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SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED

舜宇光學科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2382.HK)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

RESULT HIGHLIGHTS

- For the six months ended 30 June 2021, the Group's unaudited revenue was approximately Renminbi (“**RMB**”)19,833.4 million, representing an increase of approximately 5.1% compared to the corresponding period of last year.
- For the six months ended 30 June 2021, the Group's gross profit was approximately RMB4,946.4 million, representing an increase of approximately 34.5% compared to the corresponding period of last year. The gross profit margin was approximately 24.9%, which was approximately 5.4 percentage points higher than that of the corresponding period of last year.
- For the six months ended 30 June 2021, the Group's net profit was approximately RMB2,706.6 million, representing an increase of approximately 52.4% compared to the corresponding period of last year. The net profit margin was approximately 13.6%.

FINANCIAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) of Sunny Optical Technology (Group) Company Limited (the “**Company**”) presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2021, together with the comparative figures for the corresponding period in the year 2020 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

		For the six months ended 30 June	
	<i>NOTES</i>	2021	2020
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	19,833,436	18,863,768
Cost of sales		(14,887,037)	(15,187,497)
Gross profit		4,946,399	3,676,271
Other income	4	258,656	193,738
Other gains and losses	5	8,313	(79,112)
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(14,492)	(7,328)
Selling and distribution expenses		(155,502)	(136,000)
Research and development expenditure		(1,320,775)	(1,067,980)
Administrative expenses		(377,226)	(333,430)
Share of results of associates		20	(187)
Finance costs		(116,418)	(122,544)
Profit before tax		3,228,975	2,123,428
Income tax expense	6	(522,344)	(347,299)
Profit for the period	7	2,706,631	1,776,129
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		(4,675)	3,431
Other comprehensive income for the period		(4,675)	3,431
Total comprehensive income for the period		2,701,956	1,779,560

		For the six months ended 30 June	
	<i>NOTES</i>	2021	2020
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		2,687,979	1,749,024
Non-controlling interests		18,652	27,105
		<u>2,706,631</u>	<u>1,776,129</u>
 Total comprehensive income for the period attributable to:			
Owners of the Company		2,685,332	1,751,066
Non-controlling interests		16,624	28,494
		<u>2,701,956</u>	<u>1,779,560</u>
 Earnings per share – Basic (<i>RMB cents</i>)	<i>8</i>	245.92	159.84
– Diluted (<i>RMB cents</i>)	<i>8</i>	245.54	159.62

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2021

	<i>NOTES</i>	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10(a)</i>	7,792,987	7,513,193
Right-of-use assets	<i>10(b)</i>	510,724	480,005
Investment properties	<i>10(c)</i>	38,712	40,907
Intangible assets		335,031	363,137
Interests in associates		48,013	1,953
Deferred tax assets	<i>11</i>	279,686	207,332
Deposits paid for acquisition of property, plant and equipment	<i>12</i>	277,519	359,086
Deposits paid for acquisition of land use right	<i>12</i>	25,120	–
Equity instruments at fair value through other comprehensive income (“FVTOCI”)		173,457	134,609
Financial assets at fair value through profit or loss (“FVTPL”)	<i>13(a)(b)</i>	165,692	206,236
Time deposits		500,000	500,000
Goodwill		2,119	2,119
		10,149,060	9,808,577
CURRENT ASSETS			
Inventories	<i>15</i>	6,140,261	5,783,071
Trade and other receivables and prepayment	<i>16</i>	8,437,860	8,212,025
Derivative financial assets	<i>14</i>	12,746	21,307
Financial assets at FVTPL	<i>13(c)(d)</i>	8,420,219	8,480,186
Debt instruments at amortised cost		52,015	52,823
Pledged bank deposits		4,712	3,438
Short term fixed deposits		1,113,194	234,917
Bank balances and cash		2,334,819	2,841,771
		26,515,826	25,629,538

	<i>NOTES</i>	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	<i>18</i>	10,194,012	10,733,364
Amounts due to related parties		8,323	6,996
Derivative financial liabilities	<i>14</i>	6,152	101,888
Bank borrowings		2,169,015	2,070,611
Lease liabilities		53,173	43,580
Tax payable		241,178	314,804
Contract liabilities		89,507	131,191
Deferred income		33,472	8,695
		12,794,832	13,411,129
NET CURRENT ASSETS			
		13,720,994	12,218,409
TOTAL ASSETS LESS CURRENT LIABILITIES			
		23,870,054	22,026,986
NON-CURRENT LIABILITIES			
Deferred tax liabilities	<i>11</i>	999,073	888,809
Derivative financial liabilities	<i>14</i>	6,213	4,782
Long term payables	<i>18</i>	228,848	245,636
Deferred income		128,696	68,855
Lease liabilities		122,875	96,899
Bonds payable		3,861,621	3,895,888
		5,347,326	5,200,869
NET ASSETS			
		18,522,728	16,826,117
CAPITAL AND RESERVES			
Share capital	<i>19</i>	105,163	105,163
Reserves		18,172,668	16,492,061
Equity attributable to owners of the Company		18,277,831	16,597,224
Non-controlling interests		244,897	228,893
TOTAL EQUITY			
		18,522,728	16,826,117

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 21 September 2006 as an exempted company under the Companies, Law Chapter 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands and its shares have been listed on the Stock Exchange of Hong Kong Limited with effect from 15 June 2007.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“**HKAS 34**”) *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”).

The condensed consolidated financial statements are presented in RMB, which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39 HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of optical and optical-related products		
Mobile phone related products	15,852,409	16,627,287
Automotive related products	1,613,885	936,259
Other lens sets	213,643	243,814
Digital camera related products	468,268	228,702
Optical instruments	122,215	81,458
Other spherical lens and plane products	90,060	69,577
Digital video lens	6,949	18,756
Other products	1,466,007	657,915
Total	<u>19,833,436</u>	<u>18,863,768</u>

	For the six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Geographical markets		
The People's Republic of China (the "PRC" or "China")	15,702,317	16,291,135
Asia (except China)	3,061,860	1,923,805
Europe	602,391	356,290
North America	442,945	282,502
Others	23,923	10,036
Total	<u>19,833,436</u>	<u>18,863,768</u>
Timing of revenue recognition		
A point in time	<u>19,833,436</u>	<u>18,863,768</u>

3B. SEGMENT INFORMATION

Information reported to the Board of Directors, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance, focuses on types of goods delivered because the management has chosen to organise the Group among different major products. No operating segments identified by chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating segments under HKFRS 8 *Operating Segments* are as follows:

1. Optical Components;
2. Optoelectronic Products; and
3. Optical Instruments.

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the six months ended 30 June 2021

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Eliminations <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Revenue						
External sales	4,343,858	15,307,843	181,735	19,833,436	–	19,833,436
Inter-segment sales	1,705,666	8,431	22,082	1,736,179	(1,736,179)	–
Total	<u>6,049,524</u>	<u>15,316,274</u>	<u>203,817</u>	<u>21,569,615</u>	<u>(1,736,179)</u>	<u>19,833,436</u>
Segment profit	<u>1,627,695</u>	<u>1,665,208</u>	<u>24,370</u>	<u>3,317,273</u>	<u>–</u>	<u>3,317,273</u>
Share of results of associates						20
Unallocated income						40,588
Unallocated expenses						(128,906)
Profit before tax						<u>3,228,975</u>

