SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED
舜宇光學科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2382.HK)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2023

RESULTS HIGHLIGHTS

For the six months ended 30 June 2023, the Group's unaudited revenue was approximately Renminbi ("**RMB**") 14,278.6 million, representing a decrease of approximately 15.9% as compared to the corresponding period of last year.

For the six months ended 30 June 2023, the Group's gross profit was approximately RMB2,130.6 million, representing a decrease of approximately 39.5% as compared to the corresponding period of last year. The gross profit margin was approximately 14.9%, which was approximately 5.9 percentage points lower than that of the corresponding period of last year.

For the six months ended 30 June 2023, the Group's profit for the period attributable to owners of the Company was approximately RMB436.7 million, representing a decrease of approximately 67.8% as compared to the corresponding period of last year.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", and each a "**Director**") of Sunny Optical Technology (Group) Company Limited (the "**Company**") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2023, together with the comparative figures for the corresponding period of the year 2022 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2023

	NOTES	For the six months ended 30 June 2023 RMB'000 (Unaudited)	2022 RMB'000 (Unaudited)
Revenue	3A	**14,278,565**	16,971,756
Cost of sales		**(12,147,977)**	(13,449,358)
Gross profit		**2,130,588**	3,522,398
Other income	4	**695,512**	408,347
Other gains and losses	5	**(123,937)**	(55,498)
Impairment losses under expected credit loss ("**ECL**") model, net of reversal		**(5,617)**	(7,906)
Selling and distribution expenses		**(240,092)**	(163,430)
Research and development expenditure		**(1,204,802)**	(1,468,215)
Administrative expenses		**(457,944)**	(437,988)
Share of results of associates		**29,142**	955
Finance costs		**(230,974)**	(114,903)
Profit before tax		**591,876**	1,683,760
Income tax expense	6	**(132,485)**	(304,917)
Profit for the period	7	**459,391**	1,378,843
Other comprehensive (expense) income:			
Item that will not be reclassified to profit or loss:			
Fair value (loss) gain on investments in equity instruments at fair value through other comprehensive income ("**FVTOCI**"), net of income tax		**(32,628)**	1,241
Item that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**16,114**	6,700
Other comprehensive (expense) income for the period		**(16,514)**	7,941
Total comprehensive income for the period		**442,877**	1,386,784

	NOTE	For the six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Profit for the period attributable to:			
Owners of the Company		**436,714**	1,357,905
Non-controlling interests		**22,677**	20,938
		459,391	1,378,843
Total comprehensive income for the period attributable to:			
Owners of the Company		**420,926**	1,368,209
Non-controlling interests		**21,951**	18,575
		442,877	1,386,784
Earnings per share			
– Basic *(RMB cents)*	*8*	**39.99**	124.13
– Diluted *(RMB cents)*	*8*	**39.95**	124.03

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2023

	NOTES	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10(a)	9,858,872	10,119,846
Right-of-use assets	10(b)	602,965	612,062
Investment properties		33,064	35,502
Intangible assets		222,611	250,715
Interests in associates		1,378,227	200,645
Deferred tax assets	11	246,367	257,178
Deposits paid for acquisition of property, plant and equipment	12	776,183	489,947
Equity instruments at FVTOCI		104,974	168,160
Financial assets at fair value through profit or loss ("**FVTPL**")	13(b)	19,518	19,518
Time deposits		1,450,000	200,000
Goodwill		2,119	2,119
		14,694,900	12,355,692
CURRENT ASSETS			
Inventories	15	4,416,911	4,720,913
Trade and other receivables and prepayments	16	6,286,289	7,205,110
Receivables at FVTOCI	16A	562,638	548,956
Tax recoverable		–	28,120
Derivative financial assets	14	–	29,681
Financial assets at FVTPL	13(a)	8,142,596	10,086,415
Amounts due from related parties		366	8,256
Time deposits		–	500,000
Pledged bank deposits		142,371	9,775
Short term fixed deposits		1,269,225	475,176
Cash and cash equivalents		11,169,963	7,033,194
		31,990,359	30,645,596

	NOTES	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	*18*	**16,988,538**	12,917,286
Amounts due to related parties		**5,917**	9,992
Derivative financial liabilities	*14*	**256,082**	17,655
Contract liabilities		**135,544**	166,096
Tax payable		**31,764**	–
Bank borrowings	*19*	**730,000**	1,989,981
Lease liabilities		**50,134**	51,378
Deferred income		**9,813**	6,446
Bonds payable	*20*	**–**	4,178,082
		18,207,792	19,336,916
NET CURRENT ASSETS		**13,782,567**	11,308,680
TOTAL ASSETS LESS CURRENT LIABILITIES		**28,477,467**	23,664,372
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*11*	**787,203**	850,321
Long term payables	*18*	**118,690**	122,777
Bank borrowings	*19*	**2,031,547**	30,000
Lease liabilities		**159,752**	187,938
Deferred income		**238,276**	290,950
Bonds payable	*20*	**2,953,739**	–
		6,289,207	1,481,986
NET ASSETS		**22,188,260**	22,182,386
CAPITAL AND RESERVES			
Share capital	*21*	**105,163**	105,163
Reserves		**21,632,595**	21,733,224
Equity attributable to owners of the Company		**21,737,758**	21,838,387
Non-controlling interests		**450,502**	343,999
TOTAL EQUITY		**22,188,260**	22,182,386

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2023

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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

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

The Directors of the Company have, at the time of approving the condensed consolidated financial statements, a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional/change in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those presented in the Group's annual consolidated financial statements for the year ended 31 December 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

Except as described below, the application of the new and amendments to HKFRSs in the current interim period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies on application of Amendments to HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

2.1.1 Accounting policies

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities 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 taxable temporary differences.

