upon the distribution of profits to overseas incorporated immediate holding companies.

As at 31 December 2019 and 2018, the retained earnings of the Group's PRC subsidiary not yet remitted to holding company incorporated outside of the PRC, for which no deferred income tax liability had been provided, were approximately RMB44,441,000 and RMB21,860,000 respectively. For this unrecognised amount, the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

12. DIVIDEND

Prior to the Reorganisation, a PRC subsidiary of the Company, Zhejiang Sunlight Material Technology Co., Ltd. ("**Zhejiang Sunlight**"), declared RMB50,400,000 and RMB7,200,000, respectively, dividends to its then shareholders during the years ended 31 December 2018 and 2019.

No dividend was paid or declared by the Company since its incorporation. The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

13. EARNINGS PER SHARE

The calculation of basic earnings per share for the years ended 31 December 2019 and 2018 is based on the profit attributable to the owners of the Company for the years 31 December 2019 and 2018 and on the assumption that 750,000,000 ordinary shares had been in issue, comprising 200,000,000 ordinary shares in issue and 550,000,000 ordinary shares to be issued pursuant to the capitalisation issue as detailed in the section headed "Share Capital" set out in the Prospectus as if the shares as there were outstanding throughout the entire period.

Diluted earnings per share were same as the basic earnings per share as there were no potential dilutive ordinary shares in existence during the years ended 31 December 2019 and 2018.

14. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**59,732**	46,624
Less: allowance for impairment	**(209)**	(345)
	59,523	46,279
Bills receivables	**25,078**	21,253
Total trade and bills receivables – net	**84,601**	67,532

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

	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**17,216**	20,829
31 to 90 days	**32,542**	16,710
91 to 180 days	**9,241**	7,264
181 to 365 days	**340**	1,449
Over 1 year	**393**	372
	59,732	46,624

15. TRADE AND BILLS PAYABLES

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Trade payables	**21,911**	18,532
Bills payables	**8,480**	5,200
	30,391	23,732

The average credit period from suppliers is up to 30 to 90 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Within 30 days	**13,206**	11,314
31 to 90 days	**8,139**	5,853
91 to 180 days	**217**	503
181 to 365 days	**220**	322
Over 1 year	**129**	540
	21,911	18,532

As at 31 December 2019 and 2018, all bills issued by the Group are with a maturity period of less than 6 months.

16. SUBSEQUENT EVENTS

Save as disclosed in the report, subsequent to 31 December 2019, the following events took place:

(a) On 10 February 2020, written resolutions of the shareholders of the Company were passed to approve the followings:

(i) all the issued and unissued shares of the Company with par value of US$0.001 each was subdivided into two shares of US$0.0005 each. Accordingly, following the completion of the subdivision, the authorised share capital became US$1,000,000 divided into 2,000,000,000 Shares of par value of US$0.0005 each, each ranking pari passu with one another in all respects.

(ii) conditional upon the share premium account of the Company being credited as a result of the initial listing of shares of the Company on the Main Board of the Stock Exchange, the directors of the Company were authorised to capitalise an amount of US$550,000 standing to the credit of the share premium account of the Company and applied in paying up in full at par a total of 550,000,000 shares for allotment and issue to the shareholders of the Company.

(iii) the share option scheme of the Company was adopted on 10 February 2020 and the principal terms of which are set out in Appendix VI to the Prospectus.

(b) The Company was successfully listed on the Stock Exchange on 12 March 2020 by way of share offer of 25,000,000 public offer share and 225,000,000 placing shares respectively at the offer price of HK$0.52 per share, the net proceeds were approximately HK$72,388,000. The proceeds were proposed to be used to finance the implementation plan as set forth in the section headed "Future Plans and use of Proceeds" of the Prospectus.

(c) After the outbreak of novel coronavirus (COVID-19) in early 2020, a series of precautionary and control measures have been and continued to be implemented across China and many other countries. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date of this announcement, the Group was not aware of any material adverse effects as a result of the outbreak of COVID-19.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

We are an established faux leather chemicals manufacturer in the PRC principally engaged in the research and development, manufacturing and sale of coating agents and synthetic resins under our established brand of "深蓝科技".

In 2019, the global economy experienced great risks and challenges due to the uncertainties arising from the trade frictions between China and the United States. In China, the Chinese government strengthened countercyclical regulation and proactively implemented the policies for "stabilizing employment, stabilizing finance, stabilizing foreign trade, stabilizing foreign investment, stabilizing investment and stabilizing expectation". China's economy generally operated within an appropriate range. The supply side reform continued to advance, and the policies for environmental protection became increasingly strict. Industry consolidation and elimination were accelerated, and the faux leather chemical industry generally picked up from the bottom level.

