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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

INTERIM RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sunlight Technology Holdings Limited (the "**Company**") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2020 (the "**Period**"), together with the comparative figures for the same period in 2019 (the "**Prior Period**"). The interim financial results have been reviewed by the audit committee of the Company (the "**Audit Committee**").

In this announcement, "we" and "our" and "us" refer to the Company (as defined above) and the Group (as defined above) if the context otherwise requires.

FINANCIAL HIGHLIGHTS

During the reporting period, revenue of the Group was approximately RMB49,912,000, representing a decrease of approximately RMB31,461,000 or 38.7% as compared to the same period of last year.

The gross profit of the Group was approximately RMB12,167,000, representing a decrease of approximately RMB16,830,000 or 58.0% as compared to the same period of last year.

The Group recorded a net loss of approximately RMB6,668,000, representing a decrease of approximately RMB16,878,000 as compared to the same period of last year. Such decrease in net profit was mainly due to the listing expenses and declined revenue in 2020.

The adjusted net profit (excluding the listing expenses) was approximately RMB3,335,000, representing a decrease of approximately RMB12,195,000 as compared to the same period of last year.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OF LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2020

		Six months ended 30 June	
		2020	2019
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Revenue	*5*	**49,912**	81,373
Cost of sales		**(37,745)**	(52,376)
Gross profit		**12,167**	28,997
Other revenue	*6*	**2,694**	591
Other (losses)/gains	*7*	**(466)**	223
Selling and distribution expenses		**(2,284)**	(2,949)
Administrative and general expenses		**(7,495)**	(7,402)
Finance costs	*8*	**(416)**	(270)
Listing expenses		**(10,003)**	(5,320)
(Loss)/profit before tax	*9*	**(5,803)**	13,870
Income tax expenses	*10*	**(865)**	(3,660)
(Loss)/profit for the period		**(6,668)**	10,210
Other comprehensive income/(loss)			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translating foreign operation		**535**	(59)
Other comprehensive income/(loss) for the period		**535**	(59)
Total comprehensive (loss)/income for the period		**(6,133)**	10,151
(Loss)/profit for the period attributable to owners of the Company		**(6,668)**	10,210
Total comprehensive (loss)/income for the period attributable to owners of the Company		**(6,133)**	10,151
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company			
Basic and diluted (RMB cents)	*11*	**(0.74)**	1.36

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Note	**As at 30 June 2020** *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**60,235**	62,049
Right-of-use assets		**16,986**	17,181
Deferred tax assets		**140**	69
		77,361	79,299
CURRENT ASSETS			
Inventories		**13,176**	17,651
Trade and bills receivables	*13*	**72,735**	84,601
Prepayments, deposits and other receivables		**14,443**	7,350
Pledged bank deposits		**1,840**	2,544
Bank balances and cash		**90,574**	14,226
		192,768	126,372
CURRENT LIABILITIES			
Trade and bills payables	*14*	**19,625**	30,391
Other payables and accruals		**2,615**	4,465
Deferred income		**137**	137
Tax payables		**863**	2,446
Amounts due to shareholders		**–**	1,378
Bank and other borrowings		**11,000**	21,727
		34,240	60,544
NET CURRENT ASSETS		**158,528**	65,828
TOTAL ASSETS LESS CURRENT LIABILITIES		**235,889**	145,127

	Note	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITY			
Deferred income		**753**	821
NET ASSETS		**235,136**	144,306
CAPITAL AND RESERVES			
Share capital	*15*	**3,497**	670
Reserves		**231,639**	143,636
TOTAL EQUITY		**235,136**	144,306

