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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 2021

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 2021 (the “**Period**”), together with the comparative figures for the same period in 2020 (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 Period, revenue of the Group was approximately RMB93,518,000, representing an increase of approximately RMB43,606,000 or 87.4% as compared to the Prior Period.

The gross profit of the Group was approximately RMB16,286,000, representing an increase of approximately RMB4,119,000 or 33.9% as compared to the Prior Period.

The Group recorded a net profit of approximately RMB8,979,000, representing an increase of approximately RMB15,647,000 as compared to the Prior Period. Such turnaround from net loss to net profit was mainly due to the absence of listing expenses in 2021 and the increased revenue.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OF LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
	Notes	(Unaudited)	(Unaudited)
Revenue	5	93,518	49,912
Cost of sales		<u>(77,232)</u>	<u>(37,745)</u>
Gross profit		16,286	12,167
Other revenue	6	1,721	2,694
Other gains/(losses)	7	2,406	(466)
Net gain on financial assets at fair value through profit or loss		642	—
Selling and distribution expenses		(2,962)	(2,284)
Administrative and general expenses		(8,680)	(7,495)
Finance costs	8	—	(416)
Listing expenses		<u>—</u>	<u>(10,003)</u>
Profit/(loss) before tax	9	9,413	(5,803)
Income tax expenses	10	(434)	(865)
Profit/(loss) for the period attributable to owners of the Company		<u>8,979</u>	<u>(6,668)</u>
Other comprehensive (loss)/gain			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange difference on translating foreign operation		<u>(2,309)</u>	<u>535</u>
Other comprehensive (loss)/gain for the period		<u>(2,309)</u>	<u>535</u>
Total comprehensive income/(loss) for the period attributable to owners of the Company		<u>6,670</u>	<u>(6,133)</u>
Earnings/(Loss) per share attributable to owners of the Company			
Basic and diluted (RMB cents)	11	<u>0.82</u>	<u>(0.74)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	13	68,318	59,715
Right-of-use assets		27,281	27,494
Prepayment	15	5,752	5,752
Investment in an associate		3,000	–
Deferred tax assets		482	385
		<u>104,833</u>	<u>93,346</u>
Current assets			
Inventories		31,611	17,994
Trade and bills receivables	14	84,132	69,484
Prepayments, deposits and other receivables	15	2,373	3,542
Financial assets at fair value through profit or loss		20,199	–
Tax recoverable		576	–
Bank balances and cash		75,521	79,641
		<u>214,412</u>	<u>170,661</u>
Current liabilities			
Trade and bills payables	16	31,996	19,946
Other payables and accruals	17	3,516	5,693
Deferred income		137	137
Tax payables		–	196
		<u>35,649</u>	<u>25,972</u>
Net current assets		<u>178,763</u>	144,689
Total assets less current liabilities		<u>283,596</u>	238,035
Non-current liability			
Deferred income		616	684
Net assets		<u>282,980</u>	<u>237,351</u>
Capital and reserves			
Share capital	20	4,152	3,497
Reserves		278,828	233,854
Total equity		<u>282,980</u>	<u>237,351</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company						Total equity RMB'000
	Share Capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000 (Note)	Exchange reserve RMB'000	Retained earnings RMB'000	
At 1 January 2020	670	35,665	61,274	11,343	(121)	35,475	144,306
Loss and total comprehensive loss for the year	–	–	–	–	–	(6,668)	(6,668)
Other comprehensive loss for the year	–	–	–	–	535	–	535
Total comprehensive loss for the year	–	–	–	–	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
At 1 January 2021	3,497	128,416	62,659	12,174	(882)	31,487	237,351
Loss and total comprehensive loss for the year	–	–	–	–	–	8,979	8,979
Other comprehensive loss for the year	–	–	–	–	(2,309)	–	(2,309)
Total comprehensive loss for the year	–	–	–	–	(2,309)	8,979	6,670
Transfer to statutory reserve	–	–	–	611	–	(611)	–
Issue of shares under placing (Note 20(d))	655	39,561	–	–	–	–	40,216
Transaction costs attributable to issue of shares under placing	–	(1,257)	–	–	–	–	(1,257)
At 30 June 2021 (unaudited)	4,152	166,720	62,659	12,785	(3,191)	39,855	282,980

