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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 2022

RESULTS HIGHLIGHTS

For the six months ended 30 June 2022, the Group's unaudited revenue was approximately Renminbi (“**RMB**”)16,971.8 million, representing a decrease of approximately 14.4% as compared to the corresponding period of last year.

For the six months ended 30 June 2022, the Group's gross profit was approximately RMB3,522.4 million, representing a decrease of approximately 28.8% as compared to the corresponding period of last year. The gross profit margin was approximately 20.8%, which was approximately 4.1 percentage points lower than that of the corresponding period of last year.

For the six months ended 30 June 2022, the Group's profit for the period attributable to owners of the Company was approximately RMB1,357.9 million, representing a decrease of approximately 49.5% as compared to the corresponding period of last year.

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 2022, together with the comparative figures for the corresponding period in the year 2021 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2022**

	Notes	For the six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenue	3A	16,971,756	19,833,436
Cost of sales		(13,449,358)	(14,887,037)
Gross profit		3,522,398	4,946,399
Other income	4	408,347	258,656
Other gains and losses	5	(55,498)	8,313
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(7,906)	(14,492)
Selling and distribution expenses		(163,430)	(155,502)
Research and development expenditure		(1,468,215)	(1,320,775)
Administrative expenses		(437,988)	(377,226)
Share of results of associates		955	20
Finance costs		(114,903)	(116,418)
Profit before tax		1,683,760	3,228,975
Income tax expense	6	(304,917)	(522,344)
Profit for the period	7	1,378,843	2,706,631
Other comprehensive income (expense):			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”), net of income tax		1,241	–
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		6,700	(4,675)
Other comprehensive income (expense) for the period		7,941	(4,675)
Total comprehensive income for the period		1,386,784	2,701,956

		For the six months ended 30 June	
	<i>Note</i>	2022	2021
		<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		1,357,905	2,687,979
Non-controlling interests		20,938	18,652
		<u>1,378,843</u>	<u>2,706,631</u>
 Total comprehensive income for the period attributable to:			
Owners of the Company		1,368,209	2,685,332
Non-controlling interests		18,575	16,624
		<u>1,386,784</u>	<u>2,701,956</u>
 Earnings per share – Basic (<i>RMB cents</i>)	<i>8</i>	124.13	245.92
– Diluted (<i>RMB cents</i>)	<i>8</i>	124.03	245.54

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2022

	<i>Notes</i>	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10(a)</i>	8,245,907	8,303,229
Right-of-use assets	<i>10(b)</i>	641,319	504,684
Investment properties	<i>10(c)</i>	37,940	40,380
Intangible assets		278,821	306,926
Interests in associates		207,596	201,641
Deferred tax assets	<i>11</i>	270,023	255,651
Deposits and prepayments paid for acquisition of property, plant and equipment	<i>12</i>	864,577	471,595
Equity instruments at FVTOCI		183,722	178,762
Financial assets at fair value through profit or loss (“FVTPL”)	<i>13(d)</i>	19,518	19,518
Time deposits		200,000	500,000
Goodwill		2,119	2,119
		10,951,542	10,784,505
CURRENT ASSETS			
Inventories	<i>15</i>	5,311,561	5,481,858
Trade and other receivables and prepayment	<i>16</i>	7,605,948	7,448,385
Derivative financial assets	<i>14</i>	9,992	27,237
Financial assets at FVTPL	<i>13(a)(b)(c)</i>	8,286,159	8,314,143
Amount due from a related party		–	327
Time deposits		500,000	–
Pledged bank deposits		7,064	18,292
Short term fixed deposits		659,830	1,093,914
Bank balances and cash		4,972,829	5,605,179
		27,353,383	27,989,335

	<i>Notes</i>	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	<i>18</i>	9,051,080	9,868,687
Amounts due to related parties		7,322	6,934
Derivative financial liabilities	<i>14</i>	40,536	40,446
Contract liabilities		178,762	178,101
Tax payable		66,987	188,022
Bank borrowings – current portion		1,526,309	1,538,897
Lease liabilities – current portion		65,284	46,271
Deferred income – current portion		10,382	6,099
Bonds payable		4,021,309	–
		14,967,971	11,873,457
NET CURRENT ASSETS		12,385,412	16,115,878
TOTAL ASSETS LESS CURRENT LIABILITIES		23,336,954	26,900,383
NON-CURRENT LIABILITIES			
Deferred tax liabilities	<i>11</i>	987,280	1,015,890
Derivative financial liabilities	<i>14</i>	–	5,057
Long term payables	<i>18</i>	152,949	172,044
Bank borrowings – non-current portion		700,000	700,000
Lease liabilities – non-current portion		202,494	107,999
Deferred income – non-current portion		186,591	188,504
Bonds payable		–	3,815,623
		2,229,314	6,005,117
NET ASSETS		21,107,640	20,895,266
CAPITAL AND RESERVES			
Share capital	<i>19</i>	105,163	105,163
Reserves		20,676,708	20,482,909
Equity attributable to owners of the Company		20,781,871	20,588,072
Non-controlling interests		325,769	307,194
TOTAL EQUITY		21,107,640	20,895,266

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2022

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 Act Chapter 22 (Law 3 of 1961 as consolidated and revised, formerly known as Companies Law) of the Cayman Islands and its shares have been listed on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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 (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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

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 Group’s annual period beginning on 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Sales of optical and optical-related products		
Handset related products	12,755,600	15,852,409
Vehicle related products	1,724,815	1,613,885
Augmented reality (“AR”)/virtual reality (“VR”) related products	659,967	597,033
Digital camera related products	401,706	468,268
Other lens sets	239,982	213,643
Other spherical lens and plane products	196,513	90,060
Optical instruments	158,762	122,215
Other products	834,411	875,923
Total	<u>16,971,756</u>	<u>19,833,436</u>

