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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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

RESULT HIGHLIGHTS

Confronted with recurrent outbreaks of the coronavirus disease 2019 (“**COVID-19**”) around the world, drastic changes in the global political and economic environment, increasing downward pressure on the global economy, rising costs of energy, logistics and raw materials, continuously weak consumer demand and increasingly fierce industry competition, yet the overall industrial competitive advantages of Sunny Optical Technology (Group) Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) were further consolidated by maintaining its strategic focus, growing despite the challenges, expanding income sources and reducing costs.

For the year ended 31 December 2022, the Group’s revenue was approximately Renminbi (“**RMB**”)33,196.9 million, representing a decrease of approximately 11.5% as compared to that of last year.

For the year ended 31 December 2022, the Group’s gross profit was approximately RMB6,605.0 million, representing a decrease of approximately 24.4% as compared to that of last year. The gross profit margin was approximately 19.9%, which was approximately 3.4 percentage points lower as compared to that of last year.

For the year ended 31 December 2022, profit for the year attributable to owners of the Company was approximately RMB2,407.8 million, representing a decrease of approximately 51.7% as compared to that of last year.

The board (the “**Board**”) of directors (the “**Directors**”, each a “**Director**”) of the Company has proposed final dividends of Hong Kong Dollar (“**HKD**”) 0.500 per share (equivalent to approximately RMB0.439 per share) for the year ended 31 December 2022.

FINANCIAL RESULTS

The Board is pleased to present the consolidated results of the Group for the year ended 31 December 2022, together with the comparative figures for the year of 2021 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2022

	NOTES	2022 <i>RMB'000</i>	2021 <i>RMB'000</i>
Revenue	3,4	33,196,937	37,496,852
Cost of sales		(26,591,940)	(28,760,659)
Gross profit		6,604,997	8,736,193
Other income	5(A)	697,707	689,949
Other gains and losses	5(B)	(193,460)	99,065
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(10,570)	(5,182)
Selling and distribution expenses		(352,785)	(274,105)
Research and development expenditure		(2,803,398)	(2,642,196)
Administrative expenses		(928,579)	(757,592)
Share of results of associates		(5,996)	19,007
Finance costs	6	(292,937)	(230,252)
Profit before tax		2,714,979	5,634,887
Income tax expense	7	(240,831)	(578,972)
Profit for the year	8	2,474,148	5,055,915
Other comprehensive (expense) income			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”), net of income tax		(20,787)	2,808
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		20,956	(4,271)
Other comprehensive income (expense) for the year		169	(1,463)
Total comprehensive income for the year		2,474,317	5,054,452
Profit for the year attributable to:			
Owners of the Company		2,407,796	4,988,007
Non-controlling interests		66,352	67,908
		2,474,148	5,055,915
Total comprehensive income for the year attributable to:			
Owners of the Company		2,409,478	4,987,488
Non-controlling interests		64,839	66,964
		2,474,317	5,054,452
Earnings per share – Basic (RMB cents)	10	220.26	456.52
– Diluted (RMB cents)	10	220.15	455.93

Consolidated Statement of Financial Position
At 31 December 2022

	NOTES	31/12/2022 <i>RMB'000</i>	31/12/2021 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	11	10,119,846	8,303,229
Right-of-use assets		612,062	504,684
Investment properties		35,502	40,380
Intangible assets		250,715	306,926
Interests in associates		200,645	201,641
Deferred tax assets	12	257,178	255,651
Deposits paid for acquisition of property, plant and equipment		489,947	471,595
Equity instruments at FVTOCI	13	168,160	178,762
Financial assets at fair value through profit or loss (“FVTPL”)	14	19,518	19,518
Time deposits	16	200,000	500,000
Goodwill		2,119	2,119
		12,355,692	10,784,505
CURRENT ASSETS			
Inventories	17	4,720,913	5,481,858
Trade and other receivables and prepayment	18	7,205,110	7,448,385
Receivables at FVTOCI		548,956	–
Tax recoverable		28,120	–
Derivative financial assets	15	29,681	27,237
Financial assets at FVTPL	14	10,086,415	8,314,143
Amount due from a related party		8,256	327
Time deposits	16	500,000	–
Pledged bank deposits	16	9,775	18,292
Short term fixed deposits	16	475,176	1,093,914
Cash and cash equivalents	16	7,033,194	5,605,179
		30,645,596	27,989,335
CURRENT LIABILITIES			
Trade and other payables	19	12,917,286	9,868,687
Amounts due to related parties		9,992	6,934
Derivative financial liabilities	15	17,655	40,446
Contract liabilities		166,096	178,101
Tax payable		–	188,022
Bank borrowings – current portion	20	1,989,981	1,538,897
Lease liabilities – current portion		51,378	46,271
Deferred income – current portion		6,446	6,099
Bonds payable	21	4,178,082	–
		19,336,916	11,873,457
NET CURRENT ASSETS		11,308,680	16,115,878
TOTAL ASSETS LESS CURRENT LIABILITIES		23,664,372	26,900,383

	NOTES	31/12/2022 <i>RMB'000</i>	31/12/2021 <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	12	850,321	1,015,890
Derivative financial liabilities	15	–	5,057
Long term payables	19	122,777	172,044
Bank borrowings – non-current portion	20	30,000	700,000
Lease liabilities – non-current portion		187,938	107,999
Deferred income – non-current portion		290,950	188,504
Bonds payable	21	–	3,815,623
		1,481,986	6,005,117
NET ASSETS			
		22,182,386	20,895,266
CAPITAL AND RESERVES			
Share capital	22	105,163	105,163
Reserves		21,733,224	20,482,909
Equity attributable to owners of the Company		21,838,387	20,588,072
Non-controlling interests		343,999	307,194
TOTAL EQUITY		22,182,386	20,895,266

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2022

1. GENERAL INFORMATION

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 “**Hong Kong Stock Exchange**”) with effect from 15 June 2007. Its ultimate holding and parent company is Sun Xu Limited, a private limited company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Wang Wenjian, also a non-executive Director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

The Company is an investment holding company. The Group is principally engaged in the business of designing, researching and developing, manufacturing and selling of optical and optical related products and scientific instruments.

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

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**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 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 Hong Kong Accounting Standard (“ 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 year has had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ²
Amendments to HKFRS 16	<i>Lease Liability in a Sale and Leaseback</i> ³
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> ³
Amendments to HKAS 1	<i>Non-current Liabilities with Covenants</i> ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	<i>Disclosure of Accounting Policies</i> ¹
Amendments to HKAS 8	<i>Definition of Accounting Estimates</i> ¹
Amendments to HKAS 12	<i>Deferred Tax related to Assets and Liabilities arising from a Single Transaction</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2023

² Effective for annual periods beginning on or after a date to be determined

³ Effective for annual periods beginning on or after 1 January 2024

Except for the new and amendments to HKFRSs mentioned below, the Directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption of deferred tax liabilities and deferred tax assets in paragraphs 15 and 24 of HKAS 12 *Income Taxes* so that it no longer applies to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the relevant assets and liabilities separately. Temporary differences on initial recognition of the relevant assets and liabilities are not recognised due to application of the initial recognition exemption.

Upon the application of the amendments, the Group will recognise a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary differences associated with the right-of-use assets and the lease liabilities.

The amendments are effective for the Group's annual reporting period beginning on 1 January 2023. The cumulative effect of initially applying the amendments will be recognised as an adjustment to the opening balance of retained earnings at the beginning of the earliest comparative period presented.

3. REVENUE

(i) Disaggregation of revenue from contracts with customers

For the year ended 31 December 2022			
	Optical Components	Optoelectronic Products	Optical Instruments
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Types of goods			
Sales of optical and related components	9,467,578	23,325,866	403,493
Total	9,467,578	23,325,866	403,493
Geographical markets			
The People's Republic of China ("PRC" or "China")	4,745,901	17,306,501	247,661
Asia (except China)	2,658,514	5,657,424	48,361
Europe	1,237,555	6,450	45,730
North America	780,872	98,904	59,510
Others	44,736	256,587	2,231
Total	9,467,578	23,325,866	403,493
Timing of revenue recognition			
At a point in time	9,467,578	23,325,866	403,493
For the year ended 31 December 2021			
	Optical Components	Optoelectronic Products	Optical Instruments
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Types of goods			
Sales of optical and related components	8,776,030	28,333,519	387,303
Total	8,776,030	28,333,519	387,303
Geographical markets			
China	4,944,126	23,666,093	270,171
Asia (except China)	2,078,974	4,495,319	38,204
Europe	1,046,409	3,459	29,099
North America	678,102	113,843	47,742
Others	28,419	54,805	2,087
Total	8,776,030	28,333,519	387,303
Timing of revenue recognition			
At a point in time	8,776,030	28,333,519	387,303

(ii) Performance obligations for contracts with customers

The Group sells optical and optical-related products directly to customers. For sales of optical components, optoelectronic products and optical instruments, revenue is recognised when control of the goods has transferred, being when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products. The credit term granted to customers is average 90 days. The transaction price received by the Group is recognised as a contract liability for sales in which revenue has yet been recognised.