Note: 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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
	Notes	(Unaudited)	(Unaudited)
		RMB'000	RMB'000
Net cash used in operating activities		<u>(7,508)</u>	<u>(11,939)</u>
Investing activities			
Purchases of items of property, plant and equipment		(12,027)	(978)
Proceeds from disposal of property, plant and equipment		–	16
Decrease in pledged bank deposits		–	704
Purchases of financial assets at fair value			
through profit or loss	22	(20,199)	–
Acquisition of investment in an associate		(3,000)	–
Interest received		<u>–</u>	<u>206</u>
Net cash used in investing activities		<u>(35,226)</u>	<u>(52)</u>
Financing activities			
Repayment of bank and other borrowings		–	(10,873)
Proceed from issue of shares under global offering		–	117,789
Proceed from issue of shares under placing		40,216	–
Transaction costs attributable to issue of shares under			
Global Offering		–	(18,822)
Transaction costs attributable to issue of shares under			
placing		(1,257)	–
Interest paid		<u>–</u>	<u>(416)</u>
Net cash generated from financing activities		<u>38,959</u>	<u>87,678</u>
Net (decrease)/increase in cash and cash equivalents		(3,775)	75,687
Cash and cash equivalents at the beginning of the year		79,641	14,226
Effect of foreign exchange rate changes		<u>(345)</u>	<u>661</u>
Cash and cash equivalents at the end of the year		<u>75,521</u>	<u>90,574</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL INFORMATION

Sunlight Technology Holdings Limited (the “**Company**” and together with its subsidiaries, the “**Group**”) 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 was changed to Sunlight Technology Co., Ltd. and subsequently to Sunlight Technology Holdings Limited on 9 May 2019. The registered office address is at 89 Nexus Way, Camana Bay, Grand Cayman KY-9009, Cayman Islands. The head office and principal place of the Group are located at No.2 Jiangshan Road, Meicheng Town, Jiande County, Hangzhou City, Zhejiang Province, PRC.

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, an executive director and a controlling shareholder of the Company.

The Company is an investment holding company and its subsidiaries 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 (“**RMB**”), which is the presentation currency of the Company. All values are rounded to the nearest thousand (“**RMB’000**”) except otherwise indicated. The consolidated financial statements are presented in RMB, which is different from the Company’s functional currency of Hong Kong dollars (“**HK\$**”). The directors of the Company adopted RMB as the presentation currency as the Group’s operating activities are carried out in the People’s Republic of China (“**PRC**”).

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 the section headed “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 shareholders of the Company before and after the Reorganisation. Accordingly, the consolidated financial statements have been prepared on the basis of applying the principles of merger accounting as if the Reorganisation had been completed at the beginning of the reporting period.

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

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

3. APPLICATION OF NEW AND 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 IFRS 9, IAS 39, IFRS 7,
IFRS 4 and IFRS 16

Interest Rate Benchmark Reform – Phase 2

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.

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/(loss) after 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 is 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	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
The PRC	91,544	48,996
Overseas	1,974	916
	93,518	49,912

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 periods.

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
<i>Recognised at a point in time</i>		
Sales of faux leather chemicals	93,518	49,912

The Group has applied the practical expedient under IFRS 15 so that the 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.

6. OTHER REVENUE

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	564	232
Government grant (<i>Note</i>)	68	2,124
Sundry income	162	338
Sales of raw materials	927	—
	<u>1,721</u>	<u>2,694</u>

Note: 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 GAINS/(LOSSES)

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Provision for impairment loss on trade and bills receivables	(651)	(473)
Gain on disposal of property, plant and equipment	—	7
Exchange gain	3,057	—
	<u>2,406</u>	<u>(466)</u>

8. FINANCE COSTS

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on bank and other borrowings wholly repayable within five years	—	416

9. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Directors' remuneration	406	434
Staff costs (excluding directors' remuneration)		
– wages, salaries, allowances and bonus	6,057	5,536
– contributions to retirement benefits schemes	1,167	443
	<u>7,630</u>	<u>6,413</u>
Less: amounts included in cost of sales	(2,322)	(2,120)
	<u>5,308</u>	<u>4,293</u>
Cost of inventories recognised as an expense	77,231	37,745
Research and development expenses	3,908	3,250
Depreciation of property, plant and equipment	3,264	3,167
Depreciation of right-of-use assets	214	195
Listing expenses	–	10,003
	<u><u>–</u></u>	<u><u>10,003</u></u>

10. INCOME TAX EXPENSES

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
PRC Enterprise Income Tax (“EIT”)		
– Current income tax	531	936
Deferred tax	(97)	(71)
	<u>434</u>	<u>865</u>
Total tax charge for the period	<u><u>434</u></u>	<u><u>865</u></u>

The PRC

The income tax provision of the Group in respect of its operations in the PRC was calculated at a 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 Material Co., Ltd* (浙江深藍新材料科技有限公司) (“Zhejiang Sunlight”) is approved as a “high and new technology enterprise” and accordingly, it is subject to a reduced preferential corporate income tax rate of 15% for the reporting period.

* English name for identification purpose only

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 years ended 31 December 2020 and 2019.

Withholding Tax in Mainland China (“WHT”)

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

As at 31 June 2021, 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 RMB57,424,000 (31 December 2020: RMB51,922,000) 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 difference will not reverse in the foreseeable future.

11. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share during the period is based on the profit for the period attributable to owners of the Company of approximately RMB8,979,000 (six months ended 30 June 2020: loss of approximately RMB6,668,000) and the weighted average number of ordinary shares in issue during the period of 1,091,713,000 (six months ended 30 June 2020: 902,473,000, which has been adjusted retrospectively for the effect of the capitalisation issue as detailed in Note 20(b) as if the capitalisation issue had been effective since 1 January 2019). Diluted earnings/(loss) per share were same as the basic earnings/(loss) per share as there were no potential dilutive ordinary shares in issue during the six months ended 30 June 2021 and 2020.

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to owners of the Company (RMB'000)	8,979	(6,668)
Weighted average number of ordinary shares ('000)	1,091,713	902,473
Basic earnings/(loss) per share (RMB cents)	<u>0.82</u>	<u>(0.74)</u>

Number of shares

	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	951,370	–
Movement during the year	<u>140,343</u>	<u>902,473</u>
Weighted average number of ordinary shares for the purpose of diluted loss per share	<u>1,091,713</u>	<u>902,473</u>

12. DIVIDENDS

The Board does not declare the payment of an interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil).

13. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired property, plant and equipment at a cost of approximately RMB12,027,000 (six months ended 30 June 2020: RMB978,000).

14. TRADE AND BILLS RECEIVABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade receivables	72,745	52,983
Less: provision for impairment	(3,215)	(2,564)
	<u>69,530</u>	<u>50,419</u>
Bills receivables	<u>14,602</u>	<u>19,065</u>
Total trade and bills receivables – net	<u><u>84,132</u></u>	<u><u>69,484</u></u>

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

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 30 days	20,400	16,395
31 to 90 days	32,013	20,974
91 to 180 days	9,763	9,086
181 to 365 days	7,729	3,973
Over 1 year	2,840	2,555
	<u><u>72,745</u></u>	<u><u>52,983</u></u>

As at 30 June 2021 and 2020, all bills receivables are with a maturity period of less than 6 months.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Current		
Other receivables	251	4
Prepayment	<u>2,122</u>	<u>3,538</u>
	<u><u>2,373</u></u>	<u><u>3,542</u></u>
Non-current		
Prepayment for property, plant and equipment	<u><u>5,752</u></u>	<u><u>5,752</u></u>

16. TRADE AND BILLS PAYABLES

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Trade payables	17,857	19,946
Bills payables	14,139	—
	<u>31,996</u>	<u>19,946</u>

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 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Within 30 days	12,076	12,571
31 to 90 days	5,531	6,625
91 to 180 days	—	255
181 to 365 days	—	416
Over 1 year	250	79
	<u>17,857</u>	<u>19,946</u>

As at 30 June 2021 and 2021, all bills payables are with a maturity period of less than 6 months.