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Geographical markets		
The People’s Republic of China (“PRC” or “China”)	11,500,039	15,702,317
Asia (except China)	4,324,765	3,061,860
Europe	601,077	602,391
North America	426,236	442,945
Others	119,639	23,923
Total	<u>16,971,756</u>	<u>19,833,436</u>

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Timing of revenue recognition		
A point in time	<u>16,971,756</u>	<u>19,833,436</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 2022

	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	4,399,044	12,370,867	201,845	16,971,756	–	16,971,756
Inter-segment sales	1,162,632	1,515	46,065	1,210,212	(1,210,212)	–
Total	<u>5,561,676</u>	<u>12,372,382</u>	<u>247,910</u>	<u>18,181,968</u>	<u>(1,210,212)</u>	<u>16,971,756</u>
Segment profit	<u>1,160,152</u>	<u>684,405</u>	<u>63,746</u>	<u>1,908,303</u>	<u>–</u>	<u>1,908,303</u>
Share of results of associates						955
Unallocated other income, other gains and losses						(98,983)
Unallocated administrative expenses and finance costs						<u>(126,515)</u>
Profit before tax						<u>1,683,760</u>

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 other income, other gains and losses						40,588
Unallocated administrative expenses and finance costs						<u>(128,906)</u>
Profit before tax						<u>3,228,975</u>

As at 30 June 2022

	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	1,798,804	4,309,760	69,322	6,177,886
Bill receivables	472,677	233,162	15,147	720,986
Inventories	<u>1,993,324</u>	<u>3,231,066</u>	<u>87,171</u>	<u>5,311,561</u>
Total segment assets	<u>4,264,805</u>	<u>7,773,988</u>	<u>171,640</u>	<u>12,210,433</u>
Unallocated assets				<u>26,094,492</u>
Consolidated assets				<u>38,304,925</u>
Liabilities				
Trade payables	2,047,339	3,071,975	105,605	5,224,919
Note payables	<u>357,917</u>	<u>979,541</u>	<u>25,176</u>	<u>1,362,634</u>
Total segment liabilities	<u>2,405,256</u>	<u>4,051,516</u>	<u>130,781</u>	<u>6,587,553</u>
Unallocated liabilities				<u>10,609,732</u>
Consolidated liabilities				<u>17,197,285</u>

As at 31 December 2021

	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	1,878,514	3,690,969	65,169	5,634,652
Bill receivables	616,115	387,528	5,993	1,009,636
Inventories	1,854,941	3,532,694	94,223	5,481,858
Total segment assets	<u>4,349,570</u>	<u>7,611,191</u>	<u>165,385</u>	<u>12,126,146</u>
Unallocated assets				<u>26,647,694</u>
Consolidated assets				<u>38,773,840</u>
Liabilities				
Trade payables	2,085,218	3,741,727	104,278	5,931,223
Note payables	530,292	1,267,054	23,938	1,821,284
Total segment liabilities	<u>2,615,510</u>	<u>5,008,781</u>	<u>128,216</u>	<u>7,752,507</u>
Unallocated liabilities				<u>10,126,067</u>
Consolidated liabilities				<u>17,878,574</u>

Segment profit represents the profit earned by each segment without allocation of gains and losses, income and expenses of unallocated subsidiaries and central administration costs including Directors' emoluments, share of results of associates, and finance costs. There were asymmetrical allocations to operating segments because the Group allocates interest income, government grants, depreciation and amortisation and gain or loss on disposal of property, plant and equipment to each segment without allocating the related bank balances, deferred income, property, plant and equipment and intangible assets to those segments. This is the measure reported to the Board of Directors 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	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants	142,525	48,126
Interest income from time deposits and short term fixed deposits, pledged deposits and bank balances	69,117	41,295
Investment income from unlisted financial products at FVTPL	144,393	128,757
Interest income from debt instruments	818	3,003
Interest income from small loan services	3,387	3,657
Income from sales of moulds	10,538	7,761
Income from sales of scrap materials	29,096	15,274
Others	8,473	10,783
	<u>408,347</u>	<u>258,656</u>

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net foreign exchange loss	(77,134)	(26,559)
Gain (loss) on disposal of property, plant and equipment	7,417	(48,893)
(Loss) gain on changes in fair value of derivative financial instruments, net	(12,278)	85,744
Loss on changes in fair value of debt instruments, equity investments and fund investments at FVTPL	(28,703)	(1,362)
Gain on disposal of a subsidiary	55,200	–
Others	–	(617)
	<u>(55,498)</u>	<u>8,313</u>

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Current tax:		
– The PRC Enterprise Income Tax	289,257	431,101
– Withholding tax expense	57,521	38,750
– Other jurisdiction	5,053	14,583
	<u>351,831</u>	<u>484,434</u>
Deferred tax (Note 11):		
– Current period	(46,914)	37,910
	<u>304,917</u>	<u>522,344</u>

7. PROFIT FOR THE PERIOD

For the six months ended 30 June	
2022	2021
<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	876,474	820,331
Depreciation of investment properties	2,440	2,195
Depreciation of right-of-use assets	33,962	29,179
Amortisation of intangible assets	28,105	28,106
(Reversal of) allowance for inventories	(47,952)	107,721
	<u>876,474</u>	<u>820,331</u>

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	
2022	2021
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Earnings

Earnings for the purposes of basic and diluted earnings per share	<u>1,357,905</u>	<u>2,687,979</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>Note</i>)	1,093,966	1,093,017
Effect of dilutive potential ordinary shares – restricted shares	<u>872</u>	<u>1,686</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,094,838</u>	<u>1,094,703</u>

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	
2022	2021
RMB'000	RMB'000
(unaudited)	(unaudited)

Dividends recognised as distribution during the period:

Final dividend paid in 2022 for 2021 of Hong Kong Dollar
("HK\$" or "HKD") 111.80 cents per share, approximately
RMB95.52 cents per share (2021: HK\$105.70 cents per share
for 2020, approximately RMB88.80 cents per share)

<u>1,047,715</u>	<u>974,003</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 2022 (corresponding period of 2021: 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 RMB827,255,000 (corresponding period of 2021: RMB1,162,207,000) 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 RMB16,238,000 (corresponding period of 2021: RMB58,225,000) which resulted in a disposal gain of approximately RMB7,417,000 (corresponding period of 2021: a loss of RMB48,893,000).