(iii) Transaction price allocated to the remaining performance obligation for contracts with customers

The Group's contracts have an original expected duration of one year or less, as permitted under HKFRS 15, the transaction price allocated to the remaining performance obligations is not disclosed.

4. OPERATING SEGMENTS

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 Board of Directors 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
3. Optical Instruments

Segment revenues and results

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

For the year ended 31 December 2022

	Optical Components	Optoelectronic Products	Optical Instruments	Segment Total	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE						
External sales	9,467,578	23,325,866	403,493	33,196,937	–	33,196,937
Inter-segment sales	2,125,532	20,071	172,406	2,318,009	(2,318,009)	–
Total	<u>11,593,110</u>	<u>23,345,937</u>	<u>575,899</u>	<u>35,514,946</u>	<u>(2,318,009)</u>	<u>33,196,937</u>
Segment profit	<u>2,120,162</u>	<u>970,264</u>	<u>106,788</u>	<u>3,197,214</u>	<u>–</u>	<u>3,197,214</u>
Share of results of associates						(5,996)
Unallocated other income, other gains and losses						(148,853)
Unallocated administrative expenses and finance costs						(327,386)
Profit before tax						<u>2,714,979</u>

For the year ended 31 December 2021

	Optical Components	Optoelectronic Products	Optical Instruments	Segment Total	Eliminations	Total
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
REVENUE						
External sales	8,776,030	28,333,519	387,303	37,496,852	–	37,496,852
Inter-segment sales	2,927,700	12,519	90,889	3,031,108	(3,031,108)	–
Total	<u>11,703,730</u>	<u>28,346,038</u>	<u>478,192</u>	<u>40,527,960</u>	<u>(3,031,108)</u>	<u>37,496,852</u>
Segment profit	<u>2,674,903</u>	<u>3,027,049</u>	<u>99,604</u>	<u>5,801,556</u>	<u>–</u>	<u>5,801,556</u>
Share of results of associates						19,007
Unallocated other income, other gains and losses						74,959
Unallocated administrative expenses and finance costs						(260,635)
Profit before tax						<u>5,634,887</u>

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. 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 cash and cash equivalents, 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.

Segment assets and liabilities

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

As at 31 December 2022

	Optical Components <i>RMB'000</i>	Optoelectronic Products <i>RMB'000</i>	Optical Instruments <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Assets</i>				
Trade receivables	2,086,386	4,197,913	50,612	6,334,911
Bill receivables	359,503	178,872	10,581	548,956
Inventories	1,861,542	2,786,978	72,393	4,720,913
Total segment assets	<u>4,307,431</u>	<u>7,163,763</u>	<u>133,586</u>	<u>11,604,780</u>
Unallocated assets				<u>31,396,508</u>
Consolidated assets				<u>43,001,288</u>
<i>Liabilities</i>				
Trade payables and accrued purchases	1,938,163	3,340,195	107,145	5,385,503
Note payables	946,672	3,380,393	39,899	4,366,964
Total segment liabilities	<u>2,884,835</u>	<u>6,720,588</u>	<u>147,044</u>	<u>9,752,467</u>
Unallocated liabilities				<u>11,066,435</u>
Consolidated liabilities				<u>20,818,902</u>

As at 31 December 2021

	Optical Components <i>RMB'000</i>	Optoelectronic Products <i>RMB'000</i>	Optical Instruments <i>RMB'000</i>	Total <i>RMB'000</i>
<i>Assets</i>				
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>
<i>Liabilities</i>				
Trade payables and accrued purchases	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>

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

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

Other segment information

For the year ended 31 December 2022

	Optical Components <i>RMB'000</i>	Optoelectronic Products <i>RMB'000</i>	Optical Instruments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	1,188,146	732,673	18,146	1,614	1,940,579
Impairment losses on trade receivables (reversed) recognised in profit or loss	(1,945)	7,540	(1,704)	–	3,891
Impairment losses on amount due from a related party recognised in profit or loss	–	6,679	–	–	6,679
Loss (gain) on disposal of property, plant and equipment	10,796	(2,956)	118	24	7,982
Share award scheme expense	118,940	103,579	14,361	6,519	243,399
Interest income from bank and financial instruments	(13,598)	(372,136)	(6,251)	(4,600)	(396,585)
Allowance for (reversal of) inventories	74,123	(183,101)	(488)	–	(109,466)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	<u>3,051,383</u>	<u>571,553</u>	<u>63,401</u>	<u>321</u>	<u>3,686,658</u>

For the year ended 31 December 2021

	Optical Components <i>RMB'000</i>	Optoelectronic Products <i>RMB'000</i>	Optical Instruments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	957,606	781,873	18,283	1,994	1,759,756
Impairment losses on trade receivables recognised (reversed) in profit or loss	1,778	(2,881)	6,285	–	5,182
(Gain) loss on disposal of property, plant and equipment	(6,822)	8,178	(6)	–	1,350
Share award scheme expense	94,336	73,018	15,450	5,474	188,278
Interest income from bank and financial instruments	(24,096)	(365,327)	(7,596)	(7,131)	(404,150)
(Reversal of) allowance for inventories	(27,710)	163,887	(3,803)	–	132,374
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	<u>1,596,179</u>	<u>896,012</u>	<u>6,099</u>	<u>162</u>	<u>2,498,452</u>

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Handset related products	23,277,387	29,597,845
Vehicle related products	4,107,668	2,960,628
Augmented reality (“AR”)/virtual reality (“VR”) related products	2,061,625	1,344,637
Digital camera related products	852,119	1,004,258
Other lens sets	494,500	490,446
Optical instruments	334,168	273,734
Other spherical lens and plane products	254,021	142,255
Other products	1,815,449	1,683,049
	33,196,937	37,496,852

Geographical information

The Group's operations are mainly located in China, Vietnam, Korea, Japan, India and the United States.

The Group's revenue from continuing operations from external customers is presented based on the locations of goods physically delivered and information about the Group's non-current assets by the geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets (Note)	
	2022	2021	31/12/2022	31/12/2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
China	22,300,063	28,880,390	10,817,949	8,969,717
Asia (except China)	8,364,299	6,612,497	689,697	656,476
Europe	1,289,735	1,078,967	79	128
North America	939,286	839,687	347	493
Others	303,554	85,311	–	–
	33,196,937	37,496,852	11,508,072	9,626,814

Note: Non-current assets excluded interests in associates, deferred tax assets, financial assets at FVTPL, equity instruments at FVTOCI, time deposits and goodwill.

Information about major customers

Revenues from the following customers contributed over 10% of the total sales of the Group:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A, revenue mainly from optoelectronic and related products	5,510,485	5,811,013
Customer B, revenue mainly from optoelectronic and related products	4,308,243	7,664,838
Customer C, revenue mainly from optoelectronic and related products	3,381,544	N/A*
Customer D, revenue mainly from optoelectronic and related products	N/A*	4,946,670

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

5(A). OTHER INCOME

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	166,555	212,314
Interest income from time deposits, short term fixed deposits, pledged bank deposits and bank balances	198,203	97,112
Interest income from debt instruments	895	4,400
Investment income from unlisted financial products at FVTPL	197,487	302,638
Interest income from small loan services	6,308	7,833
Income from sales of moulds	15,124	16,467
Income from sales of scrap materials	57,632	30,753
Others	55,503	18,432
Total	<u>697,707</u>	<u>689,949</u>

5(B). OTHER GAINS AND LOSSES

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	(7,982)	(1,350)
Gain on disposal of a subsidiary	55,200	–
Net foreign exchange (loss) gain	(241,983)	33,950
Gain on changes in fair value of derivative financial instruments	30,292	67,097
Loss on changes in fair value of equity investments at FVTPL	–	(8,151)
(Loss) gain on changes in fair value of debt instruments and fund investments at FVTPL	(28,731)	6,382
Others	(256)	1,137
Total	<u>(193,460)</u>	<u>99,065</u>

6. FINANCE COSTS

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Interests on bank borrowings	114,651	62,490
Interests on bonds payable	161,768	153,970
Interests on long term payables related to intangible assets	5,226	6,203
Interests on lease liabilities	11,292	7,589
Total	<u>292,937</u>	<u>230,252</u>

7. INCOME TAX EXPENSE

	2022	2021
	<u>RMB'000</u>	<u>RMB'000</u>
Current tax:		
PRC Enterprise Income Tax	264,305	447,809
Withholding tax expense	61,247	46,792
Other jurisdictions	13,422	9,717
	<u>338,974</u>	<u>504,318</u>
Under (over) provision in prior years:		
PRC Enterprises Income Tax	64,959	(3,612)
Deferred tax (Note 12):		
Current year	(163,102)	78,266
	<u>240,831</u>	<u>578,972</u>