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company						
	Share capital	**Share premium**	**Capital reserve**	**Statutory reserve**	**Exchange reserve**	**Retained earnings**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(note (a))*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2019	36,000	–	61,274	8,034	–	21,860	127,168
Profit and total comprehensive income for the period	–	–	–	–	–	10,210	10,210
Other comprehensive loss for the period	–	–	–	–	(59)	–	(59)
Total comprehensive income for the period	–	–	–	–	(59)	10,210	10,151
Transfer to statutory reserve	–	–	–	1,414	–	(1,414)	–
Issus of shares	335	–	–	–	–	–	335
Effect of reorganisation *(note (b))*	(35,665)	35,665	–	–	–	–	–
Dividend declared	–	–	–	–	–	(7,200)	(7,200)
At 30 June 2019 (unaudited)	670	35,665	61,274	9,448	(59)	23,456	130,454
At 1 January 2020	670	35,665	61,274	11,343	(121)	35,475	144,306
Profit and total comprehensive loss for the period	–	–	–	–	–	(6,668)	(6,668)
Other comprehensive income for the period	–	–	–	–	535	–	535
Total comprehensive loss for the period	–	–	–	–	535	(6,668)	(6,133)
Transfer to statutory reserve	–	–	–	91	–	(91)	–
Capitalisation issue	1,944	(1,944)	–	–	–	–	–
Issue of shares pursuant to Global Offering	883	116,906	–	–	–	–	117,789
Transaction costs attributable to issue of shares under Global Offering	–	(22,211)	–	–	–	–	(22,211)
Waiver of amounts due to shareholders	–	–	1,385	–	–	–	1,385
At 30 June 2020 (unaudited)	**3,497**	**128,416**	**62,659**	**11,434**	**414**	**28,716**	**235,136**

Notes:

(a) Subsidiary of the Company established in the PRC shall appropriate 10% of its annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law. When the balance of such reserve fund reaches 50% of the entity's share capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval.

(b) Effect of Reorganisation represents the effect of the completion of the acquisition of Zhejiang Sunlight Material Technology Co., Ltd (the "**Zhejiang Sunlight**") by HongKong Gorgeous Investment Limited (the "**HongKong Gorgeous**") on 18 April 2019. The considerations for acquisition of the equity interests in Zhejiang Sunlight were financed by the Shareholders' Loans. The Shareholders' Loans were capitalised by way of the Company allotting and issuing shares, credited as fully paid, to its shareholders as the part of Reorganisation as set out in Note 2 to the consolidated financial statements. As at 1 January 2019, the balance of share capital represented the paid-in capital of Zhejiang Sunlight under merger accounting for common control combination. Upon the completion of the acquisition of Zhejiang Sunlight, the Company became the holding company of the companies now comprising the Group including Zhejiang Sunlight, and the paid-in capital of Zhejiang Sunlight had been eliminated and the balance of share capital as at 30 June 2019 represents the share capital of the Company.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash (used in)/generated from operating activities	**(11,939)**	2,611
Investing activities		
Purchases of items of property, plant and equipment	**(978)**	(2,644)
Proceeds from disposal of property, plant and equipment	**16**	20
Decrease/(increase) in pledged bank deposits	**704**	(1,500)
Interest received	**206**	18
Net cash used in investing activities	**(52)**	(4,106)
Financing activities		
Proceeds from bank and other borrowings	**–**	5,191
Repayment of bank and other borrowings	**(10,873)**	–
Increase in amount due to shareholders	**–**	37,019
Paid up capital	**–**	670
Issue of shares pursuant to Global Offering	**117,789**	–
Transaction costs attributable to issue of shares under Global Offering	**(18,822)**	–
Effect on Reorganisation	**–**	(36,000)
Dividend paid	**–**	(10,107)
Interest paid	**(416)**	(270)
Net cash generated from/(used in) financing activities	**87,678**	(3,497)
Net increase/(decrease) in cash and cash equivalents	**75,687**	(4,992)
Cash and cash equivalents at the beginning of the period	**14,226**	10,162
Effect of exchange rate changes on the balance of cash held in foreign currency	**661**	22
Cash and cash equivalents at the end of the period	**90,574**	5,192
Analysis of the balances of cash and cash equivalents:		
Bank balances and cash	**90,574**	5,192

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. CORPORATE INFORMATION

(i) 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, the People's Republic of China ("**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 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 Company is an investment holding company and its subsidiaries (the "**Group**") are principally engaged in the manufacturing and sales of faux leather chemicals.