As at 30 June 2022, no property, plant and equipment of the Group were pledged to secure bank borrowings granted.

(b) Right-of-use assets

During the current interim period, the Group entered into several new lease agreements for the use of office and manufactory for a range of 2-7 years. On the lease commencement date, the Group recognised additional RMB144,463,000 of right-of-use assets (corresponding period of 2021: RMB61,262,000) and RMB142,589,000 of lease liabilities (corresponding period of 2021: RMB60,266,000).

During the current interim period, the Group also acquired a leasehold land which was recognised as right-of-use assets on the commencement date in the amount of RMB25,771,000 (corresponding period of 2021: nil).

As at 30 June 2022, 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 RMB2,440,000 (corresponding period of 2021: RMB2,195,000) was recognised in profit or loss and the carrying amount of investment properties amounting to RMB37,940,000 as at 30 June 2022.

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 2022	31 December 2021
	RMB'000	RMB'000
	(unaudited)	(audited)
Deferred tax assets	(270,023)	(255,651)
Deferred tax liabilities	987,280	1,015,890
	717,257	760,239

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 2021 (audited)	145,737	(91,356)	(8,321)	712,126	(97,519)	20,810	681,477
Charge (credit) to profit or loss	11,634	(20,576)	(18,358)	97,876	1,778	5,912	78,266
Charge to other comprehensive income	-	-	-	-	-	496	496
At 31 December 2021 (audited)	157,371	(111,932)	(26,679)	810,002	(95,741)	27,218	760,239
(Credit) charge to profit or loss (<i>Note 6</i>)	(39,784)	5,880	(1,490)	18,995	(3,761)	(26,754)	(46,914)
Charge to other comprehensive income	-	-	-	-	-	219	219
Eliminated on disposal of a subsidiary	-	1,399	2,314	-	-	-	3,713
At 30 June 2022 (unaudited)	117,587	(104,653)	(25,855)	828,997	(99,502)	683	717,257

12. DEPOSITS AND PREPAYMENTS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits and prepayments are paid for construction of factory buildings and acquisition of plants and equipment located in the PRC and other regions.

During the current interim period, the Group paid an amount of approximately RMB585,025,000 (corresponding period of 2021: RMB225,572,000) as the deposits and prepayments for acquisition of property, plant and equipment and transferred an amount of approximately RMB191,978,000 (corresponding period of 2021: RMB307,139,000) to property, plant and equipment.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Current assets		
Fund investments (<i>Note a</i>)	–	283,132
Unlisted financial products (<i>Note b</i>)	8,279,431	7,992,170
Debt instruments (<i>Note c</i>)	6,728	38,841
	8,286,159	8,314,143
Non-current assets		
Equity investments (<i>Note d</i>)	19,518	19,518
	19,518	19,518

Notes:

(a) Fund investments

During the current interim period, the Group disposed of all fund investments at the proceed of RMB254,580,000 (corresponding period of 2021: nil) and no new fund investment was purchased (corresponding period of 2021: nil) during the current interim period.

(b) 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 2022, the expected return rate stated in the contracts ranges from 2.00% to 5.30% (31 December 2021: 1.78% to 4.60%) per annum.

The investment income from unlisted financial products amounting to RMB144,393,000 (corresponding period of 2021: RMB128,757,000) was recognised in the profit or loss in the current interim period.

(c) Debt instruments

During the current interim period, the Group disposed of a debt instrument at the proceed of RMB33,346,000 (corresponding period of 2021: nil), and no new debt instrument was purchased (corresponding period of 2021: nil).

The loss on the fair value change of the remaining debt instruments amounting to RMB140,000 (corresponding period of 2021: a loss of RMB627,000) was recognised in the profit or loss in the current interim period.

(d) Equity investments

The Group's equity investments in several partnership enterprises amounting to RMB19,518,000 (31 December 2021: RMB19,518,000) were classified as financial assets at FVTPL.

In the opinion of the Directors of the Company, the fair value change of the equity investments 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 classified as held for trading and not under hedge accounting as follows:

	Assets		Liabilities	
	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Foreign currency forward contracts	138	27,120	25,400	41,321
Foreign currency options contracts	3,107	–	15,136	4,087
Foreign exchange swap contracts	6,747	117	–	95
Total	9,992	27,237	40,536	45,503
Less: current portion				
Foreign currency forward contracts	138	27,120	25,400	36,264
Foreign currency options contracts	3,107	–	15,136	4,087
Foreign exchange swap contracts	6,747	117	–	95
	9,992	27,237	40,536	40,446
Non-current portion	–	–	–	5,057

As at 30 June 2022, the Group had entered into the following foreign currency forward contracts, foreign currency options contracts and a foreign exchange swap contract:

Foreign currency forward contracts

The Group entered into several United States Dollar (“US\$” or “USD”)/RMB and HKD/RMB foreign currency forward contracts with 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	USD22,500,000	RMB156,300,750	Semi-annually till 18 January 2023	USD:RMB from 6.91 to 6.99
Contract 15	RMB281,388,800	USD44,000,000	From 27 July 2022 to 30 September 2022	USD:RMB: 6.40
Contract 16	RMB240,884,120	USD36,700,000	From 25 July 2022 to 15 December 2022	USD:RMB: 6.56
Contract 17	USD50,000,000	RMB333,690,000	12 June 2023	USD:RMB: 6.67
Contract 18	HKD780,000,000	RMB666,042,000	15 June 2023	HKD:RMB: 0.85

Foreign currency option contracts

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

The Group is required to transact with the banks for designated notional amount on each of the valuation dates specified within the respective contracts (“**Valuation Date**”).