2.1.2 Transition and summary of effects

As disclosed in the Group's annual financial statements for the year ended 31 December 2022, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction separately and temporary differences on initial recognition on the relevant assets and liabilities were not recognised due to application of the initial recognition exemption. In accordance with the transition provision:

(i) the Group has applied the new accounting policy retrospectively to leasing transactions that occurred on or after 1 January 2022;

(ii) the Group also, as at 1 January 2022, recognised 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 difference associated with right-of-use assets and lease liabilities.

The Directors of the Company considered that the application of amendments of HKAS 12 *Deferred Tax related to Assets and Liabilities arising from a Single Transaction* had no material impact on the amount of deferred tax assets, deferred tax liabilities and income tax expenses recognised in the respective reporting periods, retained earnings at the earliest period presented and the disclosures set out in these condensed consolidated financial statements.

2.2 Impacts on application of Amendments to HKAS 12 *Income Taxes International Tax Reform-Pillar Two Model Rules*

HKAS 12 was amended to add the exception to recognising and disclosing information about deferred tax assets and liabilities that are related to tax law enacted or substantively enacted to implement the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (the "**Pillar Two legislation**"). The amendments require that entities shall apply the amendments immediately upon issuance. The amendments also require that entities shall disclose separately its current tax expense/income related to Pillar Two income taxes, and the qualitative and quantitative information about its exposure to Pillar Two income taxes in periods in which the Pillar Two legislation is enacted or substantially enacted but not yet in effect in annual reporting periods beginning on or after 1 January 2023.

The Group has yet to apply the temporary exception during the current interim period because the Group's entities are operating in jurisdictions where the Pillar Two legislation has not yet been enacted or substantially enacted. The Group will disclose known or reasonably estimable information that helps users of financial statements to understand the Group's exposure to Pillar Two income taxes in the Group's annual consolidated financial statements in which the Pillar Two legislation has been enacted or substantially enacted and will disclose separately current tax expense/income related to Pillar Two income taxes when it is in effect.

2.3 Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies*

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 *Disclosure of Accounting Policies* which are mandatorily effective for the Group's annual period beginning on 1 January 2023 for the preparation of the Group's consolidated financial statements for the year ending 31 December 2023.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 31 December 2023.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Sales of optical and optical-related products		
Handset related products	**9,688,562**	12,755,600
Vehicle related products	**2,471,131**	1,724,815
Augmented reality ("**AR**")/virtual reality ("**VR**") related products	**469,428**	659,967
Digital camera related products	**387,804**	401,706
Other lens sets	**236,891**	239,982
Other spherical lens and plane products	**143,870**	196,513
Optical instruments	**169,282**	158,762
Other products	**711,597**	834,411
Total	**14,278,565**	16,971,756

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Geographical markets		
The People's Republic of China (the "**PRC**" or "**China**")	**9,017,805**	11,500,039
Asia (except China)	**3,684,988**	4,324,765
Europe	**789,995**	601,077
North America	**515,027**	426,236
Others	**270,750**	119,639
Total	**14,278,565**	16,971,756
Timing of revenue recognition		
A point in time	**14,278,565**	16,971,756

3B. SEGMENT INFORMATION

Information reported to the Board of Directors, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance, focuses on types of goods delivered because the 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

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

For the six months ended 30 June 2023

	Optical Components *RMB'000* (Unaudited)	Optoelectronic Products *RMB'000* (Unaudited)	Optical Instruments *RMB'000* (Unaudited)	Segments Total *RMB'000* (Unaudited)	Eliminations *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Revenue						
External sales	4,317,911	9,736,523	224,131	14,278,565	–	14,278,565
Inter-segment sales	853,559	11,623	38,805	903,987	(903,987)	–
Total	5,171,470	9,748,146	262,936	15,182,552	(903,987)	14,278,565
Segment profit	651,745	60,184	65,553	777,482	–	777,482
Share of results of associates						29,142
Unallocated other income, other gains and losses						34,551
Unallocated administrative expenses and finance costs						(249,299)
Profit before tax						591,876

For the six months ended 30 June 2022

	Optical Components *RMB'000* (Unaudited)	Optoelectronic Products *RMB'000* (Unaudited)	Optical Instruments *RMB'000* (Unaudited)	Segments Total *RMB'000* (Unaudited)	Eliminations *RMB'000* (Unaudited)	Total *RMB'000* (Unaudited)
Revenue						
External sales	4,399,044	12,370,867	201,845	16,971,756	–	16,971,756
Inter-segment sales	1,162,632	1,515	46,065	1,210,212	(1,210,212)	–
Total	5,561,676	12,372,382	247,910	18,181,968	(1,210,212)	16,971,756
Segment profit	1,160,152	684,405	63,746	1,908,303	–	1,908,303
Share of results of associates						955
Unallocated other income, other gains and losses						(98,983)
Unallocated administrative expenses and finance costs						(126,515)
Profit before tax						1,683,760