Under such background, the Group actively carried out the research and development of a number of new products with high added-values through enhanced cooperation with strong enterprises in the PRC faux leather industry. It strengthened raw material cost management to reduce cost of sales, and strived to increase its production volume and production equipment utilisation rate, in order to maintain the rapid growth of performance of the Company. For the year ended 31 December 2019, the Group recorded gross profit of approximately RMB61,995,000, representing an increase of approximately 22.3% from approximately RMB50,688,000 for the year ended 31 December 2018. For the year ended 31 December 2019, the Group recorded net profit attributable to owners of the Company of approximately RMB24,124,000, representing a decrease of approximately 21.6% from approximately RMB30,790,000 for the year ended 31 December 2018. Without deducting the listing expenses, the Group's net profit for the year ended 31 December 2019 amounted to approximately RMB35,761,000, representing an increase of approximately 16.1% as compared to 2018.

OPERATING RESULTS REVIEW

We offer a wide range of faux leather chemical products, including colourants, namely, colour paste and colour chips, finishes, additives (collectively referred to as coating agents) and synthetic resins, for the manufacturing of PU leather and PVC leather. Colourants – these include colourants in paste and chip forms, which are generally used as pigments to give colour to different layers of the faux leather. Finishes – these are chemical substances which are generally used to change the physical and chemical characteristics of the surface of faux leather to achieve desired effects such as hand feeling and brightening effect. Additives – these are chemical substances which are generally used to accelerate and facilitate chemical reactions in the production of faux leather and to enhance functionalities of faux leather such as hydrolysis resistance and abrasion resistance. Synthetic resins – these are polymers composing the major components of the dry layer of faux leather which we produced for the use in our production of finishes and for sale to customers.

The Group's revenue increased by approximately RMB15,374,000 or 9.2% to approximately RMB182,681,000 for the year ended 31 December 2019 from approximately RMB167,307,000 for the year ended 31 December 2018.

The Group's gross profit increased by approximately RMB11,307,000 or 22.3% to approximately RMB61,995,000 for the year ended 31 December 2019 from approximately RMB50,688,000 for the year ended 31 December 2018.

BUSINESS DEVELOPMENT AND PERFORMANCE OF THE GROUP

The following table sets out major financial ratios of the Group, which reflect its profitability and operational capability, for the purpose of analyzing the growth and development potential of the Group:

	For the year ended 31 December	
Financial indicators	**2019**	**2018**
Gross profit margin	**33.9%**	30.3%
Net profit margin	**13.2%**	18.4%
Return on equity	**16.7%**	24.2%

PROSPECTS

Our Company was listed on the Main Board of The Stock Exchange in March 2020. The successful listing not only strengthened the Group's shareholder base, but also further enhanced its financing capability, brand awareness and reputation. During the Reporting Period, the Group continued to steadily develop its various businesses. The Group aims to maintain the sustainable growth of its business and strengthen our market position in the faux leather chemicals manufacturing industry. To this end, the Group intends to adopt the following strategies: (1) further expanding the production capacity for colourant products; (2) continuing to strengthen our research and development capabilities and further expanding our product portfolio and geographical coverage; and (3) enhancing automation of our existing production facility and information management system.

The epidemic caused by the novel coronavirus (COVID-19) has been spreading worldwide since January 2020. The Group has resumed its production and sales activities since February 2020. Pending on the future development and spread of COVID-19 subsequent to the date of this announcement, further changes in economic conditions for the Group may arise, which may have an impact on the financial results of the Group, the extent of which could not be fully assessed as at the date of this announcement. The Group will continue to monitor the development of COVID-19 and actively assess its impact on the financial position and operating results of the Group from time to time.

FINANCIAL REVIEW

Overall Operating Results

The Group's revenue increased by approximately RMB15,374,000 or 9.2% to approximately RMB182,681,000 for the year ended 31 December 2019 from approximately RMB167,307,000 for the year ended 31 December 2018. The Group's gross profit increased by approximately RMB11,307,000 or 22.3% to approximately RMB61,995,000 for the year ended 31 December 2019 from approximately RMB50,688,000 for the year ended 31 December 2018.