Under the Law of the PRC Enterprise Income Tax (the “**EIT Law**”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except as described below:

- (i) Ningbo Sunny Opotech Co., Ltd. (“**Sunny Opotech**”), Ningbo Sunny Automotive Optech Co., Ltd. (“**Sunny Automotive Optech**”), Sunny Optics (Zhongshan) Co., Ltd. (“**Sunny Zhongshan Optics**”), Ningbo Sunny Instruments Co., Ltd. (“**Sunny Instruments**”), Sunny Optical (Zhejiang) Research Institute Co., Ltd. (“**Sunny Research Institute**”) and Zhejiang Sunny SmartLead Technologies Co., Ltd. (“**Sunny SmartLead**”), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2022.
- (ii) Zhejiang Sunny Optics Co., Ltd. (“**Sunny Zhejiang Optics**”) and Xinyang Sunny Optics Co., Ltd. (“**Sunny Xinyang Optics**”), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2023.
- (iii) Ningbo Sunny Infrared Technologies Co., Ltd. (“**Sunny Infrared Optics**”), Zhejiang Sunny Optical Intelligence Technology Co., Ltd. (“**Sunny Optical Intelligence**”), and Yuyao Sunny Optical Intelligence Technology Co., Ltd. (“**Sunny Optical Intelligence (Yuyao)**”), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2024.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The income tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>2,714,979</u>	<u>5,634,887</u>
Tax at the PRC EIT tax rate of 25%	678,745	1,408,722
Tax effect of share of results of associates	1,499	(4,752)
Tax effect of expenses not deductible for tax purpose	5,520	8,949
Tax effect of allowance granted under share award scheme in the PRC	25,027	(21,859)
Tax effect of preferential tax rates for certain subsidiaries (Note a)	(137,255)	(337,501)
Tax effect of additional tax deduction of research and development expenses (Note b)	(623,120)	(573,148)
Tax effect of additional tax deduction of expenditures for equipment and appliances purchasing (Note c)	(425,524)	–
Tax effect of tax losses not recognised	657,538	64,542
Tax effect of deductible temporary differences not recognised	(1,701)	(3,745)
Utilisation of tax losses not previously recognised	(7,629)	(13,431)
Deferred tax provided for withholding tax on income derived in the PRC	24,321	65,436
Withholding tax on interest derived in the PRC	7,747	–
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(29,296)	(10,629)
Under (over) provision in prior years	<u>64,959</u>	<u>(3,612)</u>
Income tax expense for the year	<u>240,831</u>	<u>578,972</u>

Details of deferred taxation and unrecognised temporary difference are disclosed in Note 12.

Notes:

- (a) For the PRC subsidiaries which were approved as Hi-Tech Enterprises, they are entitled to a preferential enterprise tax rate of 15%.
- (b) In August 2018, Caishui [2018] No. 99 “Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses” was released, according to which certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research and development expenses incurred by them for both years ended 31 December 2021 and 2022.

In March 2021, the Ministry of Finance and the State Administration of Taxation released No. 13 announcement of 2021 named “Announcement on Further Improving the Policy on Pre-tax Deduction of Research and Development Expenses”, according to which certain PRC subsidiaries engaged in manufacturing industry are entitled to an additional 100% tax deduction on eligible research and development expenses incurred by them for both years ended 31 December 2021 and 2022.

- (c) In September 2022, the Ministry of Finance, the State Administration of Taxation and the Ministry of Science and Technology released No. 28 announcement of 2022 named “Announcement on Increasing Pre-tax Deduction for Supporting Sci-tech Innovation”, according to which certain PRC subsidiaries are entitled to an additional 100% tax deduction on eligible expenditures for equipment and appliances purchasing incurred between 1 October 2022 and 31 December 2022.

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	<u>2022</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Directors' emoluments	15,799	16,159
Other staff's salaries and allowances	2,985,820	2,518,548
Other staff's discretionary bonuses	232,232	217,220
Other staff's contribution to retirement benefit scheme	395,995	319,894
Other staff's share award scheme expense	234,617	178,746
	<u>3,864,463</u>	<u>3,250,567</u>
Cost of raw material inventories recognised as an expense	21,451,988	23,807,323
Auditor's remuneration	4,709	4,666
Depreciation of property, plant and equipment	1,813,899	1,638,067
Depreciation of investment properties	4,878	4,633
Depreciation of right-of-use assets	65,591	60,845
Amortisation of intangible assets	56,211	56,211
(Reversals of) allowance for inventories (included in cost of sales)	<u>(109,466)</u>	<u>132,374</u>

9. DIVIDENDS

	<u>2022</u>	<u>2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2021 final dividends – HKD111.80 cents (2021: 2020 final dividends – HKD105.70 cents) per share	<u>1,047,715</u>	<u>974,003</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HKD50.00 cents per share, equivalent to approximately RMB43.90 cents per share, amounting to a total of approximately HKD548,425,000 (2021: HKD111.80 cents per share, equivalent to approximately RMB95.52 cents per share, amounting to a total of approximately HKD1,226,278,000) has been proposed by the Directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting (the "AGM"). The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

10. EARNINGS PER SHARE

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

	<u>2022</u>	<u>2021</u>
	<u>RMB'000</u>	<u>RMB'000</u>
<u>Earnings</u>		
Earnings for the purpose of basic and diluted earnings per share	<u>2,407,796</u>	<u>4,988,007</u>
	<u>2022</u>	<u>2021</u>
	<u>'000</u>	<u>'000</u>
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note)	1,093,141	1,092,612
Effect of dilutive potential ordinary shares:		
Restricted shares	<u>567</u>	<u>1,416</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,093,708</u>	<u>1,094,028</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.

11. PROPERTY, PLANT AND EQUIPMENT

	Owned properties	Machinery and production equipment	Motor vehicles	Fixtures and office equipment	Construction in progress	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
COST						
At 1 January 2021	1,300,460	8,948,438	19,535	1,242,658	853,007	12,364,098
Additions	28,860	991,314	801	503,859	973,618	2,498,452
Transfer	405,942	391,986	–	101,482	(899,410)	–
Transferred to investment properties	(8,418)	–	–	–	–	(8,418)
Disposals	(1,635)	(284,543)	(1,816)	(23,353)	–	(311,347)
Exchange realignment	(1,166)	(8,250)	(20)	(2,607)	–	(12,043)
At 31 December 2021	1,724,043	10,038,945	18,500	1,822,039	927,215	14,530,742
Additions	6,678	2,701,395	1,309	607,844	369,432	3,686,658
Derecognised on disposal of a subsidiary	–	(2,745)	–	(10,930)	–	(13,675)
Transfer	191,360	376,335	–	22,563	(590,258)	–
Disposals	–	(360,257)	(2,100)	(33,000)	–	(395,357)
Exchange realignment	6,922	2,600	110	5,319	2,640	17,591
At 31 December 2022	1,929,003	12,756,273	17,819	2,413,835	709,029	17,825,959
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2021	192,696	4,119,701	16,050	522,458	–	4,850,905
Charge for the year	67,508	1,289,851	1,474	279,234	–	1,638,067
Transferred to investment properties	(4,312)	–	–	–	–	(4,312)
Eliminated on disposals	(1,573)	(227,849)	(1,641)	(20,366)	–	(251,429)
Exchange realignment	(15)	(3,780)	(18)	(1,905)	–	(5,718)
At 31 December 2021	254,304	5,177,923	15,865	779,421	–	6,227,513
Charge for the year	75,440	1,471,631	763	266,065	–	1,813,899
Derecognised on disposal of a subsidiary	–	(2,626)	–	(7,267)	–	(9,893)
Eliminated on disposals	–	(301,651)	(1,787)	(23,019)	–	(326,457)
Exchange realignment	159	616	80	196	–	1,051
At 31 December 2022	329,903	6,345,893	14,921	1,015,396	–	7,706,113
CARRYING VALUES						
At 31 December 2022	<u>1,599,100</u>	<u>6,410,380</u>	<u>2,898</u>	<u>1,398,439</u>	<u>709,029</u>	<u>10,119,846</u>
At 31 December 2021	<u>1,469,739</u>	<u>4,861,022</u>	<u>2,635</u>	<u>1,042,618</u>	<u>927,215</u>	<u>8,303,229</u>

The above items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis over their estimated useful lives as follows:

Owned properties	20 years
Machinery and production equipment	3 to 10 years
Motor vehicles	4 to 5 years
Fixtures and office equipment	3 to 10 years

As at 31 December 2022, the Group has obtained the ownership certificates for all buildings and no buildings of the Group were pledged to secure bank borrowings granted.