The condensed 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.

(ii) 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 then 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 condensed 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 condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement 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 since 1 January 2019 or since their respective date of incorporation, where there is a shorter period.

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

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("**IAS 34**") issued by the International Accounting Standards Boards (the "**IASB**") as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**").

The condensed consolidated interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2019.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Other than changes in accounting policies resulting from application of new and revised to International Financial Reporting Standards ("**IFRSs**") and the interpretation, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2019.

Application of amendments to IFRSs

In the current interim period, the Group has applied the Amendments to Reference to the Conceptual Framework in IFRS Standards and the following amendments to IFRSs issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements.

IAS 1 and IAS 8 (Amendments)	Definition of Material
IFRS 3 (Amendments)	Definition of a Business
IFRS 9, IAS 39 and IFRS 7 (Amendments)	Interest Rate Benchmark Reform

The application of the Amendments to Reference to the Conceptual Framework in IFRS Standards and the amendments IFRSs in the current period has had no material impact of the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

4. 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:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC	**48,996**	79,776
Overseas	**916**	1,597
	49,912	81,373

(iii) Information about major customers

Revenue from customers of the respective period contributing over 10% of the total sales of the Group are as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Customer A	**–***	11,854

* Revenue from the customer was less than 10% of the Group's total revenue for the respective period.

5. 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 period. An analysis of the Group's revenue during the period is as follows:

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
Recognised at a point in time		
Sales of faux leather chemicals	**49,912**	81,373

6. OTHER REVENUE

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Bank interest income	**232**	18
Government grants *(note a)*	**2,124**	311
Sundry income	**338**	262
	2,694	591

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.

7. OTHER (LOSSES)/GAINS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Provision for)/reversal of impairment loss on:		
– trade and bills receivables	**(473)**	214
– other receivables	**–**	(3)
Gain on disposal of property, plant and equipment	**7**	12
	(466)	223

8. FINANCE COSTS

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings wholly repayable within five years	**416**	270

9. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss)/profit before tax has been arrived at after charging:		
Directors' remuneration	**434**	436
Staff costs (excluding directors' remuneration)		
– wages, salaries, allowances and bonus	**5,536**	5,220
– retirement benefit scheme contributions	**443**	720
	6,413	6,376
Less: amounts included in cost of sales	**(2,120)**	(2,106)
	4,293	4,270
Cost of inventories recognised as an expense	**37,745**	52,376
Research and development expenses	**3,250**	3,851
Depreciation of property, plant and equipment	**3,167**	3,163
Depreciation of right-of-use assets	**195**	195
Listing expenses	**10,003**	5,320

10. INCOME TAX EXPENSES

	Six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax		
– Current income tax	**936**	3,607
Deferred tax	**(71)**	53
Total tax charge for the period	**865**	3,660

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 and BVI as they are not subject to any tax during the six months ended 30 June 2019 and 2020. No provision for Hong Kong Profit Tax has been made for the six months ended 30 June 2019 and 2020 as the Group has no assessable profits in Hong Kong.

Withholding Tax in Mainland China

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 investors, upon the distribution of profits to overseas incorporated immediate holding companies.

As at 30 June 2020, 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 RMB 45,263,000 (31 December 2019: RMB44,441,000). 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 difference will not reverse in the foreseeable future.

11. LOSS/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share during the period is based on the (loss)/profit attributable to owners of the Company of approximately RMB6,668,000 (six months ended 30 June 2019: profit of approximately RMB10,210,000) and the weighted average number of ordinary shares in issue during the period of 902,472,527 (six months ended 30 June 2019: 750,000,000, which has been adjusted retrospectively for the effect of the capitalisation issue as detailed in Note 15(f) as if the capitalisation issue had been effective since 1 January 2019).