For the six months ended 30 June 2020

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Eliminations <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Revenue						
External sales	3,863,506	14,873,816	126,446	18,863,768	–	18,863,768
Inter-segment sales	842,155	9,234	46,539	897,928	(897,928)	–
Total	<u>4,705,661</u>	<u>14,883,050</u>	<u>172,985</u>	<u>19,761,696</u>	<u>(897,928)</u>	<u>18,863,768</u>
Segment profit	<u>1,286,394</u>	<u>960,047</u>	<u>20,705</u>	<u>2,267,146</u>	<u>–</u>	<u>2,267,146</u>
Share of results of associates						(187)
Unallocated income						10,122
Unallocated expenses						(153,653)
Profit before tax						<u>2,123,428</u>

As at 30 June 2021

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Assets				
Trade receivables	1,866,619	4,629,706	74,306	6,570,631
Bill receivables	705,388	508,087	3,114	1,216,589
Inventories	1,678,693	4,370,128	91,440	6,140,261
Total segment assets	<u>4,250,700</u>	<u>9,507,921</u>	<u>168,860</u>	<u>13,927,481</u>
Unallocated assets				<u>22,737,405</u>
Consolidated assets				<u>36,664,886</u>
Liabilities				
Trade payables	1,724,230	3,963,334	90,087	5,777,651
Note payables	438,635	1,377,252	20,285	1,836,172
Total segment liabilities	<u>2,162,865</u>	<u>5,340,586</u>	<u>110,372</u>	<u>7,613,823</u>
Unallocated liabilities				<u>10,528,335</u>
Consolidated liabilities				<u>18,142,158</u>

As at 31 December 2020

	Optical Components <i>RMB'000</i> (audited)	Optoelectronic Products <i>RMB'000</i> (audited)	Optical Instruments <i>RMB'000</i> (audited)	Total <i>RMB'000</i> (audited)
Assets				
Trade receivables	2,367,013	4,368,886	56,344	6,792,243
Bill receivables	658,226	88,041	10,263	756,530
Inventories	1,559,605	4,155,765	67,701	5,783,071
Total segment assets	<u>4,584,844</u>	<u>8,612,692</u>	<u>134,308</u>	<u>13,331,844</u>
Unallocated assets				<u>22,106,271</u>
Consolidated assets				<u>35,438,115</u>
Liabilities				
Trade payables	2,318,329	4,752,353	88,693	7,159,375
Note payables	135,048	1,177,220	23,708	1,335,976
Total segment liabilities	<u>2,453,377</u>	<u>5,929,573</u>	<u>112,401</u>	<u>8,495,351</u>
Unallocated liabilities				<u>10,116,647</u>
Consolidated liabilities				<u>18,611,998</u>

Segment profit represents the profit earned by each segment without allocation of central administration costs including Directors' salaries, other income, share of results of associates, and finance costs. There were asymmetrical allocations to operating segments because the Group allocates investment income and interest income, depreciation and amortisation and gain on disposal of property, plant and equipment and depreciation of right-of-use assets to each segment without allocating the related bank balances, depreciable assets and the relevant financial instruments to those segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

For the purposes of monitoring segment performances and allocating resources between segments:

- Trade receivables, bill receivables and inventories are allocated to the respective operating segments. All other assets are unallocated assets, which are not regularly reported to the Board of Directors.
- Trade payables and note payables are allocated to the respective operating segments. All other liabilities are unallocated liabilities, which are not regularly reported to the Board of Directors.

4. OTHER INCOME

	For the six months ended 30 June	
	2021	2020
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Government grants	48,126	51,403
Interest income from time deposits and short term fixed deposits and bank balances	41,292	17,282
Interest income from pledged deposits	3	36
Investment income from unlisted financial products at FVTPL	128,757	89,855
Interest income from debt instruments	3,003	4,640
Interest income from small loan services	3,657	2,771
Income from sales of moulds	7,761	8,656
Income from sales of scrap materials	15,274	9,938
Others	10,783	9,157
	258,656	193,738

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2021 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i> (unaudited)
Net foreign exchange loss	(26,559)	(114,076)
(Loss) gain on disposal of property, plant and equipment	(48,893)	15,053
Gain on changes in fair value of derivative financial instruments, net	85,744	1,007
(Loss) gain on changes in fair value of debt instruments, equity investments and fund investments at FVTPL	(1,362)	33,479
Others	(617)	(14,575)
	8,313	(79,112)
	8,313	(79,112)

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2021 <i>RMB'000</i> (unaudited)	2020 <i>RMB'000</i> (unaudited)
Current tax:		
– PRC Enterprise Income Tax	431,101	202,424
– Withholding tax expense	38,750	24,000
– Other Jurisdiction	14,583	671
	484,434	227,095
	484,434	227,095
Deferred tax (<i>Note 11</i>):		
– Current period	37,910	120,204
	37,910	120,204
	522,344	347,299

7. PROFIT FOR THE PERIOD

For the six months ended 30 June	
2021	2020
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Profit for the period has been arrived at after charging the following items:

Depreciation of property, plant and equipment	820,331	724,720
Depreciation of investment properties	2,195	2,195
Depreciation of right-of-use assets	29,179	26,409
Amortisation of intangible assets	28,106	28,097
Allowance for inventories	107,721	84,589

8. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

For the six months ended 30 June	
2021	2020
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Earnings

Earnings for the purposes of basic and diluted earnings per share	2,687,979	1,749,024
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Number of shares	'000	'000
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Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>Note</i>)	1,093,017	1,094,227
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Effect of dilutive potential ordinary shares – restricted shares	1,686	1,548
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Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,094,703	1,095,775
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Note: The weighted average number of ordinary shares has been calculated taking into account the shares held by the Group under share award scheme.

9. DIVIDENDS

For the six months ended 30 June	
2021	2020
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Dividends recognised as distribution during the period:

Final dividend paid in 2021 for 2020 of Hong Kong Dollar
("HK\$") 105.70 cents per share,
approximately RMB88.80 cents per share
(2020: HK\$81.00 cents per share for 2019,
approximately RMB72.80 cents per share)

<u>974,003</u>	<u>798,507</u>
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The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (corresponding period of 2020: Nil).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND INVESTMENT PROPERTIES

(a) Property, plant and equipment

During the current interim period, the Group acquired manufacturing equipment and incurred construction costs for manufacturing plants of approximately RMB1,162,207,000 (corresponding period of 2020: RMB1,347,324,000) in order to upgrade its manufacturing capabilities and capacity expansion.

In addition, the Group disposed certain of its plants and equipment with a carrying amount of approximately RMB58,225,000 (corresponding period of 2020: RMB43,506,000) which resulted in a disposal loss of approximately RMB48,893,000 (corresponding period of 2020: a gain of RMB15,053,000).

As at 30 June 2021, no buildings of the Group were pledged to secure bank borrowings granted.

(b) Right-of-use assets

During the current interim period, the Group entered into some new lease agreements for the use of office and manufactory for a range of 2-10 years. On lease commencement, the Group recognised additional RMB61,262,000 of right-of-use assets (corresponding period of 2020: RMB11,167,000) and RMB60,266,000 of lease liabilities (corresponding period of 2020: RMB11,093,000).

During the current interim period, the acquisition of leasehold land which was recognised as right-of-use assets on the commencement date was nil (corresponding period of 2020: RMB96,772,000).

As at 30 June 2021, no leasehold lands of the Group were pledged to secure bank borrowings granted.

(c) Investment properties

During the current interim period, a depreciation charge of RMB2,195,000 (corresponding period of 2020: RMB2,195,000) was recognised in profit or loss and the carrying amount of investment properties was amounted to RMB38,712,000 as at 30 June 2021.

11. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Deferred tax assets	(279,686)	(207,332)
Deferred tax liabilities	999,073	888,809
	<u>719,387</u>	<u>681,477</u>

The following are the major deferred tax liabilities (assets) recognised and movements thereon during the current and prior periods:

	Withholding tax on distributed profit from the PRC RMB'000	Allowance for inventories and ECL provision RMB'000	Deferred subsidy income RMB'000	Accelerated depreciation RMB'000	Accrued bonus RMB'000	Others RMB'000	Total RMB'000
At 1 January 2020 (audited)	120,532	(57,385)	(9,865)	541,622	(56,112)	14,866	553,658
Charge (credit) to profit or loss	25,205	(33,971)	1,544	170,504	(41,407)	2,595	124,470
Charge to other comprehensive income	-	-	-	-	-	3,349	3,349
At 31 December 2020 (audited)	145,737	(91,356)	(8,321)	712,126	(97,519)	20,810	681,477
(Credit) charge to profit or loss (<i>Note 6</i>)	(11,599)	(19,240)	(12,539)	109,001	(22,255)	(5,458)	37,910
At 30 June 2021 (unaudited)	<u>134,138</u>	<u>(110,596)</u>	<u>(20,860)</u>	<u>821,127</u>	<u>(119,774)</u>	<u>15,352</u>	<u>719,387</u>

12. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT/LAND USE RIGHT

The deposits are paid for construction of factory buildings and acquisition of plants and equipment located in the PRC and other regions and acquisition of land use right for the expansion of the Group's production plant.

During the current interim period, the Group paid an amount of approximately RMB225,572,000 (corresponding period of 2020: RMB335,549,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB307,139,000 (corresponding period of 2020: RMB233,770,000) to property, plant and equipment.

During the current interim period, the Group paid an amount of approximately RMB25,120,000 (corresponding period of 2020: nil) as the deposits for acquisition of land use right.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Non-current		
– Debt investments (a)	71,533	72,884
– Equity investments (b)	<u>94,159</u>	<u>133,352</u>
Total	<u>165,692</u>	<u>206,236</u>
Current		
– Fund investments (c)	287,319	282,711
– Unlisted financial products (d)	<u>8,132,900</u>	<u>8,197,475</u>
Total	<u>8,420,219</u>	<u>8,480,186</u>

(a) Debt investments

The Group purchased several debt investments since 2018. These investments have certain features that cannot pass the testing of solely payments of principal and interest on the principal amount outstanding and thus were accounted for financial assets at FVTPL on the initial recognition.

During the current interim period, no debt investment was disposed (corresponding period of 2020: RMB27,538,000), and no new debt instrument was purchased (corresponding period of 2020: RMB77,617,000).

The loss on the fair value change of the remaining debt investments amounting to RMB627,000 (corresponding period of 2020: a gain of RMB116,000) was recognised in the profit or loss in the current interim period.

(b) Equity investments

During the current interim period, the Group withdrew part of the equity investment of 餘姚市陽明智行投資中心(有限合夥) (“V Fund”) at a consideration of RMB31,062,000.

As at 30 June 2021, the fair value of all equity investments amounted to RMB94,159,000 (31 December 2020: RMB133,352,000) with a fair value loss of RMB8,151,000 (corresponding period of 2020: fair value gain of RMB21,733,000) recognised in the profit or loss during the current interim period.

(c) Fund investments

The Group entered into several contracts to purchase fund units (the “Fund”) with a financial institution since 2018, which were accounted for as financial assets at FVTPL on initial recognition.

During the current interim period, no fund investment was disposed (corresponding period of 2020: RMB360,110,000), and no fund investment was purchased (corresponding period of 2020: RMB352,415,000).

As at 30 June 2021, the fair value of the Fund investment was United States Dollar (“US\$” or “USD”) 44,476,000 (31 December 2020: USD43,328,000) per the investment statement of the financial institution, equivalent to RMB287,319,000 (31 December 2020: RMB282,711,000). The fair value gain in the amount of RMB7,416,000 (corresponding period of 2020: RMB28,894,000) was recognised in the profit or loss in the current interim period.

(d) **Unlisted financial products**

The Group entered into several contracts of unlisted financial products with banks which are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for as financial assets at FVTPL on initial recognition in which that the return on the unlisted financial products was determined by reference to the performance of the underlying investment assets and as at 30 June 2021, the expected return rate stated in the contracts ranges from 2.10% to 4.60% (31 December 2020: 2.15% to 3.95%) per annum.

In the opinion of the Directors of the Company, the fair value change of the unlisted financial products is insignificant in the current interim period.

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

At the end of the reporting period, the Group held certain derivatives not under hedge accounting as follows:

	Assets		Liabilities	
	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Foreign currency forward contracts	12,746	17,657	10,434	9,865
Foreign currency options contract	–	3,650	1,931	96,805
Total	12,746	21,307	12,365	106,670
Less: current portion				
Foreign currency forward contracts	12,746	17,657	4,221	5,083
Foreign currency options contract	–	3,650	1,931	96,805
	12,746	21,307	6,152	101,888
Non-current portion	–	–	6,213	4,782

As at 30 June 2021, the Group had entered into the following foreign currency forward contracts and a foreign currency option contract:

Foreign currency forward contracts

The Group entered into the following USD/RMB foreign currency forward contracts with several banks in the PRC in order to manage the Group's foreign currency risk.

	Receiving currency	Selling currency	Maturity date	Weighted average forward exchange rate
Contract Series W	USD45,000,000	RMB309,004,000	Semi-annually till 18 January 2023	USD:RMB from 6.75 to 6.99
Contract 1	RMB195,123,000	USD30,000,000	27 September 2021	USD:RMB:6.50
Contract Series 2	RMB649,996,000	USD100,200,000	Quarterly till 30 August 2021	USD:RMB from 6.42 to 6.59
Contract 3	RMB320,845,000	USD49,350,000	27 September 2021	USD:RMB:6.50
Contract 4	RMB222,255,000	USD34,000,000	26 July 2021	USD:RMB:6.54
Contract 5	USD90,000,000	RMB594,738,000	15 June 2022	USD:RMB:6.61
Contract 6	USD60,000,000	RMB396,540,000	15 June 2022	USD:RMB:6.61

Foreign currency option contract

The Group entered into a USD/RMB foreign currency option contract with a bank in the PRC in order to manage the Group's currency risk.

The Group is required to transact with the bank for designated notional amount on the valuation date specified within the contract ("**Valuation Date**").

At the Valuation Date, the Reference Rate which represents the spot rate as specified within the contract shall be compared against the strike rate as specified within the contract, and the Group may receive from/pay to the bank an amount as specified in the contract if certain conditions specified within the contract are met.

Extracts of details of the foreign currency option contract from the contract outstanding as at 30 June 2021 are as follow:

	Notional amount <i>USD'000</i>	Strike rate	Ending settlement date
Contract F	30,000	USD:RMB at 1:6.4730	23 September 2021

The Group has entered certain derivative transactions that are covered by the International Swaps and Derivatives Association Master Agreements ("**ISDA Agreements**") signed with a bank. These derivative instruments are not offset in the condensed consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amount.

