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## **SUNLIGHT TECHNOLOGY HOLDINGS LIMITED**

*(Incorporated in Cayman Islands with limited liability)*

**(Stock Code: 1950)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020**

#### **FINANCIAL HIGHLIGHTS**

For the year ended 31 December 2020, revenue was approximately RMB134,441,000 (2019: approximately RMB182,681,000), representing a year-on-year decrease of 26.4%.

For the year ended 31 December 2020, gross profit was approximately RMB31,599,000 (2019: approximately RMB61,995,000), representing a year-on-year decrease of 49.0%.

For the year ended 31 December 2020, the Group recorded a net loss of approximately RMB3,157,000 (2019: net profit of approximately RMB24,124,000), such decrease in net profit was mainly due to the recognition of non-recurring listing expense and the decrease in revenue from the Group’s business of sales of faux leather chemicals in 2020.

For the year ended 31 December 2020, the adjusted net profit<sup>Note</sup> was approximately RMB7,089,000, representing a decrease of 80.2% as compared to that of RMB35,761,000 in 2019.

For the year ended 31 December 2020, basic loss per share of the Company was RMB0.33 cents (2019 basic earnings per share: RMB3.22 cents).

The Board has resolved not to declare the final dividend for the year ended 31 December 2020.

*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 2020 (the “Reporting Period”) prepared in accordance with the International Financial Reporting Standards, together with the comparative figures for the year ended 31 December 2019 as follows:

# CONSOLIDATED STATEMENT OF PROFIT OF LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Notes	2020 RMB'000	2019 RMB'000
<b>Revenue</b>	6	<b>134,441</b>	182,681
Cost of sales		<u>(102,842)</u>	<u>(120,686)</u>
<b>Gross profit</b>		<b>31,599</b>	61,995
Other revenue	7	<b>4,234</b>	2,833
Other gains	8	<b>965</b>	25
Impairment losses under expected credit loss model, net of reversal		<b>(2,352)</b>	144
Selling and distribution expenses		<b>(7,128)</b>	(7,498)
Administrative and general expenses		<b>(19,374)</b>	(16,214)
Finance costs	9	<b>(486)</b>	(672)
Listing expenses	10	<u><b>(10,246)</b></u>	<u>(11,637)</u>
<b>(Loss)/profit before tax</b>	10	<b>(2,788)</b>	28,976
Income tax expenses	11	<u><b>(369)</b></u>	<u>(4,852)</u>
<b>(Loss)/profit for the year</b>		<b>(3,157)</b>	24,124
<b>Other comprehensive loss</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translating foreign operation		<u><b>(761)</b></u>	<u>(121)</u>
<b>Other comprehensive loss for the year</b>		<u><b>(761)</b></u>	<u>(121)</u>
<b>Total comprehensive (loss)/income for the year</b>		<u><b>(3,918)</b></u>	<u>24,003</u>
<b>(Loss)/profit for the year attributable to owners of the Company</b>		<u><b>(3,157)</b></u>	<u>24,124</u>
<b>Total comprehensive (loss)/income for the year attributable to owners of the Company</b>		<u><b>(3,918)</b></u>	<u>24,003</u>
<b>(Loss)/earnings per share for profit attributable to owners of the Company</b>			
Basic and diluted (RMB cents)	13	<u><b>(0.33)</b></u>	<u>3.22</u>

# **CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

*AS AT 31 DECEMBER 2020*

	<i>Notes</i>	<b>2020</b> <b>RMB'000</b>	2019 <i>RMB'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>59,715</b>	62,049
Right-of-use assets		<b>27,494</b>	17,181
Prepayment		<b>5,752</b>	–
Deferred tax assets		<b>385</b>	69
		<b>93,346</b>	79,299
<b>Current assets</b>			
Inventories		<b>17,994</b>	17,651
Trade and bills receivables	<i>14</i>	<b>69,484</b>	84,601
Prepayments, deposits and other receivables		<b>3,542</b>	7,350
Pledged bank deposits		–	2,544
Bank balances and cash		<b>79,641</b>	14,226
		<b>170,661</b>	126,372
<b>Current liabilities</b>			
Trade and bills payables	<i>15</i>	<b>19,946</b>	30,391
Other payables and accruals		<b>5,693</b>	4,465
Deferred income		<b>137</b>	137
Tax payables		<b>196</b>	2,446
Amounts due to shareholders		–	1,378
Bank and other borrowings		–	21,727
		<b>25,972</b>	60,544
<b>Net current assets</b>		<b>144,689</b>	65,828
<b>Total assets less current liabilities</b>		<b>238,035</b>	145,127
<b>Non-current liability</b>			
Deferred income		<b>684</b>	821
<b>Net assets</b>		<b>237,351</b>	144,306
<b>Capital and reserves</b>			
Share capital	<i>16</i>	<b>3,497</b>	670
Reserves		<b>233,854</b>	143,636
<b>Total equity</b>		<b>237,351</b>	144,306

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

## 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, the People’s Republic of China (the “**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.