At each Valuation Date, the reference rate which represents the spot rate as specified within the respective contracts shall be compared against the strike rates (upper and lower)/barrier rate as specified within the respective contracts, and the Group may receive from/pay to the bank an amount as specified in the contracts if certain conditions specified within the respective contracts are met.

Extracts of details of foreign currency options contracts from the respective contracts outstanding as at 30 June 2022 are as follow:

	Notional amount USD'000	Strike rate	Ending settlement date
Contract O	60,000	USD:RMB at 1:6.7300	26 July 2022
Contract P	60,000	USD:RMB at 1:6.7300	26 August 2022
Contract Q	60,000	USD:RMB at 1:6.6875	26 September 2022
Contract R	55,850	USD:RMB at 1:6.5735	26 July 2022
Contract S	12,090	USD:RMB at 1:6.7324	24 August 2022
Contract T	36,710	USD:RMB at 1:6.7578	25 August 2022
Contract U	19,470	USD:RMB at 1:6.6915	29 August 2022
Contract V	20,000	USD:RMB at 1:6.7797	29 August 2022
Contract W	47,070	USD:RMB at 1:6.7201	27 September 2022

Foreign currency swap contract

The Group entered into a Euro (“EUR”)/USD foreign exchange swap contract with a bank in the PRC in order to manage the Group’s foreign currency risk.

	Receiving currency	Selling currency	Maturity date	Strike Rate
Contract D	USD25,107,443	EUR23,056,350	22 July 2022	EUR:USD: 1.09

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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Raw materials	1,312,876	1,510,395
Work in progress	207,207	202,365
Finished goods	3,791,478	3,769,098
	<u>5,311,561</u>	<u>5,481,858</u>

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	6,275,517	5,730,277
Less: allowance for credit losses	(97,631)	(95,625)
	<u>6,177,886</u>	<u>5,634,652</u>
Bill receivables	<u>720,986</u>	<u>1,009,636</u>
Loan receivables	<u>116,503</u>	<u>142,829</u>
Other receivables and prepayment:		
Value added tax and other tax receivables	131,308	119,284
Advance to suppliers	109,213	110,068
Interest receivables	31,081	130,416
Prepaid expenses	156,910	145,316
Rental and utilities deposits	49,229	41,429
Advances to employees	98,635	88,915
Others	14,197	25,840
	<u>590,573</u>	<u>661,268</u>
Total trade and other receivables and prepayment	<u><u>7,605,948</u></u>	<u><u>7,448,385</u></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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
1 to 90 days	6,036,424	5,540,795
91 to 180 days	141,022	92,903
More than 180 days	440	954
	<u>6,177,886</u>	<u>5,634,652</u>

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Within 90 days	599,917	927,195
91 to 180 days	121,069	82,441
Total	<u>720,986</u>	<u>1,009,636</u>

Movement in the allowance for credit losses:

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Balance at the beginning of the reporting period	95,625	95,903
Impairment losses recognised on receivables	19,515	14,765
Amounts written off as uncollectible	(1,610)	(5,460)
Impairment losses reversed	(11,609)	(9,583)
Elimination on disposal of a subsidiary	(4,290)	–
	<u>97,631</u>	<u>95,625</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 2022.

	Average loss rate	Gross carrying amount RMB'000	Impairment loss allowance RMB'000
1 to 90 days	0.06%	6,039,988	3,564
91 to 120 days	0.19%	132,340	253
121 to 180 days	0.25%	8,957	22
More than 180 days	93.96%	7,284	6,844
		<u>6,188,569</u>	<u>10,683</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 2022 were the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

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 2022, the impairment allowance was provided in the amount of RMB97,631,000, among which RMB10,683,000 was made based on the provision matrix with life time ECL (not credit-impaired) and RMB86,948,000 was assessed individually on the credit-impaired debtors.

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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Current liabilities		
Trade payables		
Within 90 days	3,827,669	4,262,386
91 to 180 days	686,939	742,744
Over 180 days	595	355
Accrued purchases	709,716	925,738
	<u>5,224,919</u>	<u>5,931,223</u>
Note payables		
Within 90 days	1,100,491	1,336,260
91 to 180 days	234,557	385,024
Over 180 days	27,586	100,000
	<u>1,362,634</u>	<u>1,821,284</u>
Other payables		
Payables for purchase of property, plant and equipment	149,676	267,891
Staff salaries and welfare payables	1,079,413	1,311,836
Labor outsourcing payables	111,262	139,747
Payable for acquisition of patents	36,689	40,913
Value added tax payables and other tax payables	221,131	113,297
Interest payable	67,934	64,473
Utilities payable	67,959	58,346
Others	729,463	119,677
	<u>2,463,527</u>	<u>2,116,180</u>
	<u>9,051,080</u>	<u>9,868,687</u>
Non-current liability		
Long term payables		
Payable for acquisition of patent	152,949	172,044

The credit period on purchases of goods is up to 180 days (2021: 180 days) and the credit period for note payables is 90 days to 365 days averagely (2021: 90 days to 365 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 2022 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 2021 (audited)	135.931	2,783
Forfeited	149.642	(119)
Vested	115.035	(1,638)
Granted	200.720	<u>1,460</u>
At 31 December 2021 and 1 January 2022 (audited)	187.090	2,486
Forfeited	160.934	(104)
Vested	140.189	(1,064)
Granted (<i>Note</i>)	105.200	<u>2,826</u>
As at 30 June 2022 (unaudited)	143.946	<u><u>4,144</u></u>

The equity-settled share-based payments expense charged to profit or loss was approximately RMB113,596,000 for the current interim period (corresponding period of 2021: RMB88,501,000).