Diluted (loss)/earnings per share were same as the basic (loss)/earnings per share as there were no potential dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2020.

12. DIVIDENDS

The board of the directors of the Company does not declare the payment of an interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

13. TRADE AND BILLS RECEIVABLES

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Trade receivables	**56,319**	59,732
Less: allowance for expected credit losses	**(681)**	(209)
	55,638	59,523
Bills receivables	**17,097**	25,078
Total trade and bills receivables – net	**72,735**	84,601

The Group generally allows an average credit period range from 30 to 120 days to its customers.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	As at 30 June 2020 RMB'000 (Unaudited)	As at 31 December 2019 RMB'000 (Audited)
Within 30 days	**11,951**	17,216
31 to 90 days	**15,839**	32,542
91 to 180 days	**15,432**	9,241
181 to 365 days	**12,674**	340
Over 1 year	**423**	393
	56,319	59,732

As at 30 June 2020 and 31 December 2019, all bills received by the Group are with a maturity period of less than 6 months.

14. TRADE AND BILLS PAYABLES

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Trade payables	**13,493**	21,911
Bills payables	**6,132**	8,480
	19,625	30,391

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 dates at the end of the reporting period:

	As at 30 June 2020 *RMB'000* **(Unaudited)**	As at 31 December 2019 *RMB'000* (Audited)
Within 30 days	**4,438**	13,206
31 to 90 days	**5,244**	8,139
91 to 180 days	**2,264**	217
181 to 365 days	**1,173**	220
Over 1 year	**374**	129
	13,493	21,911

As at 30 June 2020 and 31 December 2019, all bills issued by the Group are with a maturity period of less than 6 months.

15. SHARE CAPITAL

Details of movements of share capital of the Company are as follow:

	Number of shares	Share capital RMB'000
Authorised:		
At 29 January 2019 (date of incorporation), ordinary share of US$1 each *(note (a))*	50,000	335
Share subdivision *(note (b))*	49,950,000	–
Increasing authorised share capital *(note (c))*	950,000,000	6,365
At 31 December 2019 and 1 January 2020, ordinary share of US$0.001 each	1,000,000,000	6,700
Share subdivision *(note (e))*	1,000,000,000	–
At 30 June 2020 (Unaudited), ordinary share of US$0.0005 each	**2,000,000,000**	**6,700**
Issued and fully paid:		
At 29 January 2019 (date of incorporation), ordinary share of US$1 each *(note (a))*	50,000	335
Share subdivision *(note (b))*	49,950,000	–
Issue of shares *(note (d))*	50,000,000	335
At 31 December 2019 and 1 January 2020, ordinary share of US$0.001 each	100,000,000	670
Share subdivision *(note (e))*	100,000,000	–
Capitalisation issue *(note (f))*	550,000,000	1,944
Issue of new shares under Global Offering *(note (g))*	250,000,000	883
At 30 June 2020 (Unaudited), ordinary share of US$0.0005 each	**1,000,000,000**	**3,497**

Notes:

(a) The Company was incorporated on 29 January 2019 with authorised share capital of US$50,000 divided into 50,000 shares at a par value of US$1 each. On the same day, one share of US$1 was allotted and issued to initial subscriber of the Company, an independent third party. Such one share was then immediately transferred to Sunlight Global, following which 49,999 new shares of US$1 each were issued to Sunlight Global.

(b) On 17 April 2019, each Share then of a par value of US$1.00 was subdivided into 1,000 Shares of a par value of US$0.001 each. Upon completion of the share subdivision, the authorised share capital of the Company was US$50,000 divided into 50,000,000 Shares of a par value of US$0.001 each, all of which had been issued and credited as fully paid.

(c) On 9 May 2019, the authorised share capital of the Company was increased from US$50,000 divided into 50,000,000 Shares of US$0.001 each to US$1,000,000 divided into 1,000,000,000 Shares of US$0.001 each by creation of additional 950,000,000 Shares of US$0.001 each ranking pari passu in all aspects with the existing issued Shares.