### 3. APPLICATION OF NEW AND AMENDMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

#### Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied *Amendments to References to the Conceptual Framework* in IFRSs and the following new and amendments to IFRSs issued by the International Accounting Standards Board (“IASB”) for the first time for the preparation of the consolidated financial statements:

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

The application of the *Amendments to References to the Conceptual Framework* in IFRSs and amendments to IFRSs in the current year has had no material impact on the Group’s consolidated financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### New and amendments to IFRSs in issue but not yet effective

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

IFRS 17	Insurance Contracts and the related Amendments <sup>1</sup>
Amendment to IFRS 16	Covid-19-Related Rent Concessions <sup>4</sup>
Amendments to IFRS 3	Reference to the Conceptual Framework <sup>2</sup>
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2 <sup>5</sup>
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to IAS 1	Classification of Liabilities as Current or Non-current and related amendments to International Interpretation 5 (2020) <sup>1</sup>
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use <sup>2</sup>
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract <sup>2</sup>
Amendments to IFRSs	Annual Improvements to IFRSs 2018-2020 <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

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

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Statement of compliance**

The consolidated financial statements has been prepared in accordance with accounting policies which conform with IFRSs issued by the IASB. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“**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:

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
The PRC	<b>132,107</b>	179,006
Overseas	<b>2,334</b>	3,675
	<b><u>134,441</u></b>	<b><u>182,681</u></b>

**(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:

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Company A	<b><u><u>—<sup>Note</sup></u></u></b>	<b><u><u>25,056</u></u></b>

*Note:* The corresponding revenue did not contribute over 10% of the total revenue of the Group.

**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.

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Revenue from contracts with customers:		
<i>Recognised at a point in time</i>		
Sales of faux leather chemicals	<b><u>134,441</u></b>	<b><u>182,681</u></b>

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Bank interest income	1,271	50
Government grants ( <i>note (a)</i> )	2,317	2,017
Sundry income	646	766
	<u>4,234</u>	<u>2,833</u>

*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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Gain on disposal of property, plant and equipment	7	19
Exchange gain	958	6
	<u>965</u>	<u>25</u>

## 9. FINANCE COSTS

	Year ended 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank and other borrowings wholly repayable within five years	486	672



## 10. (LOSS)/PROFIT BEFORE TAX

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Auditors' remuneration ( <i>Note (a)</i> )	756	445
Listing expenses	10,246	11,637
Cost of inventories sold	102,842	120,686
Depreciation and amortisation		
– Depreciation of property, plant and equipment	6,369	6,507
– Depreciation of right-of-use assets	450	391
	<u>6,819</u>	<u>6,898</u>
Less: amount included in cost of sales	<u>(4,268)</u>	<u>(5,120)</u>
	<u>2,551</u>	<u>1,778</u>
(Provision for)/reversal of impairment loss on:		
– trade and bills receivables	(2,355)	136
– other receivables	3	8
Directors' remuneration	1,048	950
Staff costs (excluding directors' remuneration)		
– wages, salaries, allowances and bonus	11,820	10,911
– contributions to retirement benefits schemes	1,404	2,344
	<u>13,224</u>	<u>13,255</u>
Less: amounts included in cost of sales	<u>(5,026)</u>	<u>(4,797)</u>
	<u>8,198</u>	<u>8,458</u>
(Reversal of)/written off on inventories	(125)	156
Research and development expenses	7,453	8,112
Expense relating to short-term lease	330	193
	<u><u>330</u></u>	<u><u>193</u></u>

*Note:*

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

## 11. INCOME TAX EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	685	4,831
Deferred tax	(316)	21
	<hr/>	<hr/>
Total tax charge for the year	<b>369</b>	<b>4,852</b>
	<hr/>	<hr/>

### 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 2020.

### 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 2020 and 2019, 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 RMB51,922,000 and RMB44,441,000 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 RMB7,200,000, dividends to its then shareholders during the year ended 31 December 2019.