15. INVENTORIES

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Raw materials	2,347,621	1,126,857
Work in progress	397,930	193,666
Finished goods	3,394,710	4,462,548
	<u>6,140,261</u>	<u>5,783,071</u>

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Trade receivables	6,681,026	6,888,146
Less: allowance for credit losses	<u>(110,395)</u>	<u>(95,903)</u>
	<u>6,570,631</u>	<u>6,792,243</u>
Bill receivables	<u>1,216,589</u>	<u>756,530</u>
Loan receivables	<u>97,131</u>	<u>164,998</u>
Other receivables and prepayment:		
Value added tax and other tax receivables	100,631	92,948
Advance to suppliers	81,857	77,578
Interest receivables	75,797	54,277
Prepaid expenses	156,163	119,584
Utilities deposits and prepayment	41,462	75,561
Advances to employees	83,936	68,701
Others	<u>13,663</u>	<u>9,605</u>
	<u>553,509</u>	<u>498,254</u>
Total trade and other receivables and prepayment	<u>8,437,860</u>	<u>8,212,025</u>

The Group allows a credit period of average 90 days to its trade customers. The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
1 to 90 days	6,304,659	6,599,719
91 to 120 days	238,046	177,569
121 to 180 days	26,674	14,016
More than 180 days	1,252	939
	<u>6,570,631</u>	<u>6,792,243</u>

Aging of bill receivables at the end of reporting period is as follows:

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Within 90 days	1,158,564	647,049
91 to 180 days	58,025	109,481
Total	<u>1,216,589</u>	<u>756,530</u>

Movement in the allowance for credit losses:

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Balance at the beginning of the reporting period	95,903	112,485
Impairment losses recognised on receivables	15,907	6,603
Amounts written off as uncollectible	–	(4,364)
Impairment losses reversed	(1,415)	(18,821)
Balance at end of the reporting period	<u>110,395</u>	<u>95,903</u>

17. IMPAIRMENT ASSESSMENT ON TRADE RECEIVABLES SUBJECT TO EXPECTED CREDIT LOSS MODEL

As part of the Group's credit risk management, except for the debtors with credit-impaired the Group uses debtors' aging to assess the impairment for its customers which are with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Debtors with credit-impaired are assessed individually by the Group. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2021.

	Average loss rate	Gross carrying amount <i>RMB'000</i>	Impairment loss allowance <i>RMB'000</i>
1 to 90 days	0.06%	6,308,657	3,998
91 to 120 days	0.92%	240,265	2,219
121 to 180 days	0.89%	26,914	240
More than 180 days	92.51%	16,723	15,471
		<u>6,592,559</u>	<u>21,928</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2021 were the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

The estimated loss rates are estimated based on historical observed default rates over the expected life of the debtors and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

As at 30 June 2021, the impairment allowance was provided in the amount of RMB110,395,000, among which RMB21,928,000 was made based on the provision matrix with life time ECL (not credit-impaired) and RMB88,467,000 was assessed individually on the debtors credit-impaired.

18. TRADE AND OTHER PAYABLES

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

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Current liabilities		
Trade payables		
Within 90 days	4,254,408	5,525,012
91 to 180 days	733,259	829,036
Over 180 days	6,306	495
Accrued purchases	783,678	804,832
	<u>5,777,651</u>	<u>7,159,375</u>
Total trade payables and accrued purchases		
Note payables		
Within 90 days	1,388,065	1,022,991
91 to 180 days	448,107	312,985
	<u>1,836,172</u>	<u>1,335,976</u>
Other payables		
Payables for purchase of property, plant and equipment	227,346	182,910
Staff salaries and welfare payables	1,248,165	1,222,684
Labor outsourcing payables	130,152	168,504
Payable for acquisition of patents	41,712	45,651
Value added tax payables and other tax payables	304,099	341,112
Commission payables	32,302	32,471
Interest payable	64,542	65,878
Utilities payable	41,213	50,808
Others	490,658	127,995
	<u>2,580,189</u>	<u>2,238,013</u>
	<u>10,194,012</u>	<u>10,733,364</u>
Non-current liability		
Long term payables		
Payable for acquisition of patent	228,848	245,636

The credit period on purchases of goods is up to 180 days (2020: 180 days) and the credit period for note payables is 90 days to 180 days averagely (2020: 90 days to 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

19. SHARE CAPITAL

Issued share capital as at 30 June 2021 amounted to HK\$109,684,970 (equivalent to approximately RMB105,163,000) with number of ordinary shares amounted to 1,096,849,700 of HK\$0.1 each. There were no movements in the issued share capital of the Company in the current interim period.

20. SHARE AWARD SCHEME

The fair value of the Company's restricted shares awarded was determined based on the market values of the Company's shares at the grant dates.

Movements in the number of restricted shares granted and related fair value are as follows:

	Weighted average fair value (per share) HK\$	Number of Restricted Shares ('000)
At 1 January 2020 (audited)	124.122	2,925
Forfeited	123.296	(112)
Vested	108.560	(1,488)
Granted	130.711	<u>1,458</u>
At 31 December 2020 and 1 January 2021 (audited)	135.931	2,783
Forfeited	140.160	(93)
Vested	108.898	(1,094)
Granted (<i>Note</i>)	180.300	<u>885</u>
As at 30 June 2021 (unaudited)	163.517	<u><u>2,481</u></u>

The equity-settled share-based payments expense charged to profit or loss was approximately RMB88,501,000 for the current interim period (corresponding period of 2020: RMB71,760,000).

Note: The restricted shares granted during the current interim period vest on every anniversary date of the grant date of each batch of the restricted shares in tranches on the following scale:

Restricted shares	Fair value (per share) HK\$	Scales
885,000 shares	180.300	One-half

The fair value of the restricted shares granted is measured on the basis of an observable market price.

During the current interim period, the Group purchased 850,594 shares at the average price of HK\$170.156 (total amount equivalent to approximately RMB120,491,000) under the share award scheme.

21. COMMITMENTS

	30 June 2021 RMB'000 (unaudited)	31 December 2020 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u><u>637,032</u></u>	<u><u>356,008</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the design, research and development (the “**R&D**”), manufacture and sales of optical and optical-related products. Such products include optical components (such as glass spherical and aspherical lenses, plane products, handset lens sets, vehicle lens sets, security surveillance lens sets and other various lens sets) (the “**Optical Components**”), optoelectronic products (such as handset camera modules, three dimensional (“**3D**”) optoelectronic products, vehicle modules and other optoelectronic modules) (the “**Optoelectronic Products**”) and optical instruments (such as microscopes and intelligent inspection equipment) (the “**Optical Instruments**”). The Group focuses on the application fields of optoelectronic-related products, such as handsets, digital cameras, vehicle imaging and sensing systems, security surveillance systems and virtual reality (“**VR**”) / augmented reality (“**AR**”), which are combined with optical, electronic, software and mechanical technologies.

Save as disclosed in this announcement, there has been no material change in the development or future development of the Group’s business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2020.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2021, the Group’s revenue was approximately RMB19,833.4 million, representing an increase of approximately 5.1% compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in the shipment volume of the Group’s three main products (namely handset lens sets, vehicle lens sets and handset camera modules) compared to the corresponding period of last year. However, affected by the change of smartphone market landscape and unfavorable sales performance of high-end smartphone models, the average selling price of handset camera modules decreased significantly compared to the corresponding period of last year, which partially offset the revenue growth brought by the increased shipment volume.

Revenue generated from the Optical Components business segment was approximately RMB4,343.9 million, representing an increase of approximately 12.4% compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in the shipment volume of both handset lens sets and vehicle lens sets.