As at 30 June 2023

	Optical Components ***RMB'000*** **(Unaudited)**	**Optoelectronic Products** ***RMB'000*** **(Unaudited)**	**Optical Instruments** ***RMB'000*** **(Unaudited)**	**Total** ***RMB'000*** **(Unaudited)**
Assets				
Trade receivables	**1,957,887**	**3,427,784**	**99,193**	**5,484,864**
Bill receivables	**456,994**	**94,406**	**11,238**	**562,638**
Inventories	**1,562,267**	**2,752,988**	**101,656**	**4,416,911**
Total segment assets	**3,977,148**	**6,275,178**	**212,087**	**10,464,413**
Unallocated assets				**36,220,846**
Consolidated assets				**46,685,259**
Liabilities				
Trade payables	**1,717,811**	**3,195,182**	**125,399**	**5,038,392**
Note payables	**761,651**	**8,505,551**	**46,769**	**9,313,971**
Total segment liabilities	**2,479,462**	**11,700,733**	**172,168**	**14,352,363**
Unallocated liabilities				**10,144,636**
Consolidated liabilities				**24,496,999**

As at 31 December 2022

	Optical Components *RMB'000* (Audited)	Optoelectronic Products *RMB'000* (Audited)	Optical Instruments *RMB'000* (Audited)	Total *RMB'000* (Audited)
Assets				
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	4,307,431	7,163,763	133,586	11,604,780
Unallocated assets				31,396,508
Consolidated assets				43,001,288
Liabilities				
Trade payables	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	2,884,835	6,720,588	147,044	9,752,467
Unallocated liabilities				11,066,435
Consolidated liabilities				20,818,902

Segment profit represents the profit earned by each segment without allocation of gains and losses, income and expenses of unallocated subsidiaries and central administration costs including Directors' emoluments, share of results of associates and finance costs. There were asymmetrical allocations to operating segments because the Group allocates interest income, government grants, depreciation and amortisation and gain or loss on disposal of property, plant and equipment to each segment without allocating the related bank balances, deferred income, property, plant and equipment and intangible assets to those segments. This is the measure reported to the Board of Directors for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

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

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

4. OTHER INCOME

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Government grants	**162,498**	142,525
Interest income from time deposits, short term fixed deposits, pledged bank deposits and bank balances	**236,641**	69,117
Investment income from unlisted financial products at FVTPL	**227,811**	144,393
Interest income from debt instruments	**–**	818
Interest income from small loan services	**2,472**	3,387
Income from sales of moulds	**25,743**	10,538
Income from sales of scrap materials	**16,259**	29,096
Others	**24,088**	8,473
	695,512	408,347

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Net foreign exchange gain (loss)	**125,163**	(77,134)
Gain on disposal of property, plant and equipment and right-of-use assets	**23,102**	7,417
Loss on changes in fair value of derivative financial instruments	**(268,108)**	(12,278)
Loss on changes in fair value of debt instruments, equity investments and fund investments at FVTPL	**–**	(28,703)
Gain on disposal of a subsidiary	**–**	55,200
Loss on lease termination	**(4,094)**	–
	(123,937)	(55,498)

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax:		
PRC Enterprise Income Tax	**99,569**	289,257
Withholding tax expense	**57,625**	57,521
Other jurisdiction	**21,840**	5,053
	179,034	351,831
Deferred tax *(Note 11)*:		
Current period	**(46,549)**	(46,914)
	132,485	304,917

7. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period has been arrived at after charging (crediting) the following items:		
Depreciation of property, plant and equipment	**977,141**	876,474
Depreciation of investment properties	**2,438**	2,440
Depreciation of right-of-use assets	**29,815**	33,962
Amortisation of intangible assets	**28,104**	28,105
Allowance for (reversals of) inventories (included in cost of sales)	**22,055**	(47,952)

8. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**436,714**	1,357,905
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share *(Note)*	**1,092,180**	1,093,966
Effect of dilutive potential ordinary shares		
Restricted shares	**852**	872
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,093,032**	1,094,838

Note: The weighted average number of ordinary shares has been calculated taking into account the shares held by the Group under share award scheme.

9. DIVIDENDS

	For the six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Dividends for ordinary shareholders of the Company recognised as distribution during the period:		
Final dividend paid in 2023 for 2022 of Hong Kong Dollar ("**HKD**") 50.00 cents per share (2022: HKD111.80 cents per share for 2021)	**504,852**	1,047,715

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2023 (corresponding period of 2022: nil).

10. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

(a) Property, plant and equipment

During the current interim period, the Group acquired manufacturing equipment and incurred construction costs for manufacturing plants of approximately RMB694,774,000 (corresponding period of 2022: RMB827,255,000) in order to upgrade its manufacturing capabilities and capacity expansion.

In addition, the Group disposed certain of its plants and equipment with carrying amount of approximately RMB9,988,000 (corresponding period of 2022: RMB16,238,000) which resulted in a gain on disposal of approximately RMB2,843,000 (corresponding period of 2022: RMB7,417,000).

As at 30 June 2023, no property, plant and equipment of the Group were pledged to secure bank borrowings granted.

(b) Right-of-use assets

During the current interim period, the Group entered into several new lease agreements for the use of office and manufactory for fixed term of 1.5 to 8.5 years. On the lease commencement date, the Group recognised additional RMB27,394,000 of right-of-use assets (corresponding period of 2022: RMB144,463,000) and RMB27,105,000 of lease liabilities (corresponding period of 2022: RMB142,589,000).