The Directors of the Company considered no impairment loss on property, plant and equipment for both years ended 31 December 2022 and 2021.

12. DEFERRED TAXATION

For the purpose of presentation in the 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:

	31/12/2022	31/12/2021
	RMB'000	RMB'000
Deferred tax assets	(257,178)	(255,651)
Deferred tax liabilities	850,321	1,015,890
	593,143	760,239

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

	Withholding tax on undistributed profit from the PRC	Allowance for inventories and ECL provision	Deferred subsidy income	Accelerated depreciation	Accrued bonus	Tax losses	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	145,737	(91,356)	(8,321)	712,126	(97,519)	–	20,810	681,477
Charge (Credit) to profit or loss (Note 7)	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	157,371	(111,932)	(26,679)	810,002	(95,741)	–	27,218	760,239
(Credit) Charge to profit or loss (Note 7)	(29,179)	17,694	(16,553)	106,432	(2,757)	(232,649)	(6,090)	(163,102)
Credit to other comprehensive income	–	–	–	–	–	–	(7,707)	(7,707)
Derecognised on disposal of a subsidiary	–	1,399	2,314	–	–	–	–	3,713
At 31 December 2022	128,192	(92,839)	(40,918)	916,434	(98,498)	(232,649)	13,421	593,143

As at 31 December 2022, the deferred tax liabilities amounting to RMB128,192,000 (31 December 2021: RMB157,371,000) was provided in respect of the temporary differences attributed to the PRC undistributed profits to the extent exceeding the investment plan which the Directors of the Company decided to distribute. The Group has determined that the remaining portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future, since the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

At the end of the reporting period, the Group had unused tax losses of approximately RMB4,766,689,000 (2021: RMB682,828,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB1,550,992,000 (2021: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB3,215,697,000 (2021: RMB682,828,000) either due to the unpredictability of future profit streams or because it is not probable that the unused tax losses will be available for utilisation before their expiry. Among the unrecognised tax losses, the tax losses arising from the PRC non high-tech subsidiaries of RMB335,983,000 (2021: RMB144,435,000) can be carried forward for maximum of five years and will expire during 2023 to 2027 (2021: 2022 to 2026) while the tax losses arising from the PRC high-tech subsidiaries of RMB2,486,801,000 (2021: RMB473,504,000) can be carried forward for maximum of ten years and will expire during 2023 to 2032 (2021: 2022 to 2031) according to Caishui [2018] No.76, which has extended the expiration period from five years to ten years. Other tax losses may be carried forward indefinitely.

By reference to financial budgets, the Directors of the Company believe that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>31/12/2022</u>	<u>31/12/2021</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Unlisted equity investments	<u>168,160</u>	<u>178,762</u>

The unlisted equity investments represent the Group's equity interests in private entities. The Directors of the Company have elected to designate these investments in equity instruments as at FVTOCI as they believe that recognising short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realising their performance in the long run.

During the current year, the Group disposed an equity instrument at FVTOCI at the proceed of RMB108,000 (2021: nil) and the Group made new equity investments measured as equity instruments at FVTOCI amounting to RMB18,000,000 (2021: RMB40,849,000).

The fair value loss of the remaining equity instruments at FVTOCI in the amount of RMB20,810,000 (2021: gain of RMB2,808,000), net off with the recognition of related deferred tax assets of RMB7,707,000 (2021: deferred tax liabilities of RMB496,000) was recognised in FVTOCI reserve.

14. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31/12/2022</u>	<u>31/12/2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Fund investments (Note a)	–	283,132
Unlisted financial products (Note b)	10,086,415	7,992,170
Debt instruments (Note c)	–	38,841
	<u>10,086,415</u>	<u>8,314,143</u>
Non-current assets		
Equity investments (Note d)	19,518	19,518
	<u>19,518</u>	<u>19,518</u>

Notes:

(a) Fund investments

During the current year, the Group disposed all fund investments at the proceed of RMB254,580,000 (2021: nil). The disposal loss of the fund investments in the amount of RMB28,104,000 is recognised in profit or loss of the current year.

(b) Unlisted financial products

During the current year, the Group entered into several contracts of unlisted financial products with banks. The unlisted financial products 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 financial assets at FVTPL on initial recognition of which the return of the unlisted financial products was determined by reference to the performance of the underlying debt instruments and treasury notes and as at 31 December 2022, the expected return rate stated in the contracts ranges from 1.80% to 5.00% (31 December 2021: 1.78% to 4.60%) per annum.

(c) Debt instruments

During the current year, the Group disposed all debt instruments at the proceed of RMB40,418,000 (2021: RMB32,427,000). The disposal loss of the debt instruments in the amount of RMB627,000 is recognised in profit or loss of the current year.

(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 as at 31 December 2022.

15. 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	
	31/12/2022	31/12/2021	31/12/2022	31/12/2021
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Foreign currency forward contracts	29,681	27,120	508	41,321
Foreign currency options contracts	–	–	17,147	4,087
Foreign exchange swap contracts	–	117	–	95
Total	29,681	27,237	17,655	45,503
Less: current portion				
Foreign currency forward contracts	29,681	27,120	508	36,264
Foreign currency options contracts	–	–	17,147	4,087
Foreign exchange swap contracts	–	117	–	95
	29,681	27,237	17,655	40,446
Non-current portion	–	–	–	5,057

As at 31 December 2022, the Group had entered into the following foreign currency forward contracts and foreign currency options contracts:

Foreign currency forward contracts

The Group entered into several United States dollar (“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 W	USD11,250,000	RMB78,616,125	18 January 2023	USD:RMB: 6.99
Contract 16	USD50,000,000	RMB333,690,000	12 June 2023	USD:RMB: 6.67
Contract 17	HKD780,000,000	RMB666,042,000	15 June 2023	HKD:RMB: 0.85

Foreign currency options contracts

The Group entered into several USD/RMB foreign currency options 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 31 December 2022 are as follows:

	<u>Notional amount</u>	<u>Strike/barrier rates</u>	<u>Ending settlement date</u>
	<i>USD'000</i>		
Contract O	9,500	USD:RMB at 1:7.2125	16 January 2023
Contract P	60,000	USD:RMB at 1:7.3893	17 January 2023
Contract Q	85,350	USD:RMB at 1:7.3266	30 January 2023
Contract R	6,500	USD:RMB at 1:7.2960	30 January 2023
Contract S	9,500	USD:RMB at 1:7.2664	6 February 2023
Contract T	10,880	USD:RMB at 1:7.0530	22 February 2023
Contract U	8,200	USD:RMB at 1:7.1571	22 February 2023
Contract V	40,000	USD:RMB at 1:7.2521	22 February 2023
Contract X	81,450	USD:RMB at 1:7.1639	22 February 2023
Contract Y	6,500	USD:RMB at 1:7.1636	22 February 2023
Contract Z	12,000	USD:RMB at 1:6.9869	27 March 2023
Contract A	22,670	USD:RMB at 1:6.9081	27 March 2023
Contract B	119,490	USD:RMB at 1:7.0111	27 March 2023
Contract C	12,600	USD:RMB at 1:7.0687	27 March 2023
Contract D	60,700	USD:RMB at 1:6.8687	27 March 2023
Contract E	60,700	USD:RMB at 1:6.8687	27 March 2023

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 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 amounts.

16. TIME DEPOSITS/PLEDGED BANK DEPOSITS/SHORT TERM FIXED DEPOSITS/CASH AND CASH EQUIVALENTS

During the year ended 31 December 2022, the Group deposited RMB700,000,000 time deposits with several banks in the PRC. These time deposits carry fixed interest rates ranging from 3.15% to 4.18% (31 December 2021: 3.85% to 4.18%) per annum. The original maturity period of these time deposits is three years. The time deposits with an amount of RMB500,000,000 will be matured within one year and RMB200,000,000 will be matured within a period of more than two years.

The Group pledged certain of its bank deposits to banks as security for bank acceptance bills and the pledged bank deposits carry fixed interest rates ranging from 0.25% to 3.75% (31 December 2021: 1.80% to 3.50%) per annum. The pledged bank deposits will be released upon the maturity of relevant bills.

Short term fixed deposits carry fixed interest rates ranging from 0.20% to 4.75% (31 December 2021: 1.20% to 1.90%) per annum. Short term fixed deposits have original maturity dates more than three months but less than one year and therefore classified as current assets.

Cash and cash equivalents include demand deposits and short term deposits with original maturity dates less than three months for the purpose of meeting the Group's short term cash commitments, which carry interest at market rates range from 0.01% to 1.70% (31 December 2021: 0.30% to 1.70%) per annum.