The Board does not recommend the payment of any dividend in respect of the year ended 31 December 2020.

### 13. (LOSS)/EARNINGS PER SHARE

The calculation of the basic (loss)/earnings per share during the period is based on the loss for the year attributable to owners of the Company of approximately RMB3,157,000 (2019: profit for the year attributable to owners of the Company of approximately RMB24,124,000) and the weighted average number of ordinary shares in issue during the period of 951,369,863 (2019: 750,000,000, which has been adjusted retrospectively for the effect of the capitalisation issue 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 years ended 31 December 2020 and 2019.

	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>
(Loss)/profit for the attributable to owners of the Company (RMB'000)	<b>(3,157)</b>	24,124
Weighted average number of ordinary shares in issue ('000)	<b>951,370</b>	750,000
Basic (loss)/earning per share (RMB cents)	<b>(0.33)</b>	3.22

### 14. TRADE AND BILLS RECEIVABLES

	<b>As at 31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Trade receivables	<b>52,983</b>	59,732
Less: allowance for impairment	<b>(2,564)</b>	(209)
	<b>50,419</b>	59,523
Bills receivables	<b>19,065</b>	25,078
Total trade and bills receivables – net	<b>69,484</b>	84,601

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

	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Within 30 days	<b>16,395</b>	17,216
31 to 90 days	<b>20,974</b>	32,542
91 to 180 days	<b>9,086</b>	9,241
181 to 365 days	<b>3,973</b>	340
Over 1 year	<b>2,555</b>	393
	<b>52,983</b>	59,732

## 15. TRADE AND BILLS PAYABLES

	As at 31 December	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Trade payables	19,946	21,911
Bills payables	—	8,480
	<u>19,946</u>	<u>30,391</u>
	<b><u>19,946</u></b>	<b><u>30,391</u></b>

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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
Within 30 days	12,571	13,206
31 to 90 days	6,625	8,139
91 to 180 days	255	217
181 to 365 days	416	220
Over 1 year	79	129
	<u>19,946</u>	<u>21,911</u>
	<b><u>19,946</u></b>	<b><u>21,911</u></b>

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

## 16. SHARE CAPITAL

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

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

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 share 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\$275,000 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 offer price of HK\$0.52 per share.

## **17. SUBSEQUENT EVENT**

Save as disclosed in the report, subsequent to 31 December 2020, the following event took place:

On 22 March 2021 (after trading hours of the Stock Exchange), the Company entered into the placing agreement with the placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, up to 200,000,000 new shares to not less than six independent placees at the placing price of HK\$0.240 per placing 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.

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 during the first half year, and have not yet been fully opened up from lockdown in the second quarter. The situation has had 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, resulting in a decrease of approximately RMB31,461,000 or 38.7% in the Company's revenue as compared with that of the same period last year. Since the second half of the year, with the joint efforts of various countries, downstream demand in various industries has recovered. Revenue of the Company for the period reached approximately 83% of its revenue for that of the same period last year. However, the entire industry was impacted by various factors, such as the significant rising of upstream chemical materials prices and the expected negative impacts of the rebounding worldwide pandemic. The outlook in our industry remains challenging.

During the Reporting Period, the Group's revenue decreased by approximately RMB48,240,000 or 26.4% from approximately RMB182,681,000 for the year ended 31 December 2019 to approximately RMB134,441,000 for the year ended 31 December 2020. The decrease in revenue from the Group's business of sales of faux leather chemicals was mainly due to the following factors:

- (1) the global outbreak of the novel coronavirus in 2020 (“**COVID-19 Outbreak**”) has had a strong impact on the global economy and financial markets, where foreign countries had implemented draconian measures to prevent further spread of epidemic including lock-down measures, travel and transportation restrictions etc., and have not been fully resumed as of the end of 2020. This adversely affected the overall economic environment and the consumer market which led to a decrease in the market demand in faux leather manufacturing industries such as apparel, footwear, handbags and luggage, home furnishings and sports equipment. In addition, the lock-down measures adopted by countries in response to COVID-19 Outbreak has had an adverse effect on the production and operation of the Group's downstream customers which subsequently affected the faux leather chemicals manufacturing industry and the Group's revenue;