17. OTHER PAYABLES AND ACCRUALS

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Accrued staff costs	1,286	1,035
Accrued expenses and other payables	2,180	4,426
Contract liabilities	50	232
	<u>3,516</u>	<u>5,693</u>

18. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders were non-trade nature, unsecured, interest-free and repayable on demand.

19. SHARE OPTION SCHEME

During the six months ended 30 June 2021, the Company did not adopt any share option scheme and there were no outstanding share options.

No share options were granted or exercised under any share option scheme during the period ended 30 June 2021 and 31 December 2020 and there were no outstanding share options as at the period ended 30 June 2021 and 31 December 2020.

20. SHARE CAPITAL

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

	Number of shares	Share Capital RMB'000
Authorised:		
At 1 January 2020, ordinary share of US\$0.001 each	1,000,000,000	6,700
Share subdivision (<i>Note (a)</i>)	1,000,000,000	—
At 31 December 2020, 1 January 2021 and 30 June 2021 (Unaudited), ordinary share of US\$0.0005 each	2,000,000,000	6,700
At 1 January 2020, ordinary share of US\$0.001 each	100,000,000	670
Share subdivision (<i>Note (a)</i>)	100,000,000	—
Capitalisation issue (<i>Note (b)</i>)	550,000,000	1,944
Issue of new shares under Global Offering (<i>Note (c)</i>)	250,000,000	883
At 31 December 2020 and 1 January 2021, ordinary share of US\$0.0005 each	1,000,000,000	3,497
Placing new shares (<i>Note (d)</i>)	200,000,000	655
At 30 June 2021 (Unaudited), ordinary share of US\$0.0005 each	1,200,000,000	4,152

Notes:

- (a) 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.
- (b) 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
- (c) The Company was successfully listed on the Stock Exchange on 12 March 2020 by way of the Global Offering of 25,000,000 public offer shares and 225,000,000 placing shares respectively at the offer price of HK\$0.52 per share.
- (d) On 9 April 2021, the Company has completed the placing of 200,000,000 new shares to not less than six independent placees at the placing price of HK\$0.240 per placing share.

21. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the reporting period:

Name of related parties	Relationship
Mr. Chen Hua	A director and a controlling shareholder of the Company
Hangzhou Qiyue Investment Management Co., Ltd.* (杭州啟越投資管理有限公司) (formerly known as Deqing Qiyue Investment Management Co., Ltd.*) (前名為：德清啟越投資管理有限公司)	A company is beneficially owned as to 100% by Mr. Chen Hua

* English name is for identification purpose only.

(a) Recurring transaction

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Rental expenses to a related party		
– Hanzhou Qiyue Investment Management Co., Ltd.	165	165

During 2020 and 2021, the Group entered into lease agreement and supplemental lease agreement with Hangzhou Qiyue Investment Management Co., Ltd. for a term commencing on 1 June 2019 and ending on 31 December 2020; and 1 January 2020 and ending on 30 June 2020; and 1 July 2020 and ending on 31 December 2020; and 1 January 2021 and ending on 30 June 2021 for the lease of the leased premises (collectively, the “**Lease Agreement**”). The rent payable under the Lease Agreement was determined with reference to the prevailing market rent for similar properties at the same development and in neighbouring areas at which the Leased Premises are located and confirmed by the independent professional valuer that the rent payable under the Lease Agreement is fair and reasonable and consistent with the market rent for similar premises in similar locations. The transaction contemplated under the Lease Agreement is fully exempt from shareholders’ approval and all disclosure requirements under Chapter 14A of the Rules Governing the Listing Securities on the Stock Exchange (the “**Listing Rules**”).