The following table sets out the Group's total revenue and gross profit by product type:

	For the year ended 31 December 2019			For the year ended 31 December 2018		
	Revenue	**Gross profit**	**Gross profit margin**	Revenue	Gross profit	Gross profit margin
	RMB'000	***RMB'000***	***(%)***	*RMB'000*	*RMB'000*	*(%)*
Colour paste	**81,644**	**28,257**	**34.6%**	82,553	24,868	30.1%
Colour chips	**16,608**	**2,865**	**17.3%**	3,459	545	15.8%
Finishes	**57,636**	**22,954**	**39.8%**	55,906	19,021	34.0%
Additives	**2,984**	**1,012**	**33.9%**	2,908	1,112	38.2%
Synthetic resins	**23,809**	**6,907**	**29.0%**	22,481	5,142	22.9%
Total	**182,681**	**61,995**	**33.9%**	167,307	50,688	30.3%

Revenue

Revenue increased by approximately RMB15,374,000 or 9.2% to approximately RMB182,681,000 for the year ended 31 December 2019 from approximately RMB167,307,000 for the year ended 31 December 2018, mainly due to the increase in the revenue from colour chips.

In 2018 and 2019, revenue from colour paste accounted for approximately 49.3% and approximately 44.7%, respectively, of total revenue; revenue from colour chips accounted for approximately 2.1% and approximately 9.1%, respectively, of total revenue; revenue from finishes accounted for approximately 33.4% and approximately 31.6%, respectively, of total revenue; revenue from additive accounted for approximately 1.7% and approximately 1.6%, respectively, of total revenue; and revenue from synthetic resins of the Group accounted for approximately 13.4% and approximately 13.0%, respectively, of total revenue.

The Group mainly sells its products to customers in the PRC. Most of revenue of the Group was derived from sales in the PRC, which accounted for approximately 97.8% and 98.0%, respectively, of its total revenue for the years ended 31 December 2018 and 2019.

Cost of sales

Cost of sales increased by approximately RMB4,067,000 or 3.5% to approximately RMB120,686,000 for the year ended 31 December 2019 from approximately RMB116,619,000 for the year ended 31 December 2018, mainly due to the increase in the sales volume of colour chips, partially offset by the decrease in the average purchase prices of certain raw materials such as polymers and solvents.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 22.3% to approximately RMB61,995,000 for the year ended 31 December 2019 from approximately RMB50,688,000 for the year ended 31 December 2018. Gross profit margin increased to 33.9% for the year ended 31 December 2019 from 30.3% for the year ended 31 December 2018. The increase in gross profit margin was mainly due to: (i) the increase in our overall revenue; (ii) the increase in the average selling prices of our certain faux leather chemicals products; and (iii) the decrease in the average purchase prices of raw materials, primarily resulting from the decrease in average purchase prices of polymers and solvents for the year.

Other revenue

Other revenue mainly represented government grants and bank interest income. The Group's other revenue for the year ended 31 December 2019 was approximately RMB2,833,000, while other revenue for the year ended 31 December 2018 was approximately RMB4,936,000. The change was mainly due to the decrease in government grant for the year ended 31 December 2019 of approximately RMB2,017,000 compared to approximately RMB4,117,000 for the same period of 2018.

Other gains

Other gains decreased by approximately RMB1,601,000 or 90.8% from approximately RMB1,764,000 for the year ended 31 December 2018 to approximately RMB163,000 for the year ended 31 December 2019, mainly due to the decrease in gain on disposal of property, plant and equipment of approximately RMB1,891,000 in 2019.

Selling and distribution expenses

Selling and distribution expenses for the year ended 31 December 2019 was approximately RMB7,498,000, representing an increase of approximately RMB493,000 or 7.0% from approximately RMB7,005,000 for 2018. The increase in selling and distribution expenses was mainly due to the increase in staff costs resulting from the increase in engaging in sales and marketing activities.

Selling and distribution expenses for the year ended 31 December 2019 accounted for approximately 4.1% (2018: approximately 4.2%) of revenue of the Group.

Administrative and general expenses

Administrative and general expenses for the year ended 31 December 2019 was approximately RMB16,208,000, representing an increase of approximately RMB1,662,000 or 11.4% from approximately RMB14,546,000 for the year ended 31 December 2018. The increase in administrative and general expense was mainly due to the increase in research and development expenses and professional service fee.

Administrative and general expense for the year ended 31 December 2019 accounted for approximately 8.9% (2018: approximately 8.7%) of revenue of the Group.

Finance costs

Finance costs for the year ended 31 December 2019 were approximately RMB672,000, representing an increase of approximately RMB142,000 or 26.8% from approximately RMB530,000 for the year ended 31 December 2018, mainly due to the increase in the interest expenses of the Group during the year.