- (2) the lock-down measures adopted by countries in response to COVID-19 Outbreak and the escalating tension between the United States (the “US”) and the People’s Republic of China (the “PRC”) have had a strong impact on the trading activities and logistics arrangement globally, which affected the performance of the overall manufacturing exports industries and the downstream industries of faux leather manufacturing industry such as apparel, footwear, handbags and luggage, home furnishings and sports equipment. It subsequently affected the overall faux leather manufacturing industry, faux leather chemicals manufacturing industry and the Group’s revenue; and
- (3) the faux leather manufacturing industry was affected by significant increase in upstream chemical materials prices such as petroleum and titanium dioxide, and recurring negative impact from the pandemic rebound.

The Group’s gross profit decreased by RMB30,396,000 or 49.0% from approximately RMB61,995,000 for the year ended 31 December 2019 to approximately RMB31,599,000 for the year ended 31 December 2020.

During the Reporting Period, although the production and operations of the Company were greatly affected by the pandemic, the Company, by active efforts to strengthen our co-operation with outstanding enterprises in the PRC’s faux leather industry, captured growth opportunities related to water-based products, adjusted our product strategies according to the market in a timely manner, and therefore gradually increased our sales of colour chips products. We proactively developed new products and sourced new customers, while at the same time introducing technical teams for various products (such as resin products etc.), intensifying the research and development of relevant products, as well as promoting and making good achievements in various projects such as the workstations for postdoctoral scientific research, internet of things pilot schemes, so as to get ourselves well-prepared for the rebound in business in the coming year and for the future development.

### **Our Business Strategies and Future Prospects**

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

In view of the worldwide spread of the epidemic caused by COVID-19 since January 2020 and the uncertainties in the global economy, the Group expects the business environment in the near future to be faced with huge challenges.



With its solid track record, experienced management team, established brand influence and continuous innovation ability, the Group will be fully prepared for sustainable and healthy development amid such a 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 the shareholders of the Company (the "Shareholders").

## **FINANCIAL REVIEW**

### **Revenue**

Revenue decreased by approximately RMB48,240,000 or 26.4% from approximately RMB182,681,000 for the year ended 31 December 2019 to approximately RMB134,441,000 for the year ended 31 December 2020, primarily due to the decrease in revenue from colour paste, finishes products, which was partially offset by the increase in revenue from colour chips products.

In 2019 and 2020, revenue from colour paste accounted for approximately 44.7% and approximately 33.3%, respectively, of total revenue; revenue from colour chips accounted for approximately 9.1% and approximately 20.6%, respectively, of total revenue; revenue from finishes accounted for approximately 31.6% and approximately 28.0%, respectively, of total revenue; revenue from additives accounted for approximately 1.6% and approximately 3.3%, respectively, of total revenue; and revenue from synthetic resins of the Group accounted for approximately 13.0% and approximately 14.8%, respectively, of total revenue.

The Group mainly sells its products to customers in the PRC. Most of the revenue of the Group was derived from sales in the PRC, which accounted for approximately 98.0% and 98.3%, respectively, of its total revenue for the years ended 31 December 2019 and 2020.

### **Cost of sales**

Cost of sales decreased by approximately RMB17,844,000 or 14.8% from approximately RMB120,686,000 for the year ended 31 December 2019 to approximately RMB102,842,000 for the year ended 31 December 2020, mainly due to the increase in product cost.

## **Gross profit and gross profit margin**

The Group's gross profit decreased by RMB30,396,000 or 49.0% from approximately RMB61,995,000 for the year ended 31 December 2019 to approximately RMB31,599,000 for the year ended 31 December 2020. Gross profit margin decreased to 23.5% for the year ended 31 December 2020 from 33.9% for the year ended 31 December 2019. The decrease in the gross profit margin was mainly due to: (i) the decrease in our overall revenue; (ii) the decrease in the average selling prices of certain of our products; and (iii) the increase in the average purchase prices of raw materials, primarily resulting from the increase in the average purchase prices of polymers, solvents and pigments 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 2020 was approximately RMB4,234,000, while other revenue for the year ended 31 December 2019 was approximately RMB2,833,000. Such change was mainly due to the increase in interest income generated from the listing capital during the Reporting Period, which was increased by approximately RMB1,221,000 as compared with the same period last year.