The Group also acquired a leasehold land which was recognised as right-of-use assets on the commencement date in the amount of RMB31,467,000 (corresponding period of 2022: RMB25,771,000).

As at 30 June 2023, no leasehold lands of the Group were pledged to secure bank borrowings granted.

11. DEFERRED TAXATION

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

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Deferred tax assets	**(246,367)**	(257,178)
Deferred tax liabilities	**787,203**	850,321
	540,836	**593,143**

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

	Withholding tax on undistributed profit from the PRC	Allowance for inventories and ECL provision	Deferred subsidy income	Accelerated depreciation	Accrued bonus	Right-of-use assets	Lease liabilities	Tax loss	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2022 (Audited)	157,371	(111,932)	(26,679)	810,002	(95,741)	–	–	–	27,218	760,239
Adjustments	–	–	–	–	–	27,856	(27,856)	–	–	–
At 1 January 2022 (Restated)	157,371	(111,932)	(26,679)	810,002	(95,741)	27,856	(27,856)	–	27,218	760,239
(Credit) charge to profit or loss	(29,179)	17,694	(16,553)	106,432	(2,757)	8,145	(8,321)	(232,649)	(5,914)	(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 (Restated)	128,192	(92,839)	(40,918)	916,434	(98,498)	36,001	(36,177)	(232,649)	13,597	593,143
(Credit) charge to profit or loss *(Note 6)*	(50,089)	(1,320)	7,396	72,003	–	(1,822)	1,736	(39,058)	(35,395)	(46,549)
Credit to other comprehensive income	–	–	–	–	–	–	–	–	(5,758)	(5,758)
At 30 June 2023 (Unaudited)	78,103	(94,159)	(33,522)	988,437	(98,498)	34,179	(34,441)	(271,707)	(27,556)	540,836

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

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

During the current interim period, the Group paid an amount of approximately RMB411,739,000 (corresponding period of 2022: RMB585,025,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB125,503,000 (corresponding period of 2022: RMB191,978,000) to property, plant and equipment.

13. FINANCIAL ASSETS AT FVTPL

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current assets		
Unlisted financial products *(Note a)*	**8,142,596**	10,086,415
Non-current assets		
Equity investments *(Note b)*	**19,518**	19,518

Notes:

(a) Unlisted financial products

The Group entered into several contracts of unlisted financial products with banks, which are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for as financial assets at FVTPL on initial recognition in which that the return on the unlisted financial products was determined by reference to the performance of the underlying investment assets and as at 30 June 2023, the expected return rates stated in the contracts range from 1.75% to 5.00% (31 December 2022: 1.80% to 5.00%) per annum.

The investment income from unlisted financial products amounting to RMB227,811,000 (corresponding period of 2022: RMB144,393,000) was recognised in the profit or loss in the current interim period.

(b) Equity investments

The Group's equity investments in several partnership enterprises amounting to RMB19,518,000 (31 December 2022: RMB19,518,000) were classified as financial assets at FVTPL.

In the opinion of the Directors of the Company, the fair value change of the equity investments is insignificant in the current interim period.

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	30 June 2023	31 December 2022	**30 June 2023**	31 December 2022
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
Foreign currency forward contracts	**–**	29,681	**252,348**	508
Foreign currency options contracts	**–**	–	**3,734**	17,147
Total	**–**	29,681	**256,082**	17,655
Less: current portion				
Foreign currency forward contracts	**–**	29,681	**252,348**	508
Foreign currency options contracts	**–**	–	**3,734**	17,147
	–	29,681	**256,082**	17,655
Non-current portion	**–**	–	**–**	–

The Group entered into several United States Dollar ("**USD**")/RMB foreign currency options and foreign currency forward contracts with banks in the PRC in order to manage the Group's foreign currency risk.

As at 30 June 2023, the notional amount of outstanding foreign currency option contracts amounted to approximately USD38,000,000 (equivalent to RMB274,580,000) (31 December 2022: USD606,040,000 (equivalent to RMB4,220,826,000)) while the notional amount of outstanding foreign currency forward contracts amounted to approximately USD660,430,000 (equivalent to RMB4,772,135,000) (31 December 2022: USD61,250,000 and HKD780,000,000 (equivalent to RMB426,582,000 and RMB696,751,000 respectively)).

All these option and forward contracts are matured within one year.

15. INVENTORIES

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Raw materials	**949,534**	1,061,132
Work in progress	**263,267**	202,428
Finished goods	**3,204,110**	3,457,353
	4,416,911	4,720,913

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Trade receivables	**5,585,752**	6,428,554
Less: allowance for credit losses	**(100,888)**	(93,643)
	5,484,864	6,334,911
Loan receivables	**105,743**	87,619
Other receivables and prepayments:		
Value added tax and other tax receivables	**113,350**	199,895
Advance to suppliers	**152,642**	132,028
Interest receivables	**32,857**	42,977
Prepaid expenses	**143,646**	177,693
Utilities deposits and prepayments	**98,615**	76,712
Advances to employees	**128,619**	124,890
Others	**25,953**	28,385
	695,682	782,580
Total trade and other receivables and prepayments	**6,286,289**	7,205,110

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 losses, presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition date.