Income tax expenses

Zhejiang Sunlight, a subsidiary of the Company in the PRC, is recognised as a High and New Technology Enterprise and entitled to a preferential tax rate of 15% for the PRC Enterprise Income tax. Income tax expenses for the year ended 31 December 2019 were approximately RMB4,852,000, representing an increase of approximately RMB335,000 or 7.4% from approximately RMB4,517,000 for the year ended 31 December 2018, during which the Group recorded the listing expenses which was one-off in nature and was excluded.

Profit for the year

For the year ended 31 December 2019, the Group recorded net profit of approximately RMB24,124,000, representing a decrease of approximately RMB6,666,000 or 21.6%, from approximately RMB30,790,000 for the year ended 31 December 2018. The decrease in net profit was mainly due to the listing expenses in 2019. The adjusted net profit was approximately RMB35,761,000 for the year ended 31 December 2019.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's cash was mainly used for operating cost in the PRC, capital expenses and repayment of debts. To date the Group has mainly funded its investment and operation with cash from operations and debt financing from banks and other financial institutions. Taking into account the internal resources and bank facilities currently available to the Group, cash from operations and the estimated net proceeds from the Global Offering, the Group has sufficient working capital to meet its liquidity needs. Any significant decrease in the demand for or the price of its products and services or any significant decrease in bank loans available may have an adverse effect on its liquidity. As at 31 December 2019, the cash and cash equivalents held by the Group represented mainly bank and cash on hand denominated in Renminbi and deposits denominated in Renminbi that are readily converted into cash.

The following table sets out the cash flows for the periods indicated:

	For the year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash generated from operating activities	**7,185**	24,893
Net cash (used in)/generated from investing activities	**(6,051)**	(1,213)
Net cash generated from/(used in) financing activities	**3,181**	(19,733)
Net increase in cash and cash equivalents	**4,315**	3,947
Cash and cash equivalents at the end of the year	**14,226**	10,162

(a) Net cash generated from operating activities

For the year ended 31 December 2019, net cash generated from operating activities was approximately RMB7,185,000, lower than net cash generated from operating activities for the year ended 31 December 2018 of approximately 24,893,000, mainly due to the significant increase in the change of working capital such as trade receivables in the nature of trading and bills receivable for 2019 from the previous period, which offset the increase in profit.

(b) Net cash used in investing activities

Net cash used in investing activities was approximately RMB1,213,000 for the year ended 31 December 2018 and increased to approximately RMB6,051,000 for the year ended 31 December 2019, mainly due to the increase in the investment in the purchase of property, plant and equipment of approximately RMB5,146,000 and the increase in restricted bank deposits of RMB984,000.

(c) Net cash generated from/(used in) financing activities

Net cash used in financing activities was approximately RMB19,733,000 for the year ended 31 December 2018 and increased to net cash generated from financing activities of approximately RMB3,181,000 for the year ended 31 December 2019, mainly due to the increase in the amounts due to shareholders.

Gearing ratio

The gearing ratio is the ratio of net debt divided by total equity as of 31 December 2019. Total debt includes all interest-bearing bank loans and other borrowings. The gearing ratio was approximately 4.39% as at 31 December 2019 (2018: Net cash).

The gearing ratio at the end of the reporting period was as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Amounts due to shareholders	**1,378**	–
Bank and other borrowings	**21,727**	10,000
	23,105	10,000
Less: Bank balances and cash	**(14,226)**	(10,162)
Pledged bank deposits	**(2,544)**	(1,560)
Net debt	**6,335**	(1,722)
Total equity	**144,306**	127,168
Gearing ratio*	**4.39%**	Net cash

The banking facilities were denominated in Renminbi.

* Calculated as net debts (i.e. total debt net of cash and cash equivalents) divided by total equity and multiplied by 100%.

Contingent liabilities

As at 31 December 2018 and 2019, the Group had no material contingent liabilities.

PLEDGE OF ASSETS

As at 31 December 2019, the Group's assets with a carrying amount of approximately RMB53,184,000 (2018: RMB54,413,000) was pledged for the bills payable issued by the Group and its bank borrowings. The pledged assets and their carrying amount are as follows:

	As at 31 December	
	2019	2018
	RMB'000	*RMB'000*
Property, plant and equipment	**35,832**	37,707
Right-of-use assets/prepaid lease payments	**14,808**	15,146
Restricted bank deposit	**2,544**	1,560

Significant investment, acquisition and disposal

During the Reporting Period, the Group did not hold any significant investment or carry out any material acquisition or disposal.