Revenue generated from the Optoelectronic Products business segment was approximately RMB15,307.8 million, representing an increase of approximately 2.9% compared to the corresponding period of last year. The slight increase in revenue was mainly attributable to the increase in the shipment volume of handset camera modules. However, affected by the change of smartphone market landscape and unfavorable sales performance of high-end smartphone models, the average selling price of handset camera modules decreased significantly compared to the corresponding period of last year, which partially offset the revenue growth brought by the increased shipment volume.

Revenue generated from the Optical Instruments business segment was approximately RMB181.7 million, representing an increase of approximately 43.7% compared to the corresponding period of last year. The increase in revenue was mainly attributable to the recovery of market demand for optical instruments applied to domestic industrial sector and overall overseas market.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the six months ended 30 June 2021 was approximately RMB4,946.4 million, representing an increase of approximately 34.5% compared to the corresponding period of last year. The gross profit margin was approximately 24.9%, which was approximately 5.4 percentage points higher than that of the corresponding period of last year. The increase in gross profit margin was mainly attributable to the increase in gross profit margin of handset camera modules compared to the corresponding period of last year, which was benefited from the efficiency improvement and cost down of production brought by manufacturing optimisation and automation level improvement.

The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 42.9%, 14.8% and 44.2%, respectively (corresponding period of 2020: approximately 41.5%, 11.1% and 38.6% respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2021 was approximately RMB155.5 million, representing an increase of approximately 14.3% compared to the corresponding period of last year. It accounted for approximately 0.8% of the Group's revenue during the period under review, compared to approximately 0.7% for the corresponding period of last year. There was no significant difference in the relevant proportion compared to the corresponding period of last year.

R&D Expenditure

The R&D expenditure of the Group for the six months ended 30 June 2021 was approximately RMB1,320.8 million, representing an increase of approximately 23.7% compared to the corresponding period of last year. It accounted for approximately 6.7% of the Group's revenue during the period under review, compared to approximately 5.7% for the corresponding period of last year. The increase in overall R&D expenditure was attributable to the Group's continuous investments in the R&D upgrade of existing products and the R&D of the products related to the emerging businesses.

Administrative Expenses

The administrative expenses of the Group for the six months ended 30 June 2021 was approximately RMB377.2 million, representing an increase of approximately 13.1% compared to the corresponding period of last year. It accounted for approximately 1.9% of the Group's revenue during the period under review, compared to approximately 1.8% for the corresponding period of last year. There was no significant difference in the relevant proportion compared to the corresponding period of last year.

Income Tax Expense

The Group's income tax expenses for the six months ended 30 June 2021 was approximately RMB522.3 million, representing an increase of approximately 50.4% compared to the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in profit before tax. The Group's effective tax rate was approximately 16.2% during the period under review, and it was approximately 16.4% for the corresponding period of last year.

Net Profit and Net Profit Margin

For the six months ended 30 June 2021, the Group's net profit was approximately RMB2,706.6 million, representing an increase of approximately 52.4% compared to the corresponding period of last year. The increase in net profit was mainly attributable to the increase in gross profit. The net profit margin was approximately 13.6% and it was approximately 9.4% for the corresponding period of last year.

Profit for the Period Attributable to Owners of the Company

The profit for the period attributable to owners of the Company for the six months ended 30 June 2021 was approximately RMB2,688.0 million, representing an increase of approximately 53.7% compared to the corresponding period of last year.

Interim Dividends

For the year ended 31 December 2020, the dividend proposed by the Board of the Directors of the Company was approximately RMB0.888 (equivalent to HK\$1.057) per share with a payout ratio of approximately 20.0% of the profit for the year attributable to owners of the Company. It was paid in June 2021.

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

BUSINESS REVIEW

During the period under review, facing the rapid-changing market environment, fierce industrial competition and complicated economic situation, the Group tackled the challenges ahead, continued to consolidate its industry-leading position, and expanded its competitive advantages through the following measures:

1. increasing the investment in technological R&D and continuously renovating the process technology to promote the technological value added to the products;
2. increasing investment in new businesses, firmly grasping the development opportunities in the emerging market and rapidly developing new business growth points, such as autonomous driving-related industry, AR/VR and other consumer electronics-related industries; and
3. enhancing the internal incentive mechanism and further practising the core value of "Create Together" to constantly attract more outstanding talents and promote the overall competitiveness.

In order to prevent operating risks effectively in intellectual property rights, the Group has established a professional intellectual property rights management team and has been proactively formulating overall planning in relation to the patent layout. As at 30 June 2021, the Group had 2,488 granted patents, including 808 invention patents, 1,613 utility model patents and 67 exterior design patents. In addition, another 3,612 patent applications are pending approval.

Optical Components

For the six months ended 30 June 2021, the revenue from the Optical Components business segment was approximately RMB4,343.9 million, representing an increase of approximately 12.4% compared to the corresponding period of last year. This segment accounted for approximately 21.9% of the Group's total revenue, compared to approximately 20.5% in the corresponding period of last year.

In terms of the handset lens sets business, the shipment volume of handset lens sets of the Group increased by approximately 11.1% to approximately 717,081,000 units for the six months ended 30 June 2021 compared to the corresponding period of last year, with 6P and above products accounting for approximately 22.8% of the shipment volume. Confronted with the constant upgrading trend of camera specifications amid the dramatically changing market environment, the Group has made continuous efforts to strengthen its capabilities of R&D and engineering technology in mass production. During the period under review, the Group has completed the R&D of various high-specification products, mainly including ultra-wide angle (140° above) handset lens sets, handset lens sets with tunable curvature lenses and several types of hybrid large image size handset lens sets with glass aspherical lenses for main cameras. Meanwhile, the Group has realized the mass production of 3mm ultra-macro shooting handset lens sets and 10X periscope telephoto handset lens sets with pure plastic lenses.

In terms of the vehicle lens sets business, the shipment volume of vehicle lens sets of the Group increased by approximately 82.0% to approximately 37,317,000 units for the six months ended 30 June 2021 compared to the corresponding period of last year. It enabled the Group to maintain its No.1 position in the global market continuously and further enhanced its market share. Leveraging its extensive experience and accumulated knowledge in the vehicle lens sets industry, such as 10-year above manufacturing experience of aspherical glass lenses, the Group has continuously made breakthroughs in the technological innovation, which could meet the requirements of high-resolution vehicle lens sets. During the period under review, the Group has completed the R&D of 5-mega pixel hybrid (glass and plastic lenses) in-cabin vehicle lens sets, which could achieve monitoring the driver and the passengers simultaneously. Additionally, the Group has also completed the R&D of 8-mega pixel autonomous driving vehicle lens sets applied to NVIDIA platform.

At the same time, in order to further improve the safety level of autonomous driving, the applications of other optical components are also increasing besides vehicle lens sets. The Group has also enhanced the development and market exploration of optical products related to light detection and ranging (“**LiDAR**”), head-up display (“**HUD**”) and smart headlamp to rapidly develop new business growth points. In respect of LiDAR, the Group has completed the R&D of the core components during the period under review, including optical windows and rotating polygonal prisms, and the Group has obtained mass production licenses from customers for these products and commenced small-batch production. Meanwhile, the Group has also established the assembly lines for the mass production of LiDAR transmitting and receiving modules, which have been put into use. In respect of HUD, the Group has completed the R&D of the core optical engines for holographic AR HUD solutions.

With leading technological advantages and profound accumulation in the optical field, the Group took the lead to roll out its deployment in niche markets by strengthening its R&D of optical components in AR/VR, drone and smart home and other emerging fields. During the period under review, the Group has completed the R&D of VR optical modules and AR color waveguides.