(b) Compensation of key management personnel

	Six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Salaries, allowances and benefits in kind	761	903
Contributions to retirement benefits schemes	117	68
	878	971

22. COMMITMENTS

Capital commitments of the Group as at 30 June 2021 and 31 December 2020 not provided for in the condensed consolidated financial statements were as follows:

Capital Commitments

	As at 30 June 2021 <i>RMB'000</i> (Unaudited)	As at 31 December 2020 <i>RMB'000</i> (Audited)
Contracted but not provided for		
– Purchase of property, plant and equipment	11,468	11,486

23. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities of the Group recorded at amortised cost in the condensed consolidated financial statements at the end of the reporting period approximate their fair values as these financial instruments are short term in nature.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND PROSPECTS

The Group's Overall Business and Financial Performance

The Group is 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 its own brand.

In 2020, the epidemic of novel coronavirus (“COVID-19”) erupted around the world. The global industrial chain was hit by the shocks comprehensively. The downstream industries and consumer markets of the Company 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. During the Period, due to the ongoing huge impact of COVID-19, the global economic environment remained complicated, severe and full of uncertainties. Although vaccination has been gradually rolled out with the joint efforts of various countries, and downstream and consumer demands in various industries have recovered, the prospect remains challenging as the entire industry is subject to factors such as the substantial increase in price of some upstream raw materials and the expected negative impact of the recurring global epidemic.

During the Period, the Group's revenue increased by approximately RMB43,606,000 or 87.4% to approximately RMB93,518,000 from approximately RMB49,912,000 for the six months ended 30 June 2020.

The Group's gross profit increased by RMB4,119,000 or 33.9% to approximately RMB16,286,000 for the six months ended 30 June 2021 from approximately RMB12,167,000 for the six months ended 30 June 2020.

During the Period, faced with the complex and volatile macroeconomic environment, internally, the Company strengthened its management, improved efficiency, reduced costs and fees, cut down unnecessary expenses and adjusted inventory levels in a timely manner to respond to the upstream and downstream markets while advancing information-based management and automation-oriented transformation of production in an orderly manner. During the year, the Group's various business modules had been incorporated into the Kingdee Cloud system with an aim to build the cornerstone of digital development. Externally, the Group adjusted its production and operation plans in a timely manner according to market changes, gradually increased its production and sales of colour chips products, and actively cooperated with water-based material manufacturers. In terms of research and development, it actively introduced technical backbones in products, such as finishes, synthetic resins, and water-based resins, so as to improve the software and hardware standards of the research and development center and increase efforts in product 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 its product portfolio and geographical coverage. The Group will continue to expand the research and development center, improve the professionalism of the technical team, promote the development and sales of products, such as finishes, synthetic resins, and water-based resins, and strengthen internal management to prepare for the complex market environment, while actively promoting the production automation and informatization, so as to lay a foundation for long-term development.

In view of the severe global epidemic situation caused by COVID-19, the complication and volatility of the global political and economic macro environment, and the slow recovery of the global economy, the Group expects that the operating environment in the near future will be severely challenging.

With its solid track record, experienced management team and innovative products, the Group will be fully prepared for sustainable and healthy development in 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 shareholders.

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by approximately RMB43,606,000 or 87.4% from approximately RMB49,912,000 for the six months ended 30 June 2020 to approximately RMB93,518,000 for the six months ended 30 June 2021, primarily due to the gradual recovery of downstream and consumer demands in various major industries from COVID-19.

For the six months ended 30 June 2020 and 2021, revenue from colour paste accounted for approximately 35.1% and 37.9% respectively of the total revenue, revenue from colour chips accounted for 19.3% and 21.0% respectively of the total revenue, revenue from finishes accounted for approximately 29.0% and 21.8% respectively of the total revenue, and revenue from additives accounted for approximately 3.2% and 5.5% respectively of the total revenue, while revenue from the Group's synthetic resins accounted for approximately 13.4% and 13.8% 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 98.2% and 97.9% of its total revenue for the six months ended 30 June 2020 and 2021, respectively.

Cost of sales

Cost of sales increased by approximately RMB39,487,000 or 104.6% from approximately RMB37,745,000 for the six months ended 30 June 2020 to approximately RMB77,232,000 for the six months ended 30 June 2021. This was mainly due to the impact of the overall increase in revenue.