DIVIDEND

The Board has resolved not to declare any final dividend for the year ended 31 December 2019.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company and to enhance corporate value and accountability of the Company. As the shares of the Company were not listed on the Stock Exchange during the Reporting Period, the Corporate Governance Code as set out in Appendix 14 (the "**Corporate Governance Code**") to the Rules Governing the Listing of Securities of the Stock Exchange (the "**Listing Rules**") was not applicable to the Group during the Reporting Period. Since the Listing Date, the Company has adopted the code provisions as set out in the Corporate Governance Code, and has complied with all the applicable code provisions throughout the period from the Listing Date up to the date of this announcement.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has since the Listing Date adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code of conduct for dealing in the securities of the Company by the Directors. Following a specific enquiry made by the Company with each of the Directors, all of them confirmed that they had complied with the required standards as set out in the Model Code from the Listing Date up to the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities since the Listing Date and up to the date of this announcement.

PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company has maintained sufficient public float as required by the Listing Rules since the Listing Date and up to the date of this announcement. The Company maintained the minimum level of public float of 25% of its total issued share capital.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in Note 16 to the consolidated financial statements, no important events affecting the Group have occurred after the end of the reporting period.

USE OF PROCEEDS FROM THE LISTING

The net proceeds from the Global Offering of the Company is approximately RMB72.4 million, after deducting the underwriting fees and estimated expenses in connection with the Global Offering (as defined in the Prospectus).

For the unutilized net proceeds of approximately RMB72.4 million as at the date of this announcement, the Company intends to use them in the same manner and proportions as described in the Prospectus and proposes to use the unutilized net proceeds in accordance with the expected timetable as disclosed in the Prospectus.

	Use of proceeds in the same manner and proportion as stated in the Prospectus	**Actual use of proceeds as at the date of this announcement**	**Net proceeds unutilized as at the date of this announcement**
	RMB million	*RMB million*	*RMB million*
Establishment of New Production Plant	43.4	–	43.4
Enhancing automation system of our existing Jiande Production Plant	11.9	–	11.9
Strengthening our research and development capabilities	15.8	–	15.8
General working capital	1.3	–	1.3
	72.4	–	72.4

SCOPE OF WORK OF HLB HODGSON IMPEY CHENG LIMITED

The figures set out in the consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto disclosed in the annual results announcement of the Group for the year ended 31 December 2019 have been agreed by the Company's auditors, HLB Hodgson Impey Cheng Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by HLB Hodgson Impey Cheng Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLB Hodgson Impey Cheng Limited in this preliminary announcement.

AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS

The Company has established the audit committee with written terms of reference in compliance with the Listing Rules to fulfil the functions of reviewing and monitoring the financial reporting and internal control of the Company. The audit committee currently consists of three independent non-executive Directors, namely, Mr. Ho Ho Tung Armen, Mr. Tian Jingyan and Ms. Yu Zhen, and Mr. Ho Ho Tung Armen is the chairman of the audit committee.

The audit committee has reviewed with the management of the Company this annual results and the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial statements matters, including the review of the consolidated financial statements of the Group for the year ended 31 December 2019.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The annual results announcement has been published on the websites of the Stock Exchange (www.hkexnews.com.hk) and the Company (www.slkj.cn). The annual report of the Company for the Reporting Period, which contains all information required by the Listing Rules, will be dispatched to the Company's shareholders and published on the websites of the Stock Exchange and the Company in due course.

ANNUAL GENERAL MEETING

The annual general meeting of shareholders ("2020 AGM") will be held on Wednesday, 3 June 2020, while the notice and circular convening the 2020 AGM will be published and dispatched to the Company's shareholders in the form required in the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the entitlement of the shareholders of the Company (the "Shareholders") to attend and vote at the 2020 AGM, the register of members of the Company will be closed from Friday, 29 May 2020 to Wednesday, 3 June 2020, both days inclusive.

During this period, no transfer of shares will be registered. In order to qualify for attending and voting at the 2020 AGM, the non-registered Shareholders must lodge all transfer documents accompanied by the relevant share certificates for registration with the Company's Hong Kong branch share registrar in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Thursday, 28 May 2020.

By Order of the Board
Sunlight Technology Holdings Limited
Ms. Liu Jing
Chairman and executive Director

Hangzhou, PRC
31 March 2020

As at the date of this announcement, the Board comprises Ms. Liu Jing, Mr. Chen Hua, Ms. Zhu Jianqin and Mr. Li Xiangyu as executive Directors; Mr. Tian Jingyan, Mr. Ho Ho Tung Armen and Ms. Yu Zhen as independent non-executive Directors.