17. INVENTORIES

	31/12/2022	31/12/2021
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,061,132	1,510,395
Work in progress	202,428	202,365
Finished goods	3,457,353	3,769,098
	4,720,913	5,481,858

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	31/12/2022	31/12/2021
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Trade receivables	6,428,554	5,730,277
Less: allowance for expected credit losses	(93,643)	(95,625)
	6,334,911	5,634,652
Bill receivables (Note a)	–	1,009,636
Loan receivables (Note b)	87,619	142,829
Other receivables and prepayment		
Value added tax and other tax receivables	199,895	119,284
Advance to suppliers	132,028	110,068
Interest receivables	42,977	130,416
Prepaid expenses	177,693	145,316
Utilities deposits and prepayment	76,712	41,429
Advances to employees	124,890	88,915
Others	28,385	25,840
	782,580	661,268
Total trade and other receivables and prepayment	7,205,110	7,448,385

Notes:

- (a) Since the second half of 2022, the bill receivables were held within the business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets, and the contractual cash flows are solely payments of principal and interest on the principal amount outstanding. Therefore, bill receivables are measured at FVTOCI and reclassified to receivables at FVTOCI.
- (b) The Group provides fixed-rate loans with a term from one month to one year to local individuals and small enterprises in the PRC. All loans are either backed by guarantees and/or secured by collaterals.

As at 1 January 2021, trade receivables amounted to RMB6,792,243,000.

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

	31/12/2022	31/12/2021
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	6,082,252	5,540,795
91 to 180 days	252,335	92,903
Over 180 days	324	954
	<u>6,334,911</u>	<u>5,634,652</u>

As at 31 December 2022, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB48,942,000 (31 December 2021: RMB50,024,000) which are past due as at the reporting date. Out of the past due balances, nil (31 December 2021: nil) has been past due 90 days or more.

19. TRADE AND OTHER PAYABLES

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

	<u>31/12/2022</u>	<u>31/12/2021</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities		
Trade payables		
Within 90 days	4,193,511	4,262,386
91 to 180 days	625,453	742,744
Over 180 days	12,387	355
Accrued purchases	554,152	925,738
Total trade payables and accrued purchases	5,385,503	5,931,223
Note payables		
Within 90 days	3,663,957	1,336,260
91 to 180 days	680,441	385,024
Over 180 days	22,566	100,000
	4,366,964	1,821,284
Advance deposits from a customer	555,456	—
Payables for purchase of property, plant and equipment	410,958	267,891
Staff salaries and welfare payables	1,378,175	1,311,836
Labor outsourcing payables	194,150	139,747
Payables for acquisition of patents	39,534	40,913
Value added tax payables and other tax payables	214,476	113,297
Interest payables	76,738	64,473
Rental and utilities payables	61,367	58,346
Others	233,965	119,677
	3,164,819	2,116,180
	12,917,286	9,868,687
Non-current liability		
Long term payables		
Payables for acquisition of patents	122,777	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 (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.

20. BANK BORROWINGS

Unsecured	31/12/2022	31/12/2021
	RMB'000	RMB'000
Guaranteed	1,393,051	1,601,327
Unguaranteed	626,930	637,570
	2,019,981	2,238,897
	31/12/2022	31/12/2021
	RMB'000	RMB'000

The carrying amounts of the above borrowings are repayable*:

Within one year	1,989,981	1,538,897
Within a period of more than one year but not exceeding two years	30,000	700,000
	2,019,981	2,238,897

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The exposure of the Group's bank borrowings are as follows:

	31/12/2022	31/12/2021
	RMB'000	RMB'000
Fixed-rate borrowings	975,000	900,000
Variable-rate borrowings	1,044,981	1,338,897
	2,019,981	2,238,897

The range of effective interest rates per annum (which are equal to contractual interest rates) on the Group's bank borrowings are as follows:

	31/12/2022	31/12/2021
Fixed-rate borrowings	2.30%-3.20%	3.10%
Variable-rate borrowings	3.60%-3.70%	0.60%-0.87%

The variable-rate borrowings as at 31 December 2022 were denominated in USD and HKD (2021: USD) which carried the floating-rates at Secured Overnight Financing Rate ("SOFR") and Hong Kong Inter-Bank Offer Rate ("HIBOR") (2021: London Inter-Bank Offer Rate) plus a premium.

The Group's bank borrowings that are denominated in currency other than the functional currencies of the relevant group entities are set out below:

	31/12/2022	31/12/2021
	RMB'000	RMB'000
USD	348,230	1,338,897
HKD	696,751	—
	1,044,981	1,338,897

21. BONDS PAYABLE

On 16 January 2018, the Company issued unsecured bonds in the amount of USD600 million at the rate of 3.75% per annum which will be due by 2023 to professional investors outside of the United States in accordance with Regulation S under the U.S. Securities Act. The issuance has been completed on 23 January 2018 and the listing of the bonds in the Hong Kong Stock Exchange became effective on 24 January 2018.

The Company had used all of the net proceeds from the bonds for fulfilling working capital requirements, refinancing existing indebtedness and other general corporate purposes.

During the current year, interest expense of approximately RMB161,768,000 (2021: RMB153,970,000) was recognised in the consolidated statement of profit or loss and other comprehensive income.

22. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount</u> <i>HKD'000</i>	<u>Equivalent to</u> <i>RMB'000</i>
Authorised:			
Ordinary shares of HKD0.10 each at 1 January 2021, 31 December 2021 and 31 December 2022	<u>100,000,000,000</u>	<u>10,000,000</u>	
Issued & fully paid:			
Ordinary shares of HKD0.10 each at 1 January 2021, 31 December 2021 and 31 December 2022	<u>1,096,849,700</u>	<u>109,685</u>	<u>105,163</u>

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

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 vehicle lens sets, optical parts of vehicle light detection and ranging (“**LiDAR**”), VR positioning lens sets, handset lens sets, glass spherical lenses for digital cameras and other optical components), Optoelectronic Products (such as vehicle modules, VR folded path (“**Pancake**”) modules, VR visual modules, handset camera modules and other optoelectronic modules) and Optical Instruments (such as intelligent inspection equipment and microscopes). The Group focuses on the application fields of optoelectronic-related products, such as vehicles, VR/AR, robots and handsets, which are combined with optical, electronic, algorithm and mechanical technologies.

BUSINESS REVIEW

During the year under review, facing the rapid-changing political and economic situation, the impact of the normalized pandemic and fierce competition in the market, the Group consolidated its leading position in the industry through the following efforts:

1. Strengthened and expanded the existing advantageous businesses, and further increased the market share;
2. Continued to enhance investments in new businesses and took over strategic control points in the industry;
3. Improved refined management and devoted to continuously improving the operational quality; and
4. Further deepened human resource development and corporate culture building.

OPTICAL COMPONENTS

In terms of the vehicle lens sets business, with the gradual easing of the chip shortage status in the supply chain, the further increase of adoption rate of advanced driving assistance system (“**ADAS**”) and the gradual increase in the level of autonomous driving, the shipment volume of vehicle lens sets of the Group increased by approximately 16.1% to approximately 78,909,000 units during the year under review as compared to that of last year. The global market share of the Group was still ahead of others with continuing growth, which further enlarged the gap between the Group and the second player. In addition, the Group further achieved technological breakthroughs in high resolution ADAS vehicle lens sets and hybrid ADAS vehicle lens sets. During the year under review, by solving the tricky problems that large size vehicle lens sets could be loosening in high temperature and how to dissipate the water-mist of vehicle lens sets, the Group has completed the R&D of 17-mega pixel front-view vehicle lens sets, which could be used for level-4 autonomous driving. Meanwhile, the Group has completed the R&D of 2-mega pixel hybrid ADAS vehicle lens sets, of which the technical performance was recognized by renowned platform providers, and for the first time, the road running certification of hybrid ADAS vehicle lens sets and road running data collection on real vehicles have been in progress.

In terms of the emerging vehicle business field, the Group continued to speed up the R&D and market promotion of LiDAR, head up display (“**HUD**”), smart headlamp and other new products and continuously deployed optical sensing technologies and products for the continuously upgrading of smart driving system. In the LiDAR aspect, the Group focused on optical components and modules, and the number of newly added designated customers increased quickly during the year under review. The Group became the first enterprise in the world achieving mass production of polygonal rotating prisms made of glass and had continuously added value to the LiDAR manufacturers. In the HUD aspect, the Group focused on the core optical engine – picture generation unit (“**PGU**”) modules business, among which the self-developed diffuser achieved a technological breakthrough with multiple mass production projects obtained. In the smart headlamp aspect, the Group actively secured the industry opportunities in smart headlamp applications. The Group has completed the R&D of its first micro lens array and obtained a designated project for 1-mega level pixel headlamp product.