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Within 90 days	**5,234,922**	6,082,252
91 to 180 days	**249,547**	252,335
Over 180 days	**395**	324
	5,484,864	6,334,911

Movement in the allowance for credit losses:

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Balance at the beginning of the reporting period	**93,643**	95,625
Changes due to financial assets recognised:		
– Impairment losses recognised on trade receivables	**3,310**	7,462
– Impairment losses reversed	**(4,070)**	(8,275)
– Elimination on disposal of a subsidiary	**–**	(5,926)
New financial assets originated	**7,956**	4,704
Foreign exchange realignment	**49**	53
Balance at end of the reporting period	**100,888**	93,643

16A. RECEIVABLES AT FVTOCI

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Receivables at FVTOCI comprise:		
Bill receivables *(Note)*	**562,638**	548,956

Note: That included in the Group's bill receivables is amounts of RMB27,147,000 (2022: RMB37,681,000) being endorsed to certain suppliers for settlement of trade payables on a full recourse basis. If the bills are not paid on maturity, the suppliers have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to the bill receivables to its suppliers upon endorsement, it continues to recognise the full carrying amount of bill receivables and has recognised the payables from the endorsement of the bills with full recourse. The financial asset is carried at fair value in the condensed consolidated statement of financial position.

Receivables at FVTOCI endorsed to suppliers with full recourse:

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Carrying amount of transferred assets	**27,147**	37,681
Carrying amount of associated liabilities	**(27,147)**	(37,681)
Net position	**–**	–

The credit period of bill receivables is 90 to 180 days. Aging of bill receivables based on the issue date at the end of the reporting period is as follows:

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Within 90 days	**389,173**	391,133
91 to 180 days	**173,465**	157,823
	562,638	548,956

17. IMPAIRMENT ASSESSMENT ON TRADE RECEIVABLES AND AMOUNT DUE FROM A RELATED PARTY SUBJECT TO EXPECTED CREDIT LOSS MODEL

As part of the Group's credit risk management, except for the debtors with credit-impaired the Group uses debtors' aging to assess the impairment for its customers which are with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Debtors with credit-impaired are assessed individually by the Group. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2023.

	Average loss rate	**Gross carrying amount**	**Impairment loss allowance**
		RMB'000	*RMB'000*
1 to 90 days	0.04%	5,236,953	2,031
91 to 120 days	0.16%	185,882	293
121 to 180 days	1.77%	65,113	1,155
More than 180 days	92.05%	4,966	4,571
		5,492,914	8,050

During the year ended 31 December 2022, the credit risk of amount due from a related party has significantly increased since initial recognition as the risk of default was increased and the impairment allowance in the amount of RMB6,679,000 was recognised in profit or loss. During the current interim period, the Group reversed impairment allowance of RMB1,608,000 (corresponding period of 2022: nil), which was assessed individually based on lifetime ECL.

	Loss rate	**Gross carrying amount**	**Impairment loss allowance**
		RMB'000	*RMB'000*
Amount due from a related party	94.24%	5,381	5,071

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2023 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2022.

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

During the current interim period, the Group provided impairment allowance of RMB100,888,000 (corresponding period of 2022: RMB97,631,000), among which RMB8,050,000 was made based on the provision matrix with life time ECL (not credit-impaired) while RMB92,838,000 was assessed individually on the credit-impaired debtors.

18. 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 issue date at the end of the reporting period.

	30 June 2023	31 December 2022
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Current liabilities		
Trade payables		
Within 90 days	**4,018,886**	4,193,511
91 to 180 days	**513,324**	625,453
Over 180 days	**20,841**	12,387
Accrued purchases	**485,341**	554,152
Total trade payables and accrued purchases	**5,038,392**	5,385,503
Note payables		
Within 90 days	**4,342,369**	3,663,957
91 to 180 days	**2,859,389**	680,441
Over 180 days	**2,112,213**	22,566
	9,313,971	4,366,964
Advance deposits from a customer	**569,414**	555,456
Payables for purchase of property, plant and equipment	**477,863**	410,958
Staff salaries and welfare payables	**1,067,010**	1,378,175
Labor outsourcing payables	**91,332**	194,150
Payables for acquisition of patents	**38,254**	39,534
Value added tax payables and other tax payables	**128,718**	214,476
Interest payables	**16,404**	76,738
Rental and utilities payables	**54,792**	61,367
Others	**192,388**	233,965
	2,636,175	3,164,819
	16,988,538	12,917,286
Non-current liability		
Long term payables		
Payables for acquisition of patents	**118,690**	122,777

The credit period on purchases of goods is up to 180 days (2022: 180 days) and the credit period for note payables is 90 days to 365 days averagely (2022: 90 days to 365 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

19. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings amounting to approximately RMB4,463,023,000 (corresponding period of 2022: RMB5,393,483,000), and the proceeds were used to meet the working capital requirement. Repayment of bank borrowings amounting to approximately RMB3,884,221,000 (corresponding period of 2022: RMB5,478,417,000) was made in line with the relevant repayment terms.

As at 30 June 2023, the bank borrowings amounted to a total of RMB730,000,000 (31 December 2022: RMB1,989,981,000) were repayable within one year, and RMB2,031,547,000 (31 December 2022: RMB30,000,000) were repayable within a period of more than one year.