Optoelectronic Products

For the six months ended 30 June 2021, the revenue from the Optoelectronic Products business segment was approximately RMB15,307.8 million, representing an increase of approximately 2.9% compared to the corresponding period of last year. This segment accounted for approximately 77.2% of the Group's total revenue, compared to approximately 78.8% in the corresponding period of last year.

In terms of the handset camera modules business, the shipment volume of handset camera modules of the Group for the six months ended 30 June 2021 amounted to approximately 361,244,000 units, representing an increase of approximately 34.5% compared to that of the corresponding period of last year, with the periscope modules and large image size (image size is 1/1.7" and above) modules accounting for approximately 7.0% of the shipment volume. During the period under review, in response to the change in the landscape among smartphone brand manufacturers and unfavorable sales performance of high-end smartphone models, the Group continued to carry out technological innovations and optimised internal production processes to improve production efficiency and yield rate, reduce production costs and enhance the competitive advantages of mid-to high-end products. By doing so, the global market share of handset camera modules was further increased. Additionally, the Group continued to promote the R&D and upgrade of new technologies and products in light of customers' demands and industrial trends. During the period under review, the Group has completed the R&D of a number of high-end handset camera modules, mainly including 3X to 8X continuous zoom handset camera modules, dual optical image stabilisation ("OIS") handset camera modules and handset camera modules with tunable curvature lenses. Meanwhile, gimbal stabilization handset camera modules with ultra-large angle (by adopting the second-generation of molding on chip ("MOC") packaging technique) and free-form handset camera modules have commenced mass production. In addition, the Group's 10X optical zoom periscope handset camera modules have been mass produced to a well-known Korean customer.

In order to further expand its pioneering advantages in the optoelectronic industry, the Group continued to increase investment in the R&D of core platform technologies. During the period under review, the Group has completed the R&D of the third-generation of molding on board ("MOB") packaging technique and the third-generation of MOC packaging technique. The application of these packaging techniques can make the entire module thinner and lower its costs. These packaging techniques are widely favoured by the customers. Furthermore, the Group further strengthen the process capability. The Group's self-developed ultra-multiply alignment ("UMA") equipment with highly automation and on-line high-speed assembly function has been put into use, which could reduce the manufacturing turnover time and significantly enhance assembly efficiency.

In terms of the vehicle modules business, the Group firmly grasped the industry trend, closely followed customers' demands and focused on technological R&D to further improve the product layout. During the period under review, the Group has completed the R&D of in-depth visual ranging vehicle modules and miniaturised exterior viewing vehicle modules. At the same time, 8-mega pixel front-view sensing vehicle modules, driver monitoring system ("DMS") vehicle modules and the occupancy monitoring system ("OMS") vehicle modules have been mass produced to several well-known customers.

In terms of the robotic vision business, the Group further deployed two product categories of robotic recognition and positioning based on the market demand. In terms of the robotic recognition business, the Group made a technological breakthrough in time of flight (“**ToF**”)/structured light modules with vivo detection algorithm in the application scenario of witness comparison. In terms of the robotic positioning business, the Group’s VR/AR visual modules were in the leading position in terms of market share. The new business model of 3D ToF modules plus software development kit (“**SDK**”) has been verified and some projects have commenced mass production.

Optical Instruments

For the six months ended 30 June 2021, the revenue from the Optical Instruments business segment was approximately RMB181.7 million, representing an increase of approximately 43.7% compared to the corresponding period of last year. This segment accounted for approximately 0.9% of the Group’s total revenue, compared to approximately 0.7% in the corresponding period of last year.

In terms of the microscopes business, the Group was market-oriented and constantly strived to achieve technological breakthroughs. During the period under review, the Group has completed the R&D and sale of the first global upright near-infrared region-II motorized fluorescence microscope in vivo imaging system, of which the macro observation function has been continually developed. The functions of large field scanning jigsaw puzzle and z-axis layer scanning are in the international leading position. In addition, the Group’s self-developed objective lenses of series of super apochromat (the “**SAPO**”) currently have the largest numerical aperture and achromatic correction range in China. Among them, the R&D for objective lenses of 10X and 60X have been completed, while the batch orders for objective lenses of 20X and 40X have been received.

In terms of the intelligent equipment business, the Group has achieved significant technological breakthroughs in the industrial field. During the period under review, the Group has completed the R&D of prism appearance inspection equipment for inspecting the prism of periscope camera module and the R&D of vehicle plane glass inspection equipment for appearance inspection of the glass of automotive center stack. Meanwhile, both of the inspection equipment for inspecting wafer fragment of optical filters on a wafer and the real-time focusing microscopic system for graphic inspection of semiconductor former manufacturing process have been put into mass production.

OUTLOOK AND FUTURE STRATEGIES

Looking forward to the second half of 2021, the Group will remain subject to many challenges in the face of a complex and volatile political and economic situation as well as increasing market competition. Nevertheless, the improvement of camera functions remains the key product differentiation in the smartphone industry. The rapid development of “electrified, connected, intelligent, shared” of the automobiles emerges in the automotive industry, and the integration of multi-sensor is becoming a trend. Technological innovation in optical products has also been driven by the booming development of robot vision, AR/VR and other emerging industries. The Group will pay close attention to the industry and market trends, make a good market deployment in advance, take the advantages of scale, technology, resources and talents, and seize development opportunities amidst challenges to achieve steady and sustainable development.

1. Further enhance the market competitiveness, strengthen and expand the existing advantageous businesses

- Devote in the R&D of new technologies and the use of new materials, speed up the development and upgrade of new products;
- Commit to enhancing the process and technology; improve the rolled throughout yield rate and product quality, realize speedy delivery with high quality; and
- Strive to reduce product costs, pay attention to the cost control throughout the whole process from product design to delivery.

2. Enhance refined management and continue to improve the quality of operation

Through enhancing refined management, the Group can realize distinct division of duties and clear workflow under a common goal, and will eventually achieve high operating efficiency, the provision of cost-effective products to customers and continuous improvement of operating quality.

3. Strengthen R&D investment and accelerate the cultivation and growth of new businesses

- Sunny Optical (Zhejiang) Research Institute Co., Ltd. will coordinate with each subsidiary for determination of possible future market goals, application scenarios, integration of internal and external resources, enhancement of R&D investment, cultivation of new growth points of the Company; and
- Further deepen the cultivation mechanism for new businesses and encourage strivers with entrepreneurship and the ability to devote themselves to new business development.

4. Enhance the internal incentive mechanism and further practice the core value of “Create Together”

The dramatic changes in the landscape of global politics and economies bring challenges to the Group. In order to retain and attract outstanding talents and consolidate competitive advantages, the Group has constantly reformed the incentive mechanism. The Group will enhance the internal incentive mechanism, increase the intensity of share incentive, and give key incentives to innovators and strivers who have made significant contributions, so as to further practice the core value of “Create Together”.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2021 and 30 June 2020:

	For the six months ended 30 June	
	2021	2020
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	2,395.9	2,003.9
Net cash used in investing activities	(1,769.0)	(1,918.8)
Net cash used in financing activities	(1,133.0)	(206.2)

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing in the short run to meet its working capital and other capital expenditure requirements. In the long run, the Group will be mainly funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the six months ended 30 June 2021.

As at 30 June 2021, the Group had current assets of approximately RMB26,515.8 million (31 December 2020: approximately RMB25,629.5 million), comprising bank balances and cash of approximately RMB2,334.8 million (31 December 2020: approximately RMB2,841.8 million); and current liabilities of approximately RMB12,794.8 million (31 December 2020: approximately RMB13,411.1 million). The Group's current ratio was 2.1 times (31 December 2020: 1.9 times). The Group's total assets as at 30 June 2021 was approximately RMB36,664.9 million, representing an increase by approximately 3.5% compared to that as at 31 December 2020.