Gross profit and gross profit margin

The Group's gross profit increased by approximately RMB4,119,000 or 33.9% to approximately RMB16,286,000 for the six months ended 30 June 2021 from approximately RMB12,167,000 for the six months ended 30 June 2020. Gross profit margin decreased to 17.4% for the six months ended 30 June 2021 from 24.4% for the six months ended 30 June 2020. The decrease in gross profit margin was mainly due to the increased costs of raw materials.

Other gains/(losses)

Other gains increased by approximately RMB2,872,000 from other losses of approximately RMB466,000 for the six months ended 30 June 2020 to other gains of approximately RMB2,406,000 for the six months ended 30 June 2021. Such increase was mainly due to the profits and losses in foreign exchange.

Other revenue

Other revenue mainly represented government grants and bank interest income. The Group's other revenue for the six months ended 30 June 2021 was approximately RMB1,721,000, while other revenue for the six months ended 30 June 2020 was approximately RMB2,694,000. The decrease was mainly due to the receipt of government listing subsidies during the six months ended 30 June 2020, while no such subsidies were received during the Period.

Selling and distribution expenses

Selling and distribution expenses for the six months ended 30 June 2021 were approximately RMB2,962,000, representing an increase of approximately RMB678,000 or 29.7% from approximately RMB2,284,000 for the six months ended 30 June 2020. The increase in selling and distribution expenses was mainly due to the increase in sales and marketing activities.

Selling and distribution expenses for the six months ended 30 June 2021 accounted for approximately 3.2% (Prior Period: approximately 4.6%) of the revenue of the Group.

Administrative and general expenses

Administrative and general expenses for the six months ended 30 June 2021 were approximately RMB8,680,000, representing an increase of approximately RMB1,185,000 or 15.8% from approximately RMB7,495,000 for the six months ended 30 June 2020.

Administrative and general expenses for the six months ended 30 June 2021 accounted for 9.3% (Prior Period: approximately 15.0%) of the revenue of the Group.

Finance costs

Finance costs for the six months ended 30 June 2021 were approximately RMB nil, as compared with approximately RMB416,000 for the six months ended 30 June 2020. It was mainly due to the decrease in bank loans of the Group during the Period.

Income tax expenses

Zhejiang Sunlight, a subsidiary of the Company in the PRC, is recognised as a High and New Technology Enterprise and entitled to a preferential tax rate of 15% for the PRC Enterprise Income tax. Income tax expenses for the six months ended 30 June 2021 were approximately RMB434,000, representing a decrease of approximately RMB431,000 or 49.8% from approximately RMB865,000 for the six months ended 30 June 2020, mainly due to the changes in the income tax policies.

Profit for the Period

For the six months ended 30 June 2021, the Group recorded a net profit of approximately RMB8,979,000, representing an increase of approximately RMB15,647,000, from a net loss of approximately RMB6,668,000 for the six months ended 30 June 2020. The increase in net profit was mainly due to the increase in revenue and the absence of listing expenses in 2021.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, the Group's current assets were approximately RMB214,412,000, mainly comprising cash and bank balances (including pledged bank deposits), inventories and trade and bills receivables of approximately RMB75,521,000, RMB31,611,000 and RMB84,132,000 respectively. The Group's current liabilities were approximately RMB35,649,000, of which RMB31,996,000 was trade and bills payables. The current ratio (the ratio of current assets to current liabilities) decreased from approximately 6.6 times as at 31 December 2020 to approximately 6.0 times as at 30 June 2021.

As at 30 June 2021, 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 RMB12,027, representing an increase of RMB11,049 as compared to that of RMB978,000 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 the Group's cash flows for the periods indicated:

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(7,508)	(11,939)
Net cash used in investing activities	(35,226)	(52)
Net cash from financing activities	38,959	87,678
Net (decrease)/increase in cash and cash equivalents	(3,775)	75,687
Cash and cash equivalents at the beginning of the period	79,641	14,226
Cash and cash equivalents at the end of the period	75,521	90,574

Cash Flows used in Operating Activities

For the Period, net cash used in operating activities was approximately RMB7,508,000, which was lower than the net cash used in operating activities for the same period in 2020 of approximately RMB11,939,000, mainly due to (i) profit before tax of approximately RMB9,413,000; (ii) increase in trade and bills payables of approximately RMB12,050,000; which was partially offset by (iii) increase in inventories of approximately RMB13,617,000; and (iv) increase in trade and bills receivables of approximately RMB14,684,000.