(d) On 19 June 2019, the shareholders' loans owed by the Company to Sunlight Global Investment Limited, Lilian Global Investment Limited and Jumping Jive International Limited were capitalised by way of the Company allotting and issuing 50,000,000 Shares, credited as fully paid, to its shareholders.

(e) On 10 February 2020, 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.

(f) Pursuant to a resolution in writing passed by all the shareholders of the Company on 10 February 2020, 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.

(g) 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group's Overall Business and Financial Performance

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 own brand. 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 include colourants in paste and chip forms, which are generally used as pigments to give colour to different layers of the faux leather. Finishes 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 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 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.

During the reporting period, the epidemic of novel coronavirus (**COVID-19**) erupted around the world. As stringent anti-pandemic measures were imposed by various countries, coupled with the generally delayed resumption of work and production of enterprises, the global industrial chain was hit by the shocks comprehensively. The downstream industries and consumer markets were sluggish. In respect of the global polyurethane synthetic leather industry, the downstream demand for leather products, such as garments, shoes, handbags and bags, household products and sports equipment, declined significantly. Under the worldwide outbreak, most of the foreign countries were in an anti-pandemic situation at the end of the first quarter, and have not yet been fully opened up from lockdown at the second quarter. Such situation have a significant impact on the downstream customers of the Company, as well as a greater adverse impact on the production and operation of the Company in the first half year.

During the reporting period, the Group's revenue decreased by approximately RMB31,461,000 or 38.7% to approximately RMB49,912,000 for the six months ended 30 June 2020 from approximately RMB81,373,000 for the six months ended 30 June 2019.

The Group's gross profit decreased by RMB16,830,000 or 58.0% to approximately RMB12,167,000 for the six months ended 30 June 2020 from approximately RMB28,997,000 for the six months ended 30 June 2019.

During the reporting period, the production and business operation of the Company was greatly affected by the domestic and foreign epidemic situation. However, the Company remained aggressive in developing products and monitoring the market. Meanwhile, the Company strived to promote various works, such as the work of post-doctoral scientific research workstation, the pilot project of internet of things and patent application, which achieved positive results and laid a foundation for the business recovery and future development in the second half of the year.

Our Business Strategies and Future Prospects

Looking ahead, the Group will continue to enhance its overall competitiveness and market share by strengthening its long-term relationship with existing customers, developing new customers, continuing to strengthen its research and development capabilities and further expanding our product portfolio and geographical coverage. The Group will actively expand the sales of colour chips, expand the research and development center and introduce a new technical team to prepare for the full recovery of sales in 2021 and continue to promote the development and sales of products, such as finishes, synthetic resins, and water-based resins, while actively promoting the production automation and informatization.

In view of the worldwide spread of the epidemic caused by the COVID-19 since January 2020, the increasing trade dispute and political tension between the United States and the PRC, and the global economic recession, the Group expects the business environment in the near future will be under increasing challenges.

With its solid track record, experienced management team and innovative products, the Group will be fully prepared for sustainable and healthy development among such challenging external business environment.

The Group will closely monitor changes in the economic environment, so as to evaluate its business strategies to cope with the market challenges in a timely manner, ensure the Group's sustainable and steady development and grasp opportunities to enhance its long-term growth potential in the future, as well as to safeguard the interests of shareholders.

FINANCIAL REVIEW

Revenue

Revenue decreased by approximately RMB31,461,000 or 38.7% from approximately RMB81,373,000 for the six months ended 30 June 2019 to approximately RMB49,912,000 for the six months ended 30 June 2020, primarily due to the decrease in revenue from colour paste, finishes and synthetic resin products, which was partially offset by the increase in revenue from colour chips products.