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
2,826,085 shares	105.200	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 2,759,962 shares at the average price of HK\$103.009 (total amount equivalent to approximately RMB244,301,000) under the share award scheme.

21. COMMITMENTS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	<u><u>1,157,601</u></u>	<u><u>684,402</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, handset lens sets, vehicle lens sets, optical parts of vehicle light detection and ranging (“LiDAR”) security surveillance lens sets, VR positioning lens sets and other various lens sets), Optoelectronic Products (such as handset camera modules, vehicle modules, VR visual modules and other optoelectronic modules) and Optical Instruments (such as microscopes and intelligent inspection equipment). The Group focuses on the application fields of optoelectronic-related products, such as handsets, vehicles, security surveillance, VR/AR and robots, which are combined with optical, electronic, algorithm and mechanical technologies.

Save as disclosed in this announcement, there have been no material changes in the development or future development of the Group’s business and financial position since the publication of the annual report of the Company for the year ended 31 December 2021, and no important events affecting the Group which have occurred since 30 June 2022.

BUSINESS REVIEW

The business review of the Group for the six months ended 30 June 2022 shall be presented in the following three categories, namely Optical Components, Optoelectronic Products and Optical Instruments.

Optical Components

For the six months ended 30 June 2022, the revenue from the Optical Components business segment was approximately RMB4,399.1 million. This segment accounted for approximately 25.9% of the Group’s total revenue, as compared to approximately 21.9% 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 decreased by approximately 9.1% to approximately 651,629,000 units for the six months ended 30 June 2022 as compared to the corresponding period of last year. Due to the on-going impact of unfavorable factors such as the weakening demand in the global smartphone market and downgrading specification and configuration of smartphone camera, the competition in the handset lens sets market remained fierce. Faced with such unfavorable objective environment, the Group proactively responded to market changes by deepening its excellent internal performance management and conducting a range of activities for improving internal management capability with focus on the concepts of “improving efficiency”, “promoting yield rate”, “increasing income and reducing expenditure” and “mutual trust and win-win results”, thereby maintaining its position as the global No. 1 market share in the midst of fierce competition. At the same time, in order to cater to the personalized needs of different customers, the Group continuously enhanced its R&D capability and engineering technology capability, and completed the R&D of various high-specification handset lens sets during the period under review, including 1-inch hybrid handset lens sets, 200-mega pixel ultra-thin handset lens sets and wide-angle (100°) front handset lens sets with miniaturized head. In addition, ultra-thin handset lens sets with ultra-miniaturized head for foldable phones, 200-mega pixel ultra-large image size (1/1.22”) handset lens sets and ultra-wide angle handset lens sets with two pieces of freeform lens have been commenced mass production.

In terms of the vehicle lens sets business, the shipment volume of vehicle lens sets of the Group increased slightly by approximately 0.8% to approximately 37,611,000 units for the six months ended 30 June 2022 as compared to the corresponding period of last year, and continued to maintain its global No. 1 position in terms of market share. In addition, the Group made continuous efforts in improving technological R&D and product innovation for vehicle lens sets, with its market position and comprehensive competitiveness further consolidated and enhanced. During the period under review, the Group has newly completed the R&D of various 5-mega pixel hybrid in-cabin monitoring vehicle lens sets, which could monitor the driver and passengers simultaneously. The Group has obtained the platform-based projects from various automobile manufacturers. Meanwhile, 3-mega pixel hybrid side-view advanced driving assistance system (“ADAS”) vehicle lens sets have been commenced mass production. Such lens sets could not only increase the luminous flux with smaller size, but also decrease the cost. In addition, the Group has commenced the mass production of 3-mega pixel large aperture (FNo.1.6) hybrid surround-view vehicle lens sets leveraging on the highly precise control technology of temperature excursion and tackling the technical difficulty of large aperture lens sets being subject to focus shift due to their small depth of focus.

In terms of the emerging optical market fields, the Group firmly seized the opportunities from the “Metaverse” trend, continued to explore the application of optics in emerging markets and increased the investment in the product development. During the period under review, the Group has completed the R&D of the projection lens sets applied to AR optical engine, which had ultra-miniaturized size and outstanding temperature excursion performance. In addition, the Group’s new-generation VR positioning lens sets have been commenced mass production. Such lens sets can further tackle temperature excursion and improve the stability of spatial orientation. Meanwhile, VR pancake modules have been also commenced mass production.

Optoelectronic Products

For the six months ended 30 June 2022, the revenue from the Optoelectronic Products business segment was approximately RMB12,370.9 million. This segment accounted for approximately 72.9% of the Group’s total revenue, as compared to approximately 77.2% 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 decreased by approximately 20.1% to approximately 288,682,000 units for the six months ended 30 June 2022 as compared to the corresponding period of last year. During the period under review, affected by multiple unfavorable factors such as the weak demand in the global smartphone market and downgrading specification and configuration of smartphone camera, the shipment volume growth and the specification upgrade of handset camera modules of the Group faced greater challenges. By further strengthening the stickiness with domestic customers, the business expansion with overseas customers, and the ability to integrate products systematically, and improving production efficiency and reducing production costs, the Group continued to consolidate its leading edge in the market and enhanced its comprehensive competitiveness, thereby consolidating its global No. 1 position in terms of market share. At the same time, in order to further expand its competitive advantages, the Group increased the investment in technological R&D and continuously renovated the process technology. During the period under review, the Group has completed the R&D of the first internal focusing handset camera modules in the industry and the optical image stabilization (“OIS”) handset camera modules with tunable aperture. Meanwhile, the Group has commenced mass production of the ultra-large image size (1/1.12”) OIS handset camera modules.