Capital Expenditure

For the six months ended 30 June 2021, the Group's capital expenditure amounted to approximately RMB1,061.3 million, which was mainly used for the purchase of property, plant and equipment, acquisition of land use right and purchases of other tangible assets. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 30 June 2021 amounted to approximately RMB2,169.0 million (31 December 2020: approximately RMB2,070.6 million). As at 30 June 2021 and 31 December 2020, no bank borrowings were secured by buildings and land of the Group.

Bank facilities

As at 30 June 2021, the Group had bank facilities of RMB2,770.0 million with Yuyao Sub-branch of Agricultural Bank of China Limited, RMB1,300.0 million with Ningbo Branch of The Export-Import Bank of China, RMB875.0 million with Yuyao Branch of Bank of China Limited, RMB2,500.0 million with Yuyao Sub-branch of Ningbo Bank Co., Ltd., RMB380.0 million with Yuyao Sub-branch of Bank of Communications Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd., RMB70.0 million with Xinyang Pingzhong Street Sub-branch of Industrial and Commercial Bank of China Limited, RMB600.0 million with Yuyao Sub-branch of China Construction Bank Corporation, USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas Shanghai Branch, USD60.0 million with The Hongkong and Shanghai Banking Corporation Limited Hong Kong Branch, USD50.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd., USD60.0 million with Crédit Agricole Corporate and Investment Bank Hong Kong Branch, USD20.0 million with Crédit Agricole Corporate and Investment Bank Shanghai Branch, USD125.0 million with Bank of China (Hong Kong) Limited, USD50.0 million with Standard Chartered (Hong Kong) Limited and USD20.0 million with Standard Chartered Bank.

Debt securities

As at 30 June 2021, the Group had debt securities of approximately RMB3,861.6 million (31 December 2020: approximately RMB3,895.9 million).

The Group's gearing ratio of approximately 16.4% refers to the ratio of total borrowings to total capital (total capital being the sum of total liabilities and shareholders' equity), reflecting the Group's financial position at a sound level.

Contingent liabilities

As at 30 June 2021, the Group did not have any material contingent liabilities or guarantees.

Financing and fiscal policies and objectives

The Group adopts prudent financing and fiscal policies. The Group will seek bank borrowings and debt financing when its operating demand grows, and will review its bank borrowings and debt securities regularly to achieve a sound financial position.

PLEDGE OF ASSETS

As at 30 June 2021, the Group did not have any pledge or charge on assets, except for the pledged bank deposits of approximately RMB4.7 million.

COMMITMENTS

As at 30 June 2021, the capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements amounted to approximately RMB637.0 million (31 December 2020: approximately RMB356.0 million).

As at 30 June 2021, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2021, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS PLAN

The Group's investing activities primarily include the purchase and release of unlisted financial products, placement and withdrawal of short term fixed deposits and purchase of property, plant and equipment. In particular, the purchase and disposal of financial assets at fair value through profit or loss include debt investments, equity investments, fund investments and unlisted financial products. Among them, the fund investments are managed by relevant financial institutions, mainly investing in debt securities linked to the performance of related senior debts; unlisted financial products are managed by relevant banks in China, mainly investing in certain financial assets such as bonds, trusts and cash funds, and their investment incomes are determined based on the performance of relevant government debt instruments and treasury bills.

Significant Investments, Acquisitions and Disposals

As at 30 June 2021, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB8,132.9 million (31 December 2020: approximately RMB8,197.5 million). As at 30 June 2021, the size of the unlisted financial products subscribed by the Group in aggregate accounted for approximately 22.2% of the Group's total assets (31 December 2020: approximately 23.1%). The investment costs for the unlisted financial products subscribed as at 30 June 2021 was approximately RMB8,132.9 million (31 December 2020: approximately RMB8,197.5 million). For the six months ended 30 June 2021, the amount of investment income from the unlisted financial products was approximately RMB128.8 million (corresponding period of 2020: approximately RMB89.9 million).

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 30 June 2021 (in descending order):

Name of the unlisted financial products	Name of banks	Investment costs <i>RMB '000</i>	Fair value of the unlisted financial products as at 30 June 2021 <i>RMB '000</i>	Percentage of fair value of the unlisted financial products relative to the total assets of the Group as at 30 June 2021
“Jin Yao Shi • An Xin Kuai Xian” Tian Tian Li Gun Li second phase open-ended RMB wealth management product* (「金鑰匙 • 安心快線」天天利滾利第2期開放式人民幣理財產品)	Agricultural Bank of China Limited	1,066,450	1,066,450	2.9%
Bank of Ningbo NingXin fixed income close-ended wealth management No.143* (寧銀理財寧欣固定收益類封閉式理財143號)	Bank of Ningbo Co., Ltd.	1,000,000	1,000,000	2.7%
Bank of Ningbo NingXin fixed income close-ended wealth management No.156* (寧銀理財寧欣固定收益類封閉式理財156號)	Bank of Ningbo Co., Ltd.	600,000	600,000	1.6%
“Tian Li Kuai Xian” net-asset-value type wealth management product* (「添利快線」淨值型理財產品)	Industrial Bank Co., Ltd.	600,000	600,000	1.6%
2021 close-ended private net-asset-value type No. 13	Bank of Ningbo Co., Ltd.	500,000	500,000	1.4%
2021 close-ended private net-asset-value type No. 20	Bank of Ningbo Co., Ltd.	400,000	400,000	1.1%
2021 close-ended private net-asset-value type No. 13011 (Spring Wealth Management)* (2021封閉式私募淨值型13011號(新春理財))	Bank of Ningbo Co., Ltd.	300,000	300,000	0.8%
Bank of Communications Yuntong wealth time structured deposit 186 days* (交通銀行蘊通財富定期型結構性存款186天)	Bank of Communications Co., Ltd.	300,000	300,000	0.8%

Name of the unlisted financial products	Name of banks	Investment costs RMB'000	Fair value of the unlisted financial products as at 30 June 2021 RMB'000	Percentage of
				fair value of the unlisted financial products relative to the total assets of the Group as at 30 June 2021
Bank of Ningbo NingXin fixed income close-ended wealth management No.3 (exclusive to institutions)* (寧銀理財寧欣固定收益類封閉式理財3號(機構專屬))	Bank of Ningbo Co., Ltd.	300,000	300,000	0.8%
Bank of Ningbo NingXin fixed income close-ended wealth management No.69* (寧銀理財寧欣固定收益類封閉式理財69號)	Bank of Ningbo Co., Ltd.	300,000	300,000	0.8%
Others#		2,766,450	2,766,450	7.7%
	Total	8,132,900	8,132,900	22.2%

* The English names are unofficial English translations of the Chinese names of unlisted financial products, which do not have official English names. If there is any inconsistency, the Chinese names shall prevail.

Other unlisted financial products included 26 unlisted financial products with 5 different banks to lower the concentration risk. The fair value of such 26 unlisted financial products as at 30 June 2021 was approximately RMB106.4 million in average.

In the opinion of the Directors of the Company, the fair value change of the unlisted financial products was insignificant for the six months ended 30 June 2021.

The Board considers that the terms of such unlisted financial products are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole.