For the six months ended 30 June 2019 and 2020, revenue from colour paste accounted for approximately 44.9% and 35.1% respectively of the total revenue, revenue from colour chips accounted for 3.7% and 19.3% respectively of the total revenue, revenue from finishes accounted for approximately 33.9% and 29.0% respectively of the total revenue, and revenue from additives accounted for approximately 1.4% and 3.2% respectively of the total revenue, while revenue from the Group's synthetic resins accounted for approximately 16.1% and 13.4% respectively of the 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 98.0% and 98.2% respectively, of its total revenue for the six months ended 30 June 2019 and 2020.

Cost of sales

Cost of sales decreased by approximately RMB14,631,000 or 27.9% from approximately RMB52,376,000 for the six months ended 30 June 2019 to approximately RMB37,745,000 for the six months ended 30 June 2020. This was mainly due to the impact of the overall decline in revenue.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately RMB16,830,000 or 58.0% to approximately RMB12,167,000 for the six months ended 30 June 2020 from approximately RMB28,997,000 for the six months ended 30 June 2019. Gross profit margin decreased to 24.4% for the six months ended 30 June 2020 from 35.6% for the six months ended 30 June 2019. The decrease in gross profit margin was mainly due to: (1) our overall revenue declined while the amount of related fixed costs such as depreciation and amortization and labor did not decrease; and (2) certain raw materials were in stock for 2019 and their prices did not decrease.

Other (losses)/gains

Other gains decreased by approximately RMB689,000 or 309.0% from approximately RMB223,000 for the six months ended 30 June 2019 to other losses of approximately RMB466,000 for the six months ended 30 June 2020.

Other revenue

Other revenue mainly represented government grants and bank interest income. The Group's other revenue for the six months ended 30 June 2020 was approximately RMB2,694,000, while other revenue for the six months ended 30 June 2019 was approximately RMB591,000. The change was mainly due to the receipt of government listing subsidies and increase in bank interest income during the six months ended 30 June 2020.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2020 was approximately RMB2,284,000, representing a decrease of approximately RMB665,000 or 22.6% from approximately RMB2,949,000 for 2019. The decrease in selling and distribution expenses was mainly due to the decrease in sales and marketing activities.

Selling and distribution expenses for the six months ended 30 June 2020 accounted for approximately 4.6% (2019: approximately 3.6%) of revenue of the Group.

Administrative and general expenses

Administrative and general expenses for the six months ended 30 June 2020 were approximately RMB7,495,000, representing an increase of approximately RMB93,000 or 1.3% from approximately RMB7,402,000 for the six months ended 30 June 2019. After deducting the listing maintenance costs, such expense was a slight reduction as compared to the same period of the previous year.

Administrative and general expenses for the six months ended 30 June 2020 accounted for 15.0% (2019: approximately 9.1%) of revenue of the Group.

Listing expenses

Listing expenses for the six months ended 30 June 2020 were approximately RMB10,003,000 representing an increase of approximately RMB4,683,000 or 88.0% from approximately RMB5,320,000 for the six months ended 30 June 2019.

Finance costs

Finance costs for the six months ended 30 June 2020 were approximately RMB416,000, representing an increase of approximately RMB146,000 or 54.1% from approximately RMB270,000 for the six months ended 30 June 2019. It was mainly due to the increase in interest expenses of the Group during the period.

Income tax expenses

Zhejiang Sunlight, a subsidiary of the Company in Mainland China, 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 six months ended 30 June 2020 were approximately RMB865,000, representing an decrease of approximately RMB2,795,000 or 76.4% from approximately RMB3,660,000 for the six months ended 30 June 2019, mainly due to the decrease in profit for the Period. It did not included the listing expenses recorded by the Group during the Period, which were one-off in nature.