As at 30 June 2023, the bank borrowings amounting to approximately RMB2,001,547,000 (31 December 2022: RMB348,230,000) were denominated in USD, and no bank borrowing (31 December 2022: RMB696,751,000) was denominated in HKD. The Group's bank borrowings carried fixed-rate of 2.30% to 3.97% and variable-rate of 4.80% (31 December 2022: 2.30% to 3.20% and 3.60% to 3.70% respectively) per annum.

As at 30 June 2023, no bank borrowing was secured by any other assets of the Group.

20. BONDS PAYABLE

On 16 January 2018, the Company issued unsecured bonds in the amount of USD600 million (equivalent to RMB3,832,145,000) at the rate of 3.75% per annum to professional investors outside of United States in accordance with Regulation S under the U.S. Securities Act which was due on 23 January 2023. The issuance had been completed on 23 January 2018 and the listing of the bonds in the Hong Kong Stock Exchange became effective on 24 January 2018. In January 2023, the bonds payable amounting to approximately RMB4,062,120,000 were repaid in line with the relevant repayment terms.

On 9 January 2023, the Company issued unsecured sustainability-linked bonds in the amount of USD400 million at the rate of 5.95% per annum which will be due by year 2026 to professional investors outside of the United States in accordance with Regulation S under the U.S. Securities Act. The issuance has been successfully completed on 17 January 2023 and the listing of the bonds in the Hong Kong Stock Exchange became effective on 18 January 2023.

The Company had fully used the net proceeds from the bonds for refinancing existing indebtedness.

During the current interim period, interest expense of approximately RMB87,534,000 (corresponding period of 2022: RMB77,826,000) was recognised in the profit or loss.

21. SHARE CAPITAL

	Number of shares	**Amount**	**Equivalent to**
		HKD'000	*RMB'000*
Authorised:			
Ordinary share of HKD0.10 each at			
1 January 2022 (Audited),			
30 June 2022 (Unaudited),			
1 January 2023 (Audited),			
30 June 2023 (Unaudited)	100,000,000,000	10,000,000	
Issued & fully paid			
Ordinary shares of HKD0.10 each at			
1 January 2022 (Audited),			
30 June 2022 (Unaudited),			
1 January 2023 (Audited),			
30 June 2023 (Unaudited)	1,096,849,700	109,685	105,163

22. SHARE AWARD SCHEME

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

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

	Weighted average fair value (per share) *HKD*	**Number of restricted shares** *('000)*
At 1 January 2022 (Audited)	187.090	2,486
Forfeited	146.271	(205)
Vested	151.230	(1,626)
Granted	104.976	4,300
At 31 December 2022 and 1 January 2023 (Audited)	129.288	4,955
Forfeited	106.516	(154)
Vested	124.013	(1,610)
Granted *(Note)*	81.700	2,467
As at 30 June 2023 (Unaudited)	110.661	5,658

The equity-settled share-based payments expense charged to profit or loss was approximately RMB133,892,000 for the current interim period (corresponding period of 2022: RMB113,596,000).

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

Restricted shares	**Fair value (per share)** *HKD*	**Scales**
2,340,173	81.700	One-half
126,593	81.700	One-fourth

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

During the current interim period, the Group purchased 2,355,153 shares at the average price of HKD73.994 (total amount equivalent to approximately RMB158,983,000) under the share award scheme.

23. COMMITMENTS

	30 June 2023 ***RMB'000*** **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**1,081,607**	1,257,523

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 and other optical components), Optoelectronic Products (such as vehicle modules, VR folded path ("**Pancake**") modules, VR visual modules, handset camera modules, the red, green, blue and depth ("**RGBD**") robotic vision modules and other optoelectronic modules) and Optical Instruments (such as intelligent inspection equipment and microscopes). The Group focuses on the optoelectronic-related products that combine optics, electronics, algorithm and mechanical technologies in the application fields such as vehicles, VR/AR, robots and handsets.

Save as disclosed in this announcement, there have been no material changes in respect of the development or future development of the Group's business and financial position since the publication of the annual report of the Company for the year ended 31 December 2022, and no important events affecting the Group which have occurred since 30 June 2023.

BUSINESS REVIEW

The business review of the Group for the six months ended 30 June 2023 shall be presented in the following three categories, namely Optical Components, Optoelectronic Products and Optical Instruments.

Optical Components

In terms of the vehicle lens sets business, in the first half of 2023, key components shortage in the vehicle supply chain has eased and the market demands of vehicle cameras has gradually restored, among which advanced driver assistance systems ("**ADAS**") vehicle cameras experienced the most prominent growth but also encountered fiercer market competition than before. Faced with such environment, in addition to enhancing cooperations with traditional vehicle manufacturers, the Group also attached great importance to the cooperations with new power of vehicle manufacturers to consolidate its leading position in the industry. At the same time, the Group continued to intensively develop its advantageous businesses, and made R&D and innovation efforts in high-end ADAS vehicle lens sets. For example, the Group surmounted technological difficulties in hybrid products, which enriched the product categories and improved its market competitiveness. Moreover, with the development of intelligent cabin industry, the Group also increased its efforts in the R&D of vehicle lens sets in in-cabin sensors, and further consolidated the leading advantages in the industry. During the period under review, the Group has completed the R&D of a complete set of 17-mega pixel front-view and surrounding vehicle lens sets, which have been used for level-4 autonomous driving and have been tested and recognized by well-known fully autonomous driving manufacturers. Meanwhile, the R&D of 3-mega pixel and 8-mega pixel sub-miniature sideview vehicle lens sets, as well as 5-mega pixel sub-miniature occupancy monitoring system ("**OMS**") vehicle lens sets have also been completed. During the period under review, the shipment volume of vehicle lens sets of the Group increased by approximately 25.2% to approximately 47,078,000 units as compared to the corresponding period of last year. The market share of the Group further increased, maintaining its position as the global No. 1.