## **Other gains**

The other gains increased by approximately RMB940,000 from the gains of approximately RMB25,000 for the year ended 31 December 2019 to approximately RMB965,000 for the year ended 31 December 2020, mainly due to the increase in the exchange gain.

## **Selling and distribution expenses**

Selling and distribution expenses for the year ended 31 December 2020 was approximately RMB7,128,000, representing a decrease of approximately RMB370,000 or 4.9% from approximately RMB7,498,000 for the year ended 31 December 2019. The decrease in selling and distribution expenses was mainly due to the decrease in overall sales.

Selling and distribution expenses for the year ended 31 December 2020 accounted for 5.3% (2019: approximately 4.1%) of the revenue of the Group.

## **Administrative and general expenses**

Administrative and general expenses for the year ended 31 December 2020 were approximately RMB19,374,000, representing an increase of approximately RMB3,160,000 or 19.5% from approximately RMB16,214,000 for the year ended 31 December 2019.

The increase in administrative and general expenses was mainly due to the increase in professional services fees for engaging intermediaries after listing.

Administrative and general expenses for the year ended 31 December 2020 accounted for 14.4% (2019: approximately 8.9%) of the revenue of the Group.

### **Finance costs**

Finance costs for the year ended 31 December 2020 were approximately RMB486,000, representing an decrease of approximately RMB186,000 or 27.7% from approximately RMB672,000 for the year ended 31 December 2019. It was mainly due to the decrease in interest expenses of the bank borrowings during the year.

### **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 year ended 31 December 2020 were approximately RMB369,000, representing a decrease of approximately RMB4,483,000 or 92.4% from approximately RMB4,852,000 for the year ended 31 December 2019, mainly due to (i) the listing expenses recorded by the Group (excluding the listing expenses which were one-off in nature), and (ii) decrease in revenue in 2020.

### **(Loss)/profit for the year**

For the year ended 31 December 2020, the Group recorded a net loss of approximately RMB3,157,000, as compared to a net profit of approximately RMB24,124,000 for the year ended 31 December 2019. The loss was mainly due to the incurrence of listing expenses and decrease in revenue during 2020. The adjusted net profit was approximately RMB7,089,000 for the year ended 31 December 2020, as compared to RMB35,761,000 for the same period of last year.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2020, the Group's current assets were approximately RMB170,661,000, mainly comprising cash and bank balances, inventories and trade and bills receivables of approximately RMB79,641,000, RMB17,994,000 and RMB69,484,000 respectively.

The Group's current liabilities were approximately RMB25,972,000, of which approximately RMB19,946,000 was trade and bills payables and approximately RMB5,693,000 was other payables and accruals.

The current ratio (the ratio of current assets to current liabilities) increased from approximately 2.1 times as at 31 December 2019 to approximately 6.6 times as at 31 December 2020. The change in the current ratio was mainly due to the increase in cash from the listing proceeds.

As at 31 December 2020 or the date of this annual report, the Group had no other debt financing commitments, nor was it in breach of any financial covenant.

### **Charge of assets/pledge of assets**

As of 31 December 2020, we did not have any charge of assets or pledge of assets.

### **Borrowings**

As of 31 December 2020, we did not have any outstanding bank loans and other borrowings.

### **Capital expenses**

During the Reporting Period, the Group's capital expenditure was approximately RMB20,553,000, representing an increase of approximately RMB15,407,000 as compared to that of RMB5,146,000 in 2019. Capital expenditure relates primarily to the purchase of plant and equipment, right-of-use asset and prepayment for property, plant and equipment.

### **Cash flows**

The Group's cash was mainly used for operating cost in the PRC, capital expenses and repayment of debts. Taking into account the internal resources 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 may have an adverse effect on its liquidity. As at 31 December 2020, the cash and cash equivalents held by the Group represented mainly bank and cash on hand denominated in Renminbi.

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

	<b>For the year ended</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Net cash generated from operating activities	<b>8,513</b>	7,185
Net cash used in investing activities	<b>(19,072)</b>	(6,051)
Net cash generated from financing activities	<b>76,803</b>	3,181
Net increase in cash and cash equivalents	<b>66,244</b>	4,315
Cash and cash equivalents at the end of the year	<b>79,641</b>	14,226

**(a) *Net cash generated from operating activities***

For the year ended 31 December 2020, net cash generated from operating activities was approximately RMB8,513,000, higher than net cash generated from operating activities of approximately RMB7,185,000 for the year ended 31 December 2019, mainly due to the decrease in working capital occupation such as trade and bills receivables.