Profit for the period

For the six months ended 30 June 2020, the Group recorded a net loss of approximately RMB6,668,000, representing a decrease of approximately RMB16,878,000, from approximately RMB10,210,000 for the six months ended 30 June 2019. The decrease in net profit was mainly due to the listing expenses and decrease in revenue during 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group's current assets were approximately RMB192,768,000, mainly comprising cash and bank balances (including pledged bank deposits), inventories and trade and bills receivables of approximately RMB92,414,000, RMB13,176,000 and RMB72,735,000 respectively. The Group's current liabilities were approximately RMB34,240,000, of which RMB11,000,000 was bank loans, RMB19,625,000 was trade and bills payables and RMB863,000 was tax payable. The current ratio (the ratio of current assets to current liabilities) increased from approximately 2.1 times as at 31 December 2019 to approximately 5.6 times as at 30 June 2020. The change in current ratio was mainly due to the increase in cash from the listing proceeds.

As at 30 June 2020 or the date of this interim report, the Group had no other debt financing commitments, nor was it in breach of any financial covenant.

Capital expenses

During the Period, the Group's capital expenditure was approximately RMB978,000, representing a decrease of RMB1,666,000 as compared to that of RMB2,644,000 in the Prior Period. Capital expenditure relates primarily to the purchase of plant and equipment.

Cash flows

The following table sets forth a summary of our cash flows for the periods indicated:

	For the six months ended 30 June	
	2020	2019
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net cash used in operating activities	**(11,939)**	2,611
Net cash from/(used in) investing activities	**(52)**	(4,106)
Net cash from (used in) financing activities	**87,678**	(3,497)
Net increase in cash and cash equivalents	**75,687**	(4,992)
Cash and cash equivalents at the beginning of the period	**14,226**	10,162
Cash and cash equivalents at the end of the period	**90,574**	5,192

Cash Flows used in Operating Activities

For the Period, net cash used in operating activities was approximately RMB11,939,000, which was lower than the net cash generated from operating activities for the same period in 2019 of approximately RMB2,611,000, mainly due to (i) loss before tax of approximately RMB5,803,000; (ii) decrease in inventories of approximately RMB4,474,000; which was partially offset by (iii) increase in prepayments and deposit and other receivables of approximately RMB10,841,000, mainly due to increase in prepayment to suppliers.

Cash Flows from/(used in) Investing Activities

Net cash used in investing activities was approximately RMB4,106,000 for the six months ended 30 June 2019 and had decreased to approximately RMB52,000 for the Period, mainly due to a decrease of RMB1,666,000 in purchases of items of property, plant and equipment, and a decrease of RMB2,204,000 in pledged bank balances.

Cash Flows from Financing Activities

Net cash used in financing activities was approximately RMB3,497,000 for the six months ended 30 June 2019 and increased to net cash generated from financing activities of approximately RMB87,678,000 for the Period, mainly due to net proceeds from Global Offering of RMB117,789,000 and transaction costs attributable to issue of shares under the Global Offering of RMB18,822,000 incurred during the Period and repayment of bank and other borrowings of RMB10,873,000.

Capital Commitments

The capital commitments not provided for in the condensed consolidated financial statements as at 31 December 2019 and 30 June 2020 were nil and RMB356,000 respectively, which represented the purchase of plant and machinery contracts.

Gearing ratio

The gearing ratio is the ratio of net debt divided by total equity as at 30 June 2020. Net debt is calculated as total debt net of cash and cash equivalents. As at 30 June 2020, the Group recorded net cash position (31 December 2019: 4.39%), as a result of the reduction in bank and other borrowing and increase in cash from the listing proceeds.

Capital structure

As at 30 June 2020, the Company had a total of 1,000,000,000 shares of USD0.0005 each in issue (the "**Shares**"). The shares of the Company were listed on the Stock Exchange on 12 March 2020 and 250,000,000 shares were issued at a price of HKD 0.52 per share. The Group generally finances its daily operations with internally generated resources and banking facilities. The interest rates of the borrowings are charged by reference to prevailing market rates.

CONTINGENT LIABILITIES

As at 30 June 2020, we did not record any material hire purchase commitments, contingent liabilities, guarantees or litigations against us.