In terms of the emerging optical business, the Group continued to explore the application of optics in VR/AR fields, keeping pace with the development of key customers and advancing technology deployment and business development. Various optical products have not only achieved substantial progress in technology but also diversified customer distribution. During the year under review, the Group has completed the R&D of hybrid see through (“**See Through**”) lens sets with wide-angle, which could realize the interaction of reality and virtual scenarios. Meanwhile, the binocular VR optical modules have been commenced mass production, which further improved the distortion and chromatism and greatly enhanced the display effect of VR device.

For the handset lens sets business, the shipment volume of handset lens sets of the Group decreased by approximately 17.2% to approximately 1,192,629,000 units during the year under review as compared to that of last year. The handset lens set market faced a severe challenge due to the weak demand in the global smartphone market and the further impact of the downgraded specification of smartphone cameras. In the face of the severe industry challenges, the Group acted quickly and took various measures to actively respond to the market changes, firmly adhering to its product strategy of “Ding Tian Li Di (頂天立地)”, i.e. increasing customer stickiness for high-end products and gaining market share for low-end products, thus maintaining its position as the global No. 1 in terms of market share amidst severe industry competition. Meanwhile, the Group strived for continuous breakthroughs in customization capabilities with respect to customers’ demand and continued to strengthen its R&D and engineering capabilities. During the year under review, the Group has completed the R&D of the industry’s first prism-centered periscope handset lens sets. In addition, the super tele-macro handset lens sets, the industry’s first ultra-aperture handset lens sets, the periscope handset lens sets with the largest image size in the industry, 1-inch hybrid handset lens sets, 200-mega pixel ultra-thin handset lens sets, 160-mega pixel super definition handset lens sets for main cameras and the industry’s thinnest handset lens sets for main cameras applied to foldable smartphones have been commenced mass production.

OPTOELECTRONIC PRODUCTS

In terms of the vehicle modules business, the Group continued to cultivate the technical elements of its products deeply, solved customers' pain points and difficulties, delivered the high-value products to the customers with high-quality, and provided the customers with superior services. The layout of the comprehensive product lines of vehicle modules was highly recognized by the market. During the year under review, the Group has completed the R&D of 8-mega pixel ADAS vehicle modules using chip on board (“COB”) technology and active defogging vehicle modules. Meanwhile, the Group has commenced mass production of all series (including 1.7-mega pixel, 2-mega pixel and 8-mega pixel) of ADAS vehicle modules adapted to the platforms of Mobileye, NVIDIA and Horizon Robotics. In addition, during the year under review, the Group has obtained seven additional designated projects of 8-mega pixel ADAS vehicle modules.

In terms of VR/AR field, VR spatial positioning modules have maintained high proportion of shipments to overseas clients all the time. Meanwhile, the Group achieved a breakthrough in the domestic market and the products supplied to the domestic customers have been commenced small batch production. In addition, See Through high pixel module products have been the first released in an industry-leading customer. Gesture-recognition and eye-tracking related module products have also been developed in accordance with the requirements of customers, which are expected to be further applied in new models.

In terms of sweeping robots field, the Group has commenced mass production of wide-angle linear time of flight (“ToF”) camera modules for industry-leading customers, which could realize the simultaneous mapping and obstacle avoidance for the first time. At the same time, the Group has also commenced mass production of self-developed linear structured-light camera modules for industry-leading customers. In terms of service robots field, the Group has commenced mass production of modular camera based on ToF for industry-leading customers, which could achieve the application in obstacle avoidance of the service robot for the first time.

In terms of the handset camera modules business, continuously affected by the weak demand in the global smartphone market and downgraded specification of smartphone cameras, the shipment volume growth and the product mix upgrade of handset camera modules of the Group were both under pressure. During the year under review, the shipment volume of handset camera modules of the Group amounted to approximately 516,639,000 units, representing a decrease of approximately 23.3% as compared to that of last year. In the complex market environment, the Group has continued to strengthen its business cooperation with international customers, further enhanced its vertical integration capabilities, strived to improve the management and operational efficiency of overseas factories despite the restrictions of Entry-Exit of factory's managerial and technical personnel due to domestic pandemic control, and maintained its global No. 1 position in terms of market share amid fierce market competition through measures such as expanding revenue sources and reducing expenditure, reducing costs while increasing efficiency. During the year under review, the Group has completed the R&D of the industry's first prism-centered periscope handset camera module. At the same time, the periscope handset camera modules with the largest image size in the industry, 1-inch handset camera modules with optical image stabilization (“OIS”), 160-mega pixel super definition handset camera modules for main cameras and the industry's thinnest handset camera modules for main cameras applied to foldable phones have been commenced mass production.

OPTICAL INSTRUMENTS

In terms of the intelligent equipment business, in order to seize the market opportunities in the industrial field brought by the development of the manufacturing industry towards “high-end, intelligent and automation” trend, the Group has successfully completed the R&D of vehicle module automatic production line during the year under review, which could be applied to various production processes of the vehicle modules, including automatic alignment and assembly of lens sets and sensors, and the testing of semi-finished and finished vehicle modules. These production lines could save manual procedures and significantly improve production efficiency, which is at the leading level in the industry. In addition, the customers have applied the Group’s self-developed integrated testing lines in batches for handset lens sets in their manufacturing plants. These production lines could achieve automatic pick-and-place, automatic circulation and automatic testing for handset lens sets, with the leading position in overall efficiency and technics in the industry.

In terms of the microscope business, the Group has made further breakthroughs in the R&D and innovation. During the year under review, the Group has completed the development of the first domestic 45mm parfocal super apochromatic (“SAPO”) series 100X oilimmersion objectives, which could achieve high-resolution and high-precision imaging in the scientific research field. So far, the Group has achieved the full localization of the SAPO series objectives, among which the Group has received bulk orders for SAPO10X, SAPO20X, SAPO40X and SAPO60X, and is capable of mass-producing SAPO100X, effectively enhancing the Group’s core competitiveness in the high-end microscopic system field.

OUTLOOK AND FUTURE STRATEGIES

Looking forward to 2023, the Group will continue to face grave challenges such as slow recovery of the global economy, weak consumption demand and more intensified competition. However, development trend of the global economy will not change, which will stick to digital economy and green economy. This 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 appear in VR/AR, robotic vision and other emerging industries. As such, 2023 will continue to be a year of challenges and opportunities. The Group will also explore and seize business opportunities based on the following three principles, so as to achieve the sustainable business development.

1. Tapping new potential in mature businesses

- Potential of new customers – follow target major customers closely and satisfy their demand to the greatest extent so as to rapidly increase our supply proportion and become an important supplier; and
- Potential of product mix – the proportion of high-end and high-value products still has room for improvement.

2. Seeking new opportunities in emerging industries

- While the number and specification of cameras on single vehicle are increasing quickly, the Group continues to strengthen its competitiveness in the vehicle lens sets business and build brand products in this category; the Group will also increase its investment in vehicle modules business and grasp opportunities to quickly expand its market share, aiming to be an irreplaceable supplier in vehicle camera field; and

- In vehicle LiDAR, HUD, VR/AR, robotic vision and other emerging fields, in addition to basic optical components, the Group will constantly improve its product portfolio and increase added value to its products and its competitiveness in the industry.

3. Focusing on quality while expanding the volume

- Continue to improve operational efficiency and quality and further increase its capacity utilization rate;
- Further increase product quality, working efficiency and yield rate; and
- Continuously reduce product cost per unit and loss rate.

Looking forward, the Group will stick to its strategic position, continue to be innovation-driven, enhance the awareness of crisis, expand revenue sources and reduce costs thoroughly and further deepen the construction of sustainable development capability to constantly enhance its comprehensive competitiveness, provide more quality products and services to top global high-tech enterprises, advance the corporate growth and value improvement, and continuously create more returns to shareholders of the Company (“**Shareholders**”).

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2022, the Group’s revenue was approximately RMB33,196.9 million, representing a decrease of approximately 11.5% as compared to that of last year. The decrease in revenue was mainly attributable to the decrease in the revenue of handset lens sets and handset camera modules of the Group because of the weak demand in the smartphone market and a trend of downgrading specification on the smartphone cameras, which brought by the factors such as the resurgence of the pandemic, chip shortage, Russian-Ukrainian conflict, inflation and the uncertainties in the global economy.

Revenue generated from the Optical Components business segment was approximately RMB9,467.6 million, representing an increase of approximately 7.9% as compared to that of last year. The increase in revenue was mainly attributable to the increase of revenue of the vehicle lens sets with the gradual easing of the chip shortage in the supply chain. Meanwhile, the revenue related to the optical parts of vehicle LiDAR and HUD increased significantly as the projects have been gradually commenced mass production. In addition, benefiting from the diversified layout of the product mix and customer portfolio, the revenue related with the VR optical products also achieved great increase. The increase in revenue from these businesses offset the decrease in revenue of handset lens sets.

Revenue generated from the Optoelectronic Products business segment was approximately RMB23,325.8 million, representing a decrease of approximately 17.7% as compared to that 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 RMB403.5 million, representing an increase of approximately 4.2% as compared to that 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 the increase in the demand for overall overseas market.