In terms of the emerging vehicle optical field, the Group continued to explore market opportunities in the fields including LiDAR, head-up display ("**HUD**") and smart headlamp, to strengthen product layouts and to seek differentiated technological breakthroughs. During the period under review, the Group has completed the R&D of several LiDAR related products, including scanning modules combined with polygons and electrical motors and three-dimensional flash ("**3D Flash**") transceiver modules. Meanwhile, in terms of the HUD, the Group focused on core optical engine business and sped up the R&D and marketing of new HUD products with core manufacturers in the upstream and downstream of the industry chain to realize diversified layouts with multiple technological routes. In particular, the self-developed display modules with laser beam scanning ("**LBS**") solution featured lighter weight, smaller size and higher resolution, providing better performance experience to customers. In addition, during the period under review, the Group actively seized the opportunities arising from the ground projection unit market, and has completed the R&D of ground projection units that could be applicable to various scenarios including safety warning, vehicle window projection and chair back projection respectively.

In terms of VR/AR field, the sales performance of the Group's VR-related optical products was adversely affected by the weak sales of VR market in the first half of 2023. With the launch of cost-effective products and the content ecosystem becoming gradually enriched, the Group is firmly confident in the promising prospect for future growth, and continuously strengthened the R&D efforts in VR near to eye display related products and perception and interaction lens sets. The Group is seeking to gain market recognition with innovative products and technologies and has already acquired multiple world-renowned customers. In addition, the AR market is currently in the industrial incubation period while the technical system, industrial chain construction, product form and content ecology are still being improved and developed, which is expected to be implemented in more scenarios in the future. During the period under review, the Group continued to invest in resources and increase efforts in the R&D of full-color AR optical waveguides.

In terms of the handset lens set business, the further decline in the global smartphone shipment and the downgraded specification of smartphone cameras brought enormous pressure on the Group's handset lens sets business. During the period under review, the shipment volume of handset lens sets of the Group decreased by approximately 21.3% to approximately 512,760,000 units as compared to the corresponding period of last year. In the face of the challenging situation, the Group acted quickly and took various measures in marketing, technology and manufacturing. In marketing, the Group firmly adhered to its product strategy of "Ding Tian Li Di (頂天立地)", to further enhance customer satisfaction and increase customer stickiness; in technology, the Group unswervingly stuck to the "Innovation-Driven" technology route to enhance the core competitiveness of products with "High Specification, Quality and Added-Value". During the period under review, the Group completed the R&D of the industry's first new long-focus handset lens sets with folded light route and various hybrid handset lens sets with large image size and variable apertures for main cameras. Meanwhile, the Group's handset lens sets with ultra-low reflection coating for each lens, various ultra-thin handset lens sets with ultra-miniaturized head for flagship foldable phones and various 1-inch hybrid handset lens sets have been commenced mass production. In addition, the Group continued to upgrade and iterate the new-generation ultra-low reflection coating technology, multi-set assembly technology and testing technology; in manufacturing, the Group deepened the path to "Lean and Intelligent Manufacturing" to ensure its delivery capability with high-quality and consolidate its global No. 1 position in terms of market share.

Optoelectronic Products

In terms of the vehicle modules business, the Group has completed the layout of four product lines of sensing vehicle modules, viewing vehicle modules, sensing and viewing vehicle modules, and in-cabin monitoring vehicle modules based on the application scenarios and product features of intelligent driving and intelligent cabin. Capitalizing on its leading technological strengths, the Group provides valuable services with excellent products and co-develops and adapts with world-renowned leading master chip companies in advance, which could empower the customers to accelerate the R&D implementation. The Group has commenced mass production of 8-mega pixel, 3-mega pixel and 1.7-mega pixel sensing vehicle modules, 3-mega pixel electronic rearview mirror ("**E-mirror**") sensing and viewing vehicle modules, and 8-mega pixel, 5-mega pixel and 2-mega pixel in-cabin monitoring vehicle modules. Meanwhile, the 8-mega pixel sensing vehicle modules using chip on board ("**COB**") technology have also been commenced mass production. Furthermore, in addition to strengthening cooperation with domestic customers, the Group was actively expanding into the international market. The Group has made phased progress with key global leading clients in Europe, the United States, Japan and South Korea and has obtained a designated project from a well-known car maker in Europe.

In terms of the VR/AR and the robotic vision fields, the R&D of the innovative miniaturized high-pixel VR see through camera modules with better heat dissipation have been completed and the imaging consistency and stability of the module has been further improved. Meanwhile, the Group commenced the application of three mainstream 3D vision technologies, namely binocular, structured light and time of flight ("**ToF**"), which enabled the functionalities such as positioning, mapping and navigation, intelligent obstacle avoidance and recognition, and thus empowering robots with accurate visual perception capabilities, thereby achieving more efficient and intelligent robot applications. During the period under review, the Group's intelligent door lock recognition modules based on self-developed algorithms have been already commenced mass production; and the RGBD robotic vision modules based on self-developed algorithms have been developed and started to launch to the market.