FOREIGN CURRENCY RISK AND MANAGEMENT

The Group's sales and purchases are mainly denominated in RMB. The Group retains some of its foreign currency denominated funds, which are mainly denominated in Hong Kong dollars. Fluctuations in exchange rates have an impact on the foreign currency reserve and the Company is exploring and discussing measures to cope with the foreign exchange risk. As at 30 June 2020, the Group did not enter into any financial instruments to hedge foreign exchange.

HUMAN RESOURCES

As at 30 June 2020, the Group had a total of 146 employees in the PRC. The Group offers its employees competitive remuneration packages based on industry practices and performance of individual employees. Year-end discretionary bonuses may be granted to reward and motivate those well-performed employees.

As required by the PRC laws and regulations, the Group participates in various employee social security plans for our employees that are administered by local governments, including housing, pension, medical insurance, maternity insurance and unemployment insurance. The Group believes that it maintains a good working relationship with its employees.

INITIAL PUBLIC OFFERING AND USES OF PROCEEDS FROM THE INITIAL PUBLIC OFFERING

The shares of the Company were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the Global Offering is approximately RMB72.4 million (equivalent to approximately HK$84.7 million). According to the purposes set out in the section headed "Future Plans and Use of Proceeds" in the prospectus, approximately 60.0% of the proceeds from the share offer will be used for the construction of new production plant and purchase of new machinery and equipment; approximately 16.4% of the proceeds will be used for strengthening the automation system and approximately 21.8% will be used for enhancing research and development capabilities, hiring experts and engineers and acquiring research and development equipment and testing equipment; and approximately 1.8% of the proceeds will be used as general operating costs.

As at 30 June 2020, the Company had settled and utilized a total of approximately RMB1.4 million to replenish our working capital.

The remaining proceeds of approximately RMB71.0 million will be continually used as set out in the section headed "Future plans and use of proceeds" in the Prospectus.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules at all times during the Period.

INTERIM DIVIDEND

The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2020 to shareholders.

CORPORATE GOVERNANCE

The Company has adopted the code provisions as set out in the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 of the *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited* (the "**Listing Rules**") as its own corporate governance code. The Company is committed to the establishment of good corporate governance practices and procedures with a view of becoming a transparent and responsible organisation which is open and accountable to the Shareholders. The Board strives for adhering to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all Shareholders to ensure the transparency and accountability of all operations of the Group. The Company believes that effective corporate governance is essential for creating greater value to its Shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimise return for Shareholders. Since the Listing Date and up to the date of this announcement, the Group has strictly complied with the Corporate Governance Code.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the Period.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding directors' securities transactions. Having made specific inquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code during the Period.

EVENTS AFTER THE REPORTING PERIOD

Up to the date of this announcement, there were no significant subsequent event after the Period which required disclosure.

AUDIT COMMITTEE

The Company has established an Audit Committee in accordance with the requirements of the Listing Rules. The Audit Committee is to serve as a focal point for communication between other directors, the external auditors, and the management as their duties relate to financial and other reporting, internal controls and the audits; and to assist the Board in fulfilling its responsibilities by providing an independent review of financial reporting, to satisfy themselves as to the effectiveness of the Company's internal controls and as to the efficiency of the audits. The primary duties of the Audit Committee is (i) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; and (ii) to monitor the integrity of financial statements of the Company and the Company's annual report and accounts and interim report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained therein. 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, together with the management, had reviewed and approved the interim results and the interim condensed consolidated financial statements of the Group for the Period.

The Group's unaudited condensed consolidated interim financial information for the six months ended 30 June 2020 have been reviewed by the Audit Committee. Based on this review and discussions with the management and the Group's external auditor, the Audit Committee was satisfied that the unaudited condensed consolidated interim financial information was prepared in accordance with the applicable accounting standards and fairly present the Group's financial position and results for the six months ended 30 June 2020.

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

Hangzhou, PRC
28 August 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.