Gross Profit and Margin

The gross profit of the Group for the year ended 31 December 2022 was approximately RMB6,605.0 million, representing a decrease of approximately 24.4% as compared to that of last year. The gross profit margin was approximately 19.9%, which was approximately 3.4 percentage points lower as compared to that of last year.

The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 33.4%, 10.7% and 42.0%, respectively (2021: approximately 39.5%, 13.7% and 45.1% respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the year ended 31 December 2022 were approximately RMB352.8 million, representing an increase of approximately 28.7% as compared to that of last year. It accounted for approximately 1.1% of the Group's revenue during the year, as compared to approximately 0.7% of last year. The increase in absolute amount was attributable to the increase in the headcount and remuneration of sales staff.

R&D Expenditure

The R&D expenditure of the Group for the year ended 31 December 2022 was approximately RMB2,803.4 million, representing an increase of approximately 6.1% as compared to that of last year. It accounted for approximately 8.4% of the Group's revenue during the year, as compared to approximately 7.0% of last year. The increase in absolute amount was attributable to the Group's continuous upgrading for existing businesses and the increase in R&D expenditure on the products related to the emerging fields like vehicle, VR/AR, etc.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2022 were approximately RMB928.6 million, representing an increase of approximately 22.6% as compared to that of last year. It accounted for approximately 2.8% of the Group's revenue during the year, as compared to approximately 2.0% of last year. The increase in absolute amount was attributable to the increase in the remuneration of administrative staff, and the increase in expenses related to the grant of restricted shares under the restricted share award scheme of the Company ("**Restricted Share Award Scheme**") and the informationization construction.

Income Tax Expense

The income tax expense of the Group for the year ended 31 December 2022 was approximately RMB240.8 million, representing a decrease of approximately 58.4% as compared to that 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 8.9% during the year, as compared to approximately 10.3% of last year. For more details related to the income tax expense, please refer to the Note 7 to the consolidated financial statements in this announcement.

Net Profit and Net Profit Margin

The net profit of the Group for the year ended 31 December 2022 was approximately RMB2,474.1 million, representing a decrease of approximately 51.1% as compared to that of last year. The decrease in net profit was primarily attributable to: (i) the factors such as the resurgence of the pandemic, chip shortage, Russian-Ukrainian conflict, inflation and the uncertainties in the global economy in the year of 2022, the smartphone market experienced weak demand and the smartphone camera showed a trend of downgrading specification, which resulted in the year-on-year decrease of the shipment volume of handset lens sets and handset camera modules of the Group, with high pressure on average selling prices and gross profit margins; and (ii) the depreciation of the RMB in the year of 2022, an unrealized foreign exchange loss amounting to approximately RMB353.3 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 of the Group for the year ended 31 December 2022 was approximately 7.5% (2021: approximately 13.5%).

Profit for the Year Attributable to Owners of the Company and Basic Earnings per Share

The profit for the year attributable to owners of the Company for the year ended 31 December 2022 was approximately RMB2,407.8 million, representing a decrease of approximately 51.7% as compared to that of last year.

The basic earnings per share for the year ended 31 December 2022 was approximately RMB220.3 cents, representing a decrease of approximately 51.8% as compared to that of last year.

FINAL DIVIDENDS

For the year ended 31 December 2022, the Board proposed final dividends of HKD0.500 per share (equivalent to approximately RMB0.439 per share), with payout ratio of approximately 20.0% of the profit for the year attributable to owners of the Company. The final dividends payable on 28 June 2023 is subject to the approval of the Shareholders at the forthcoming AGM to be held on 24 May 2023.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2022 and 31 December 2021:

	For the year ended 31 December	
	2022	2021
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	7,377.3	6,979.0
Net cash used in investing activities	(3,833.9)	(2,901.5)
Net cash used in financing activities	(2,159.2)	(1,241.4)

Funding and Financial Policy

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 year ended 31 December 2022.

As at 31 December 2022, the Group had current assets of approximately RMB30,645.6 million (31 December 2021: approximately RMB27,989.3 million), comprising cash and cash equivalents of approximately RMB7,033.2 million (31 December 2021: approximately RMB5,605.2 million); and current liabilities of approximately RMB19,336.9 million (31 December 2021: approximately RMB11,873.5 million). The Group's current ratio was approximately 1.6 times (31 December 2021: approximately 2.4 times). The Group's total assets as at 31 December 2022 was approximately RMB43,001.3 million, representing an increase of approximately 10.9% as compared to that as at 31 December 2021.

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from sales of the Group's products. Cash outflow from operating activities was mainly used for the purchases of raw materials, selling and distribution expenses, R&D expenditure and administrative expenses. Net cash from operating activities was approximately RMB7,377.3 million for the year ended 31 December 2022 and net cash from operating activities was approximately RMB6,979.0 million for the year ended 31 December 2021.

The trade receivables turnover days (average of the opening and closing trade receivables balances/revenue $\times$ 365 days) increased from approximately 60 days for the year ended 31 December 2021 to approximately 66 days for the year ended 31 December 2022. The increase in trade receivables turnover days was mainly attributable to the revenue from those customers with longer credit terms grew faster during the year of 2022.

The trade payables and accrued purchases turnover days (average of the opening and closing trade payable and accrued purchases balances/cost of sales $\times$ 365 days) decreased from approximately 83 days for the year ended 31 December 2021 to approximately 78 days for the year ended 31 December 2022. The decrease in the trade payables and accrued purchases turnover days was mainly attributable to the Group's improved control on the procurement of raw materials.

The inventory turnover days (average of the opening and closing inventory balances/cost of sales $\times$ 365 days) decreased from approximately 71 days for the year ended 31 December 2021 to approximately 70 days for the year ended 31 December 2022. There was no significant difference in the number of inventory turnover days in these two fiscal years.

Investing Activities

For the year ended 31 December 2022, the Group recorded a net cash used in investing activities of approximately RMB3,833.9 million, which mainly included purchases and release of unlisted financial products of approximately RMB13,939.8 million and approximately RMB11,908.5 million respectively, and capital expenditure amounting to approximately RMB3,113.8 million.

Financing Activities

For the year ended 31 December 2022, the Group recorded a net cash used in financing activities of approximately RMB2,159.2 million. The cash inflow mainly came from proceeds from new bank borrowings raised of approximately RMB8,151.8 million. Major outflows were the repayment of bank borrowings of approximately RMB8,550.1 million and dividends paid to the Shareholders of approximately RMB1,058.7 million.

Capital Expenditure

For the year ended 31 December 2022, the Group's capital expenditure amounted to approximately RMB3,113.8 million, which was mainly used for the purchases of property, plant and equipment, acquisition of land use right, payment for intangible assets and purchase 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 31 December 2022 amounted to approximately RMB2,020.0 million (2021: approximately RMB2,238.9 million). No bank borrowings were secured by certain buildings and land of the Group as at 31 December 2022 and 31 December 2021. As at 31 December 2022, the bank borrowings were denominated in RMB, USD and HKD.

Details of the bank borrowings are set out in Note 20 to the consolidated financial statements in this announcement.

Bank facilities

As at 31 December 2022, the Group had bank facilities of RMB6,400.0 million with Agricultural Bank of China Limited, RMB3,000.0 million with Ningbo Bank Co., Ltd., RMB2,400.0 million with The Export-Import Bank of China, RMB1,670.0 million with Industrial and Commercial Bank of China Limited, RMB600.0 million with China Construction Bank Corporation, RMB380.0 million with Bank of Communications Co., Ltd., RMB2,515.0 million and USD115.0 million with Bank of China Limited respectively, USD120.0 million with BNP Paribas, USD110.117 million with The Hongkong and Shanghai Banking Corporation Limited, USD91.0 million with China Development Bank, USD80.0 million with Crédit Agricole Corporate and Investment Bank, USD80.0 million with Standard Chartered Bank and USD75.0 million with Citibank.

Debt securities

As at 31 December 2022, debt securities of the Group amounted to approximately RMB4,178.1 million (2021: approximately RMB3,815.6 million). For details of bonds payable, please refer to Note 21 to the consolidated financial statements in this announcement.

As at 31 December 2022, the Group's gearing ratio of approximately 14.4% 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 31 December 2022, 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 regularly review its bank borrowings and debt securities to achieve a sound financial position.

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as at 31 December 2022, except for the pledged bank deposits of approximately RMB9.8 million (2021: approximately RMB18.3 million). For details of the pledged bank deposits, please refer to Note 16 to the consolidated financial statements in this announcement.

COMMITMENTS

As at 31 December 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 RMB1,257.5 million (2021: approximately RMB684.4 million).

As at 31 December 2022, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2022, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENT PLAN

The Group's investing activities primarily include the purchases and release of unlisted financial products, placement and release of short term fixed deposits and purchases of property, plant and equipment. 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.