Cash Flows used in Investing Activities

Net cash used in investing activities was approximately RMB52,000 for the six months ended 30 June 2020 and had increased to approximately RMB35,226,000 for the Period, mainly due to an increase of RMB11,049,000 in purchases of items of property, plant and equipment, and an investment in RMB20,199,000 in financial assets at fair value through profit or loss.

Cash Flows from Financing Activities

Net cash used in financing activities was approximately RMB87,678,000 for the six months ended 30 June 2020 and decreased to net cash generated from financing activities of approximately RMB38,959,000 for the Period, mainly due to (i) the share issue under global offering in the Prior Period; which partially offset by (ii) the placing of shares for the Period.

Capital Commitments

The capital commitments not provided for in the condensed consolidated financial statements as at 30 June 2021 and 31 December 2020 were RMB11,468,000 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 30 June 2021, the Group recorded a net cash position (31 December 2020: the Group recorded a net cash position), as a result of the reduction in bank and other borrowings and increase in cash from the listing and placing proceeds.

Capital structure

As at 30 June 2021, the Company had a total of 1,200,000,000 Shares of US\$0.0005 each in issue. The Shares of the Company were listed on the Stock Exchange on 12 March 2020 by way of Global Offering and 250,000,000 Shares were issued at a price of HK\$0.52 per Share. On 9 April 2021, the Company completed the placing of 200,000,000 Shares. The Group generally finances its daily operations with internally generated resources and banking facilities.

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not record any material hire purchase commitments, contingent liabilities, guarantees or litigations against it.

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 2021, the Group did not enter into any financial instruments to hedge foreign exchange.

HUMAN RESOURCES

As at 30 June 2021, the Group had a total of 155 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 high-performing employees.

As required by the PRC laws and regulations, the Group participates in various employee social security plans for its 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 were listed on the Main Board of the Stock Exchange on 12 March 2020. Net proceeds from the Global Offering were 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, (i) approximately 60.0% of the proceeds from the Global Offering will be used for the construction of new production plant and purchase of new machinery and equipment; (ii) approximately 16.4% of the proceeds will be used for strengthening the automation system; (iii) 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 (iv) approximately 1.8% of the proceeds will be used as general operating costs.

As at 30 June 2021, the Company had settled and utilised a total of approximately RMB35 million for the following purpose:

	Use of proceeds in the same manner and proportion as stated in the Prospectus <i>RMB million</i>	Actual use of proceeds as at 30 June 2021 <i>RMB million</i>	Net proceeds unutilised as at 30 June 2021 <i>RMB million</i>
Establishment of New Production Plant	43.3	24.7	18.6
Enhancing automation system of our existing Jiande Production Plant	11.9	8.0	3.9
Strengthening our research and development capabilities	15.8	0.9	14.9
General working capital	1.4	1.4	–
	<u>72.4</u>	<u>35.0</u>	<u>37.4</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.

Given the continuous development of the COVID-19 situation, the Company will continue to evaluate and adopt a prudent and flexible approach for utilising the Net Proceeds effectively and efficiently for the long-term benefit and development of the Group.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information publicly available to the Company and to the knowledge of the Directors, the Company had 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 2021 to shareholders of the Company (the “**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 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 to 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 CG 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

There are no significant subsequent events undertaken by the Group after the Period and up to the date of this announcement which require 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 are (i) to be primarily responsible for making recommendations to the Board on the appointment, re-appointment 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, 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 thereof.

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. 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 2021.

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

Hangzhou, PRC
27 August 2021

As at the date hereof, the Board comprises Ms. Liu Jing, Mr. Chen Hua, Ms. Zhu Jianqin, Mr. Li Xiangyu and Ms. Wong Yee Nor as executive Directors; Mr. Tian Jingyan, Mr. Ho Ho Tung Armen and Ms. Yu Zhen as independent non-executive Directors.