In terms of the vehicle modules business, based on the visionary product layout and profound technology accumulation, the Group continued to provide customers with high-value products and services and achieved high-quality delivery. The layout of the comprehensive product lines of vehicle modules was highly recognized by the market. During the period under review, the Group has completed the R&D of various vehicle modules, mainly including the 8-mega pixel A-PHY transmission technology vehicle modules and the 5-mega pixel occupancy monitoring system (“OMS”) in-cabin vehicle modules. Meanwhile, the Group has commenced mass production of the 3-mega pixel high-definition surround-view vehicle modules and the Group has commenced mass production of three new projects of 8-mega pixel sensing vehicle modules for external environment. In addition, the Group has got three new designated projects of 8-mega pixel sensing vehicle modules for external environment.

In terms of the robotic vision business, the Group continued to develop its business and strived for planning of technology and market layout in advance. By continuously optimizing the product planning and core technology layout of robotic vision artificial intelligence (“AI”) modules, the Group has completed the R&D of the first-generation standardized products during the period under review. At the same time, the Group continued to strengthen product promotion and market development. In the field of sweeping robots, three-dimensional (“3D”) visual modules have been commenced mass production and were shipped to industry-leading customers. In the field of commercial robots, 3D visual modules used in distribution, cleaning, and reception fields have been commenced mass production and were shipped to top customers. In addition, full verification of engineering samples of the Group’s tape-out of visual AI chips was completed, and the batch packaging design of the chip was completed and put into use, which enabled the Group to offer more comprehensive optical system solutions to customers.

Optical Instruments

For the six months ended 30 June 2022, the revenue from the Optical Instruments business segment was approximately RMB201.8 million. This segment accounted for approximately 1.2% of the Group’s total revenue, as compared to approximately 0.9% in the corresponding period of last year.

In terms of the microscopes business, the Group’s R&D innovation has also achieved certain breakthroughs. During the period under review, the Group has commenced the mass production of the first 25X flat field multipoint excitation dedicated objectives for commercial use in China. Both of the near-infrared wide field and multiphoton imaging has obtained outstanding performance in life science research field. It has been recognized by many scientific research institutions and universities for the characteristics of in-depth and high spatial resolution. At the same time, first global near-infrared region-II microscope in vivo imaging system has also commenced mass production. The equipment has imaging capabilities from visible light to near-infrared light (400-1,700nm), representing the industry-leading wide-field microscopic maximum detection depth (1.4mm) and minimum resolution (1 μ m). It was a high-precision inspection equipment for the field of living life sciences.

In terms of the intelligent equipment business, the Group has achieved various technological breakthroughs. In the industrial field, the Group has successfully completed the R&D of patterned wafer automated optical inspection equipment during the period under review. The equipment can detect defects such as contamination on the wafer surface, short circuits and disconnection, and was equipped with a high-precision motion platform and an autofocus microscopic system solution to achieve sub-micron defect detection, which was in an industry-leading position in domestic market. In the medical field, the Group has commenced the mass production of chromosome caryotype auto microscopic scanner, which can be applied in prenatal examination, screening and diagnosis, genetic diseases diagnosis, hematologic tumor diagnosis and other fields and has successfully replaced imported equipment.

OUTLOOK AND FUTURE STRATEGIES

Looking forward, it is foreseeable that the global economic recovery might still face difficulties, and the international environment will be intricate and complicated, hence the consumer demand will be likely to remain weak. The development of relevant industries is not optimistic and enterprises will still face huge pressures on the operation. However, as digital economy and green economy gradually become the main engines to the global economic growth, they will bring new growth potentials and development opportunities to the optoelectronic industry. The rapid development of autonomous driving will promote the adoption of multi-sensor and huge market potentials will be appeared in VR/AR, robotic vision and other emerging industries. As such, near-term pressure also serves as the driving force. The Group will drive the corporate growth and the value enhancement and continuously create more returns to the shareholders of the Company (the “**Shareholders**”) through the below strategies:

1. to strengthen and expand the existing advantageous businesses, further increase the market share;
2. to enhance the investment in new businesses continuously and take over the strategic control points in the industry;
3. to improve the refined management and devote to continuous improvement on operation quality; and
4. to strengthen the talent team building.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2022, the Group’s revenue was approximately RMB16,971.8 million, representing a decrease of approximately 14.4% as compared to the corresponding period of last year. The decrease in revenue was mainly attributable to impacts from the resurgence of the pandemic, chip shortage, Russian-Ukrainian conflict and inflation in the first half of 2022:

- (1) the smartphone market experienced weak demand and the smartphone camera showed a trend of downgrading specification and configuration, which resulted in the year-on-year decrease of the shipment volume of handset lens sets and handset camera modules of the Group, with increasing pressure on average selling prices; and
- (2) the growth rates of vehicle lenssets and vehicle modules of the Group did not increase as expected.