As disclosed in the announcements of the Company dated 14 November 2022 and 11 January 2023, Sunny Zhejiang Optics has subscribed for registered capital of RMB1,110.0 million by way of capital injection into Chongqing Ant Consumer Finance Co., Ltd. (the “**Target Company**”) in the sum of RMB1,110.0 million (the “**Subscription**”), representing 6% equity interests of the Target Company as enlarged by the capital increase.

To the best knowledge of the Directors, there were no other significant investments made by the Group except for the Subscription as disclosed above for the year ended 31 December 2022.

Important investments

As at 31 December 2022, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB10,086.4 million (31 December 2021: approximately RMB7,992.2 million), of which approximately RMB3,407.7 million has been released on or before 16 March 2023. As at 31 December 2022, the fair value of the unlisted financial products subscribed by the Group in aggregate represented approximately 23.5% of the Group's total assets (31 December 2021: approximately 20.6%). The investment costs for the unlisted financial products subscribed as at 31 December 2022 was approximately RMB10,007.6 million (31 December 2021: approximately RMB7,992.2 million). For the year ended 31 December 2022, the amount of investment income from the unlisted financial products at FVTPL was approximately RMB197.5 million (2021: approximately RMB302.6 million).

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 31 December 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 31 December 2022 RMB'000	Percentage of fair value of the unlisted financial products relative to the total assets of the Group as at 31 December 2022
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.	950,000	945,711	2.2%
Sunshine Jin Zhou Tian Li Zhen Xiang No. B001 (陽光金周添利臻享 B001 號)	China Everbright Bank Co., Ltd.	800,000	804,314	1.9%
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	799,912	1.9%
Bank of Ningbo NingXin fixed income six-month fixed-term open-ended wealth management No. 24 (寧銀理財寧欣固定收益類半年定期開放式理財 24 號)	Bank of Ningbo Co., Ltd.	500,000	500,989	1.2%
Bank of Ningbo NingXin fixed income six-month fixed-term open-ended wealth management No. 1 (寧銀理財寧欣固定收益類半年定期開放式理財 1 號)	Bank of Ningbo Co., Ltd.	495,000	499,785	1.2%
Others [#]		6,462,600	6,535,704	15.1%
	Total	10,007,600	10,086,415	23.5%

* The English names are unofficial English translations of unlisted financial products with Chinese names only. If there is any inconsistency, the Chinese names shall prevail.

Other unlisted financial products included 44 unlisted financial products with 7 different banks to lower the concentration risk. The fair value of such 44 unlisted financial products as at 31 December 2022 was approximately RMB148.5 million in average.

The unlisted financial products were measured at fair value as at 31 December 2022. Such investment activities were funded primarily by the idle self-owned funds of the Group.

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 Shareholders as a whole.

For the year ended 31 December 2022, the Group's investments amounted to approximately RMB3,113.8 million, which was primarily for the purchases of property, plant and equipment, acquisition of 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.

Future Plans for Material Investments or Capital Assets

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 funding and treasury 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. The Group intends to make further investments to enhance its competitiveness in the future.

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 31 December 2022, the effective interest rate on fixed-rate bank borrowings was approximately 2.3% to 3.2% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 3.6% to 3.7% 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 contracts, please refer to Note 15 to the consolidated financial statements in this announcement. Except certain investments which are in line with the Group's business development and which are denominated in foreign currencies, the Group did not and has no plan to make any other foreign currency investment.

Credit Risk

The Group's financial assets include derivative financial assets, cash and cash equivalents, pledged bank deposits, short-term fixed deposits, time deposits, financial assets at fair value through profit or loss, trade and other receivables and prepayments, amount due from a related party, receivables at FVTOCI 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 followup 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 consolidated statement of financial position are net of allowance for ECL, estimated by the Management based on prior experience and historically 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 bank borrowings. The Management will review the proportion of borrowings in fixed and variable 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.

MAJOR ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2022, there were no material acquisitions and disposals of subsidiaries, associates and joint ventures of the Group.

EMPLOYEE AND REMUNERATION POLICY

The Group had 26,610 full-time employees as at 31 December 2022. In line with the overall operation of the Company, the industry level and the performance of individual employees, the Group has established a fair and competitive emoluments and welfare system to recruit new talents and to reward and retain existing talents, in which the emoluments includes annual basic salary, year-end bonus, the economic-value-added bonus and share award, while the welfare includes social insurance, housing provident fund, employee holidays and emergency relief fund. The Group is committed to achieving the goals of “consistency in responsibilities and interests, abilities and values, risks and returns, performance and income” in remuneration distribution.

The Group adopted the Restricted Share Award Scheme in 2010, for the purposes of providing incentives and rewards to eligible participants to recognise their contribution to the Group and to enhance their ownership spirits. For the year ended 31 December 2022, 4,299,957 shares of the Company were granted to eligible employees in accordance with the Restricted Share Award Scheme by the Group.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the eligibility for attending the AGM, which is to be held on 24 May 2023, the register of members of the Company will be closed from 19 May 2023 to 24 May 2023, both days inclusive, during which no transfer of shares will be registered. All transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712 – 1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 18 May 2023.

In order to determine the eligibility for receiving the final dividends, the register of members of the Company will be closed from 1 June 2023 to 7 June 2023, both days inclusive, during which no transfer of shares will be registered. All transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 31 May 2023.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

The Company is empowered by the applicable Cayman Islands Companies Act and the amended and restated articles of association of the Company 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 Hong Kong Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company or its subsidiaries, with the exception of the trustee of the Restricted Share Award Scheme, of the Company’s listed shares during the year ended 31 December 2022.

CORPORATE GOVERNANCE

Corporate Governance Practices

For the year ended 31 December 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 Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”). Meanwhile, the Company has applied the principles of good corporate governance (the “**Principles**”) 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 Principles and will improve its corporate governance practices with reference to the latest development of corporate governance.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry with regard to securities transactions of the 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 for the year ended 31 December 2022.

IMPORTANT EVENTS SINCE 31 DECEMBER 2022

On 11 January 2023, the Subscription was completed and Sunny Zhejiang Optics held 6% equity interests in the Target Company immediately after such completion.

As disclosed in the announcements of the Company dated 4 January 2023, 10 January 2023, 17 January 2023 and 18 January 2023, the issuance of USD400,000,000 5.95% per annum sustainability-linked bonds due 2026 was completed by the Company.

Save as disclosed above, there were no other important events affecting the Group which have occurred since 31 December 2022.

REVIEW OF FINANCIAL STATEMENTS

The Group’s audited annual results for the year ended 31 December 2022 were reviewed by all the members of the audit committee of the Board (the “**Audit Committee**”), namely Mr. Zhang Yuqing (chairman of the Audit Committee), Mr. Feng Hua Jun, Mr. Shao Yang Dong and Ms. Jia Lina who are all independent non-executive Directors.

SHAREHOLDERS ENGAGEMENT

The Company is committed to creating channels of communication between the Directors, senior Management and investors, maintaining close contact with all the Shareholders through a variety of channels and promoting the communication with investors. The Chairman of the Board would ensure the appropriate steps are taken to provide effective communication with the Shareholders and that their views are communicated to the Board as a whole. The Company has adopted an updated Shareholders’ communication policy (the “**Shareholders’ Communication Policy**”) on 28 December 2021 which is available on the website of the Company (www.sunnyoptical.com), to formalise and facilitate an effective and sound communication between the Company and the Shareholders and other stakeholders. The Company considers that the Shareholders’ Communication Policy facilitated effective communication between the Company and the Shareholders for the year ended 31 December 2022.

Investor Contact and Inquiries

The Group has a dedicated team to maintain contact with investors and handle Shareholders' enquiries which may be put to the Board for discussion. Should you have any queries, please contact the Group's investor relations management department (Tel: +86-574-6253 0875; +852-3568 7038; e-mail: iroffice@sunnyoptical.com).

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual results announcement is available for viewing on the website of HKEXnews of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.sunnyoptical.com). The annual report of the Company for the year ended 31 December 2022 will be despatched to shareholders of the Company and will be published on the above websites in due course.

APPRECIATION

The Group would like to express its appreciation to all of its staff for their long-term efforts and to the Management for their outstanding contributions. It is the unremitting efforts of each member that enable the Group to make great achievements. Meanwhile, the Group wishes to express its sincere gratitude towards its shareholders, customers and business partners for their long-standing support and recognition. The Group will continue to strive for the sustainable development of the business, so as to realise higher values for its shareholders and other stakeholders.

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

Hong Kong, 20 March 2023

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 non-executive Director, and Mr. Zhang Yuqing, Mr. Feng Hua Jun, Mr. Shao Yang Dong and Ms. Jia Lina, who are independent non-executive Directors.