Such investment activities were funded primarily by the idle self-owned funds of the Group. Going forward, the Group will continue to diversify its investments among different banks to lower the concentration risk and will closely monitor the performance of investments made and future investments plan made in accordance with its prudent policy to utilise and to increase the yield of the idle funds of the Group while maintaining a high level of liquidity and a low level of risk. Such investment activities were made and will be made on the premises that it would not adversely affect the working capital of the Group or the operation of the Group's principal business.

For the six months ended 30 June 2021, the Group's investments amounted to approximately RMB1,061.3 million, which was primarily for the purchases of property, plant and equipment, the initial production settings for new products, acquisition of a land use right and the necessary equipment configurations for new projects. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

The Group adopts prudent financial policies, having its investment projects mostly capital-protected with fixed income, so as to strive for a stable and healthy financial position while improving returns. The Group will consider using financial instruments for hedging purposes if necessary and will continue to fund its future investments from its own financial resources.

There were no material acquisitions or disposals of subsidiaries, associates and joint ventures by the Group for the six months ended 30 June 2021.

Going forward, the Group intends to make further investments in enhancing its competitiveness.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks arising from its bank borrowings for working capital and capital expenditure that are associated with the expansion of the Group and utilisation for other purposes. The rising of interest rates increases the costs of both existing and new debts. As at 30 June 2021, the effective interest rate on fixed-rate bank borrowings was approximately 3.05% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 0.69% to 0.75% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in USD or other foreign currencies. For details of the Group's foreign currency forward contracts and foreign currency options contract, please refer to Note 14 of the notes to the condensed consolidated financial statements. Except certain investments which are in line with the Group's business and which are denominated in foreign currencies, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

The Group's financial assets include derivative financial assets, bank balances and cash, pledged bank deposits, short-term fixed deposits, time deposits, financial assets at fair value through profit or loss, trade and other receivables and prepayment, equity instruments at fair value through other comprehensive income and debt instruments at amortised cost, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, the management has delegated a team which is responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that appropriate follow-up actions are taken to recover overdue debts. The Group also has purchased insurance relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. The amounts presented in the condensed consolidated statement of financial position are net of allowance for credit losses, estimated by the management based on prior experience and historical observed default rates, their assessment of the current economic environment and the discounted cash flows to be received in future.

The Group has no significant concentration of credit risk since its trade receivables are dispersed over a large number of counterparties and customers. The credit risk on liquidity is limited because a majority of the counterparties are banks with high credit ratings by international credit-rating agencies.

Cash Flow Interest Rate Risk

The Group's cash flow interest rate risk is primarily related to variable rates applicable to short term bank deposits and bank borrowings. The management will review the proportion of borrowings in fixed and floating rates and ensure they are within reasonable range. Therefore, any future variations in interest rates will not have any significant impact on the results of the Group.

Liquidity Risk

The Group manages liquidity risk by maintaining an adequate level of cash and cash equivalents through continuously monitoring forecast and actual cash flows and matching them with the maturity profiles of financial assets and liabilities.

OTHER INFORMATION

A. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Cayman Islands Companies Law and the Company's Articles of Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**"). There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustee of the restricted share award scheme (the "**Restricted Share Award Scheme**"), of the Company's listed shares for the six months ended 30 June 2021.

B. RESTRICTED SHARE AWARD SCHEME

On 22 March 2010 (the “**Adoption Date**”), the Board adopted the Restricted Share Award Scheme. Pursuant to the Restricted Share Award Scheme, the Directors, all employees, senior staff, agents and consultants of the Company and its subsidiaries are entitled to participate in this scheme. The purposes of the Restricted Share Award Scheme are to assist the Company in attracting new staff as well as motivating and retaining its current talents. The Restricted Share Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of 10 years and be managed by its administrative committee and the trustee. On 16 March 2020, the Board resolved to extend the Restricted Share Award Scheme period for ten years. As a result, the Restricted Share Awards Scheme, which shall originally terminate on 21 March 2020, shall now, unless terminated earlier by a resolution of the Board, terminate on 21 March 2030. Details of the Restricted Share Award Scheme are set out in Note 20 of the notes to the condensed consolidated financial statements.

C. CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT

Code of Corporate Governance Practices

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability and to maximise the shareholders’ benefits.

For the six months ended 30 June 2021, the Company complied with all of the code provisions of and adopted most of the recommended best practices of the Corporate Governance Code (applicable to financial reports for the periods subsequent to 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”).

Internal Controls and Risk Management

The internal audit department of the Group should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders’ investment interests and the Group’s assets safety. The main functions of the internal audit department are to audit the operating efficiencies of each subsidiary of the Company, to audit upon resignation of key management personnel, to assist the Board in reviewing the effectiveness of the internal control system of the Group, to review internal control of business processes, to audit the implementation of overall risk management, to promote the construction of anti-malpractice and to audit individual projects (such as compliance of related party transactions and audit report of goods in transit). Evaluation of the Group’s internal controls covering financial, operational compliance controls and risk management functions will be conducted annually by the Board.

The Board considers that the internal audit department has been staffed adequately in terms of their qualification and experience, and has been provided with adequate resources, trainings and budgets, so as to implement the Group’s accounting and financial reporting functions.

The Company has built an enterprise risk management system with a view to enhancing the risk management and corporate governance practice, and improving the effectiveness and efficiency of internal control systems across the whole Group.

Securities Transactions by Directors

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. After having made specific enquiries to all Directors with regard to the securities transactions, all Directors have confirmed their compliance with the requirements set out in the Model Code regarding Directors’ securities transactions throughout the six months ended 30 June 2021.

D. AUDIT COMMITTEE

The Company’s audit committee (“**Audit Committee**”) consists of three independent non-executive Directors (namely Mr. Zhang Yuqing (committee chairman), Mr. Feng Hua Jun and Mr. Shao Yang Dong). The Audit Committee, together with the Company’s external auditor, has reviewed and discussed relevant issues such as auditing, internal control and financial statements, which include the review of the interim report of 2021 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2021. Members of the Audit Committee agreed with the accounting treatments adopted in the preparation of the condensed consolidated financial statements.

E. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company fully understands that shareholders are entitled to have a better understanding of the business and prospect of the Group. Therefore, the Company always makes active communication with investing public (including institutional and individual investors). Shareholder communication policy has been adopted to regulate and promote the efficient communication among the Company, its shareholders and other stakeholders. The policy can be accessed on the Group’s website.

The Company releases voluntary announcements of the shipment volume of each major product every month, so as to improve the transparency. In the first half of 2021, given by the partial travel restrictions of COVID-19, the Company held a virtual investor meeting in relation to 2020 annual results announcement, and an investor day activity in the form of the combination of online and offline. Meanwhile, the Company attended numerous investor meetings, which include 17 non-deal roadshows and other types of communication activities, so as to keep close contact with the investors. In addition, the Group will hold a virtual investor meeting in relation to 2021 interim results announcement on 17 August 2021.

The Group has a dedicated team to maintain contact with investors and handle shareholders' inquiries. Should have any inquiries, please contact the Group's Investor Relations Management Department (Tel: +86-574-6253 4996; +852-3568 7038; e-mail: ir@sunnyoptical.com).

By order of the Board
Sunny Optical Technology (Group) Company Limited
Ye Liaoning
Chairman and Executive Director

China, 16 August 2021

As at the date of this announcement, the Board comprises Mr. Ye Liaoning, Mr. Sun Yang and Mr. Wang Wenjie, who are executive Directors; Mr. Wang Wenjian, who is a non-executive Director; and Mr. Zhang Yuqing, Mr. Feng Hua Jun and Mr. Shao Yang Dong, who are independent non-executive Directors.