Revenue generated from the Optical Components business segment was approximately RMB4,399.1 million, representing a slight increase of approximately 1.3% as compared to the corresponding period of last year. The slight increase in revenue was mainly attributable to the decrease of shipment volume and average selling price of handset lens sets as compared to the corresponding period of last year, which was affected by the weak demand of smartphone market and downgrading specification and configuration of smartphone camera. However, the revenue related to the infrared lens sets increased because of the increased market demand. Meanwhile, the revenue related to the optical parts of LiDAR and head-up display (“**HUD**”) also increased significantly as the projects have been commenced mass production.

Revenue generated from the Optoelectronic Products business segment was approximately RMB12,370.9 million, representing a decrease of approximately 19.2% as compared to the corresponding period of last year. The decrease in revenue was mainly attributable to the decrease of shipment volume of handset camera modules, which was affected by the weak demand of smartphone market.

Revenue generated from the Optical Instruments business segment was approximately RMB201.8 million, representing an increase of approximately 11.1% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in the market demand for optical instruments applied to domestic industrial and medical fields and overall overseas market.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the six months ended 30 June 2022 was approximately RMB3,522.4 million, representing a decrease of approximately 28.8% as compared to the corresponding period of last year. The gross profit margin was approximately 20.8%, which was approximately 4.1 percentage points lower than that of the corresponding period of last year. The decrease in gross profit margin was mainly attributable to the decrease in gross profit margins of handset lens sets and handset camera modules, which was affected by the weak demand of smartphone market and downgrading specification and configuration of smartphone camera.

The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 35.5%, 11.6% and 44.6%, respectively (corresponding period of 2021: approximately 42.9%, 14.8% and 44.2% respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2022 was approximately RMB163.4 million, representing an increase of approximately 5.1% as compared to the corresponding period of last year. It accounted for approximately 1.0% of the Group's revenue during the period under review, as compared to approximately 0.8% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in the headcount and remuneration of sales staff.

R&D Expenditure

The R&D expenditure of the Group for the six months ended 30 June 2022 was approximately RMB1,468.2 million, representing an increase of approximately 11.2% as compared to the corresponding period of last year. It accounted for approximately 8.7% of the Group's revenue during the period under review, as compared to approximately 6.7% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the Group's continuous investments in the upgrade of existing products and the increase in R&D expenditure on the products related to the emerging businesses.

Administrative Expenses

The administrative expenses of the Group for the six months ended 30 June 2022 was approximately RMB438.0 million, representing an increase of approximately 16.1% as compared to the corresponding period of last year. It accounted for approximately 2.6% of the Group's revenue during the period under review, as compared to approximately 1.9% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in the remuneration of administrative staff, and the increase in expenses related to the grant of restricted shares and the informationization construction.

Income Tax Expense

The Group's income tax expenses for the six months ended 30 June 2022 was approximately RMB304.9 million, representing a decrease of approximately 41.6% as compared to the corresponding period of last year. The decrease in absolute amount was mainly attributable to the decrease of profit before tax. The Group's effective tax rate was approximately 18.1% during the period under review, and it was approximately 16.2% for the corresponding period of last year.

Net Profit and Net Profit Margin

For the six months ended 30 June 2022, the Group's net profit was approximately RMB1,378.8 million, representing a decrease of approximately 49.1% as compared to the corresponding period of last year. The decrease in net profit was mainly attributable to the decrease in gross profit and the depreciation of the RMB, an unrealised foreign exchange loss amounting to approximately RMB201.4 million was caused by the USD600.0 million bonds issued by the Company on 23 January 2018, which was a non-cash item. The net profit margin was approximately 8.1% for the six months ended 30 June 2022 and it was approximately 13.6% 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 2022 was approximately RMB1,357.9 million, representing a decrease of approximately 49.5% as compared to the corresponding period of last year.

Interim Dividends

The Company has paid the dividend for the year ended 31 December 2021 in June 2022, which was HKD1.118 per share. The payout ratio was approximately 20.0% of the profit for the year attributable to owners of the Company.

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2022 (corresponding period of 2021: nil).

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2022 and 30 June 2021:

	For the six months ended 30 June	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	1,571.1	2,395.9
Net cash used in investing activities	(723.6)	(1,769.0)
Net cash used in financing activities	(1,510.5)	(1,133.0)

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 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 2022.

As at 30 June 2022, the Group had current assets of approximately RMB27,353.4 million (31 December 2021: approximately RMB27,989.3 million), comprising bank balances and cash of approximately RMB4,972.8 million (31 December 2021: approximately RMB5,605.2 million); and current liabilities of approximately RMB14,968.0 million (31 December 2021: approximately RMB11,873.5 million). The Group's current ratio was approximately 1.8 times (31 December 2021: approximately 2.4 times). The Group's total assets as at 30 June 2022 was approximately RMB38,304.9 million, representing a decrease of approximately 1.2% as compared to that as at 31 December 2021.

Capital Expenditure

For the six months ended 30 June 2022, the Group's capital expenditure amounted to approximately RMB1,364.3 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.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 30 June 2022 amounted to approximately RMB2,226.3 million (31 December 2021: approximately RMB2,238.9 million). As at 30 June 2022, no bank borrowings were secured by buildings and land of the Group. As at 30 June 2022, the bank borrowings were denominated in RMB, USD and HKD.