**(b) *Net cash used in investing activities***

Net cash used in investing activities was approximately RMB6,051,000 and RMB19,072,000, respectively, for the years ended 31 December 2019 and 2020. Such changes was mainly due to the investment in the purchase of property, plant and equipment and acquisition of land use right in 2020.

**(c) *Net cash generated from financing activities***

Net cash generated from financing activities increased from approximately RMB3,181,000 for the year ended 31 December 2019 to approximately RMB76,803,000 for the year ended 31 December 2020, mainly due to increase in funds raised from listing, which was partially offset by borrowing repayments.

**Capital commitment**

The capital commitments not provided for in the condensed consolidated financial statements as at 31 December 2019 and 31 December 2020 were approximately RMB356,000 and RMB11,486,000 respectively, which represented the purchase of plant and machinery and automation transformation contracts.

**Gearing ratio**

The gearing ratio is the ratio of net debt divided by total equity. Net debt is calculated as total debt net of cash and cash equivalents. As at 31 December 2020, the Group recorded a 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 31 December 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 HKD0.52 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.

## **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.

## **CONTINGENT LIABILITIES**

As at 31 December 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 31 December 2020, the Group did not enter into any financial instruments to hedge foreign exchange.

## **HUMAN RESOURCES**

As at 31 December 2020, the Group had a total of 150 employees in the PRC. The Group offers its employees competitive remuneration packages based on industry practices and the 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.

## **DIVIDEND**

The Board has resolved not to declare the final dividend for the year ended 31 December 2020.

## **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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.

## **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 since the Listing Date. 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 AND REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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 SUBSEQUENT TO REPORTING PERIOD

Save as disclosed in Note 17 to the consolidated financial statements, no important events affecting the Group have occurred after the end of the Reporting Period.

## 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 a new production plant and the purchase of new machinery and equipment; approximately 16.4% of the proceeds will be used for strengthening the automation system; approximately 21.8% of the proceeds 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 31 December 2020, the Company had settled and utilized a total of approximately RMB20.9 million for the following purpose.

	<b>Use of proceeds in the same manner and proportion as stated in the Prospectus <i>RMB million</i></b>	<b>Actual use of proceeds as at 31 December 2020 <i>RMB million</i></b>	<b>Net proceeds unutilized as at 31 December 2020 <i>RMB million</i></b>
Establishment of New Production Plant	43.3	11.6	31.7
Enhancing automation system of our existing Jiande Production Plant	11.9	7.4	4.5
Strengthening our research and development capabilities	15.8	0.5	15.3
General working capital	1.4	1.4	–
	<u>72.4</u>	<u>20.9</u>	<u>51.5</u>



The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions made by the Group at the time of preparing the Prospectus while the actual proceeds were applied based on the development of the Group's business and industry. The unutilised net proceeds have been placed as interest bearing deposits in banks. The Group intends to use them in the same manner and proportions as described in the Prospectus. The expected completion timeline for utilising the remaining unused net proceeds is set out below:

**Expected timeline for utilising the remaining unused net proceeds (Note)**

Establishment of New Production Plant	From 1 January 2021 to 31 December 2022
Enhancing automation system of our existing Jiande Production Plant	From 1 January 2021 to 31 December 2022
Strengthening our research and development capabilities	From 1 January 2021 to 31 December 2022

*Note:* The expected timeline for utilising the remaining unused proceeds is based on the best estimation of the future market conditions made by the Group. It may be subject to change based on the current and future development of market conditions.

The difference between the actual use of net proceeds and the planned use of net proceeds was due to adjustment in the timing of the spending to better suit our growth and business needs.

## **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 2020 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 and the amounts were found to be in agreement. 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.

## **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 2020.

## **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 the Shareholders ("2021 AGM") will be held on Tuesday, 25 May 2021, while the notice and circular convening the 2021 AGM will be published and dispatched to the 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 to attend and vote at the 2021 AGM, the register of members of the Company will be closed from Thursday, 20 May 2021 to Tuesday, 25 May 2021, both days inclusive.

During this period, no transfer of shares will be registered. In order to qualify for attending and voting at the 2021 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 Monday, 24 May 2021.

## **APPRECIATION**

The Board would like to sincerely express its sincere gratitude for shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

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

Hangzhou, PRC  
30 March 2021

*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.*