Bank facilities

As at 30 June 2022, the Group had bank facilities of RMB2,850.0 million with Yuyao Sub-branch of Agricultural Bank of China Limited, RMB2,400.0 million with Ningbo Branch of The Export-Import Bank of China, RMB1,215.0 million with Yuyao Branch of Bank of China Limited, RMB3,000.0 million with Yuyao Sub-branch of Ningbo Bank Co., Ltd., RMB380.0 million with Yuyao Sub-branch of Bank of Communications Co., Ltd., RMB70.0 million with Xinyang Pingzhong Street Sub-branch of Industrial and Commercial Bank of China Limited, RMB300.0 million with Yuyao Branch of Industrial and Commercial Bank of China Limited, RMB600.0 million with Yuyao Sub-branch of China Construction Bank Corporation, USD120.0 million with BNP Paribas Hong Kong Branch, USD80.0 million with The Hongkong and Shanghai Banking Corporation Limited Hong Kong Branch, USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd., USD50.0 million with Crédit Agricole Corporate and Investment Bank Hong Kong Branch, USD30.0 million with Crédit Agricole Corporate and Investment Bank Shanghai Branch, USD125.0 million with Bank of China (Hong Kong) Limited, USD25.0 million with Ho Chi Minh City Branch of Bank of China Limited, USD110.0 million with Standard Chartered (Hong Kong) Limited and USD20.0 million with Standard Chartered Bank, India.

Debt securities

As at 30 June 2022, the Group had debt securities of approximately RMB4,021.3 million (31 December 2021: approximately RMB3,815.6 million).

The Group's gearing ratio of approximately 16.3% 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 2022, the Group did not have any material contingent liabilities or guarantees.

Financing and funding and treasury policies and objectives

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

PLEDGE OF ASSETS

As at 30 June 2022, the Group did not have any pledge or charge on assets, except for the pledged bank deposits of approximately RMB7.1 million.

COMMITMENTS

As at 30 June 2022, the capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounted to approximately RMB1,157.6 million (31 December 2021: approximately RMB684.4 million).

As at 30 June 2022, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2022, 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 instruments, 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 2022, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB8,279.4 million (31 December 2021: approximately RMB7,992.2 million). As at 30 June 2022, the size of the unlisted financial products subscribed by the Group in aggregate represented approximately 21.6% of the Group's total assets (31 December 2021: approximately 20.6%). The investment costs for the unlisted financial products subscribed as at 30 June 2022 was approximately RMB8,155.0 million (31 December 2021: approximately RMB7,992.2 million). For the six months ended 30 June 2022, the amount of investment income from the unlisted financial products was approximately RMB144.4 million (corresponding period of 2021: approximately RMB128.8 million)

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 30 June 2022 (in descending order):

Name of the unlisted financial products	Name of banks	Investment costs RMB'000	Fair value of the unlisted financial products as at 30 June 2022 RMB'000	Percentage of fair value of the unlisted financial products relative to the total assets of the Group as at 30 June 2022
Bank of Ningbo NingXin fixed income one-year fixed-term open-ended wealth management No. 16* (寧銀理財寧欣固定收益類一年定期開放式理財16號)	Bank of Ningbo Co., Ltd.	800,000	800,693	2.1%
Bank of Ningbo NingXin fixed income 9-month periodic wealth management No. 2* (寧銀理財寧欣固定收益類9個月周期型理財2號)	Bank of Ningbo Co., Ltd.	550,000	560,596	1.5%
Sunshine Jin Zhou Tian Li Zhen Xiang No. B001* (陽光金周添利臻享B001號)	China Everbright Bank Co., Ltd.	400,000	400,739	1.0%
Bank of Ningbo 2021 close-ended private net-asset-value type No. 34* (寧銀理財2021封閉式私募淨值型34號)	Bank of Ningbo Co., Ltd.	300,000	310,682	0.8%
Bank of Ningbo NingXin fixed income 3-month regular open-ended wealth management No. 17* (寧銀理財寧欣固定收益類3個月定期開放式理財17號)	Bank of Ningbo Co., Ltd.	299,000	303,427	0.8%
Others#		5,806,030	5,903,294	15.4%
	Total	8,155,030	8,279,431	21.6%

- * The English names are unofficial English translation of the Chinese names of unlisted financial products. If there is any inconsistency, the Chinese names shall prevail.
- # Other unlisted financial products included 55 unlisted financial products with 8 different banks to lower the concentration risk. The fair value of such 55 unlisted financial products as at 30 June 2022 was approximately RMB107.3 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 2022.

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 the 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 further diversify its investments among different banks to lower the concentration risk and will closely monitor the performance of investments made and future investments plan 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 2022, the Group's investments amounted to approximately RMB1,364.3 million, which was primarily for the purchases of property, plant and equipment, 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 funding and treasury 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 investment from its own financial resources.

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 2022, the effective interest rate on fixed-rate bank borrowings was approximately 3.08% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 1.72% to 3.70% 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, foreign currency option contracts and foreign exchange swap contract, please refer to Note 14 to the condensed consolidated financial statements of this announcement. 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 FVTPL, trade and other receivables and equity instruments at FVTOCI, 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 of the Company (the "**Management**") has delegated a team 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 has also 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 the 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 the 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 Act and the Company's articles of association (the "**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. There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustee of the restricted share award scheme adopted by the Company in 2010 (the "**Restricted Share Award Scheme**"), of the Company's listed shares for the six months ended 30 June 2022.

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 period of the Restricted Share Award Scheme for another 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 to the condensed consolidated financial statements of this announcement.

C. CORPORATE GOVERNANCE AND SECURITIES TRANSACTIONS BY DIRECTORS

Corporate Governance

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 2022, the Company complied with all of the mandatory disclosure requirements of the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules. Meanwhile, the Company has applied the principals of good corporate governance (the "**Principals**") and complied with the code provisions and most of the recommended best practices set out in Part 2 of the Corporate Governance Code. The Company annually reviews the application of the Principals.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2022.

D. AUDIT COMMITTEE

The audit committee of the Board (the “**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 and the Company’s external auditor have reviewed the interim report of 2022 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2022. Members of the Audit Committee agreed with the accounting treatments adopted in the preparation of the condensed consolidated financial statements.

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

China, 15 August 2022

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.