In terms of the handset camera modules business, as continuously affected by the further decline in the global smartphone shipment and the downgraded specification of smartphone cameras, which also had a significant impact on the Group's handset camera module business, the shipment volume of handset camera modules of the Group during the period under review decreased by approximately 11.8% to approximately 254,565,000 units as compared to the corresponding period of last year. Compounded by the increasingly fierce market competition and the increasing cost pressure, the profitability of the handset camera modules business of the Group was also under huge pressure. In this unfavorable market environment, the Group made continued efforts to make breakthroughs, and further exerted its technology-leading strengths and product innovation capabilities to enhance customer stickiness and consolidate its global No. 1 market position. During the period under review, the Group has completed the R&D of variable aperture handset camera modules with large image size and optical image stabilization ("**OIS**") and 200-mega pixel periscope handset camera modules. Meanwhile, by further tapping into core actuators, and leveraging the advantages of the integration of motor, lens set and module, the product systematic integration and customization capabilities and its product competitiveness have been further enhanced. During the period under review, the Group's OIS handset camera modules with self-developed motors have been commenced mass production. In addition, with ongoing implementation of the construction of intelligent factories, and the global factory layout in Vietnam and India, the Group further boosted its strengths in high-end scale manufacturing and its industry-leading position.

Optical Instruments

In terms of the intelligent equipment business, the Group grasped the rise of internal demand among enterprises as an opportunity to leverage its leading capabilities in optical imaging, design of precision machinery and automatic control technology to empower precision industrial manufacturing. During the period under review, the Group has completed the R&D of VR optical component inspection equipment, which adopts high-precision optical system and self-developed algorithms to achieve accurate identification of appearance defects, and has the industry-leading position in overall efficiency of equipment and the accuracy of defect identification. In addition, the world's largest vehicles lens sets manufacturer has extensively applied the Group's self-developed vehicle lens sets dust detection equipment, which could realize fully-automatic loading and unloading, code scanning, inspection, vehicle manufacturing execution system ("**MES**") upthrowing and other functions. Defect detection could be made on vehicle lens sets such as the long-focus, wide-angle or square-type ones, and its comprehensive efficiency and missed detection performance are at the forefront of the industry.

In terms of the microscopic instrument business, as deeply rooted in scientific research, medical and industrial fields, the Group vigorously expanded customer base and continuously increased the scale of sales. During the period under review, the Group and its partners have completed the R&D of a prototype of a circulating tumor cell analysis system, which can conduct quantitative analysis on slide samples of circulating tumor cells to provide diagnostic basis for early screening of tumors, intra-operative monitoring, medication guidance and prognosis recurrence of tumor patients, thus bridging our gap in the field of liquid biopsy of tumor.

OUTLOOK AND FUTURE STRATEGIES

Looking forward, 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 direction of the global economy sticking to digital economy and green economy will not change. 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, the Group will also explore and seize new opportunities in the markets based on the following three principles, so as to achieve sustainable business development.

1. Tapping new potentials in mature businesses

- Potential of new customers – keep an eye on target major customers and satisfy their demands so as to rapidly increase our supply proportion and become their important supplier; and

- Potential of product mix – further improve the proportion of high-end and high-value products.

2. Seeking new opportunities in emerging industries

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

- In vehicle LiDAR, HUD, VR/AR, robotic vision and other emerging fields, the Group will not only provide basic optical components, but will also improve its product portfolio constantly and enhance added value to its products and its competitiveness in the industry.

3. Focusing on quality while expanding volume

- Continue to improve operational efficiency and quality, and further increase its capacity utilization rate;

- Further improve product quality, working efficiency and yield rate; and

- Continuously reduce product cost per unit and loss rate.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2023, the Group's revenue was approximately RMB14,278.6 million, representing a decrease of approximately 15.9% as compared to the corresponding period 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 as a result of the continued weak global demand of the smartphone market, the intense industrial competition and the prolonged trend of de-specification of smartphone cameras, which were brought by the factors such as slow recovery of the Chinese economy and the uncertainties of global economy.

Revenue generated from the Optical Components business segment was approximately RMB4,317.9 million, representing a slight decrease of approximately 1.8% as compared to the corresponding period of last year. The slight decrease in revenue was mainly attributable to the increase in revenue of vehicle related products which was offset by the decrease in revenue of handset lens sets and VR related products. The revenue of the vehicle lens sets increased with the gradual easing of the chip shortage in the supply chain, and the revenue related to the optical parts of vehicle LiDAR and HUD increased significantly due to the increase in these mass production projects. However, the revenue of handset lens sets has decreased as a result of the continued weak demand of the smartphone market and the prolonged trend of de-specification of smartphone cameras. Furthermore, the revenue of VR related products has also decreased as a result of the weak sales of VR market.

Revenue generated from the Optoelectronic Products business segment was approximately RMB9,736.5 million, representing a decrease of approximately 21.3% as compared to the corresponding period of last year. The decrease in revenue was mainly attributable to the decrease of shipment volume and average selling price of handset camera modules as compared to the corresponding period of last year, which was affected by the continued weak demand of the smartphone market and the prolonged trend of de-specification of smartphone cameras.

Revenue generated from the Optical Instruments business segment was approximately RMB224.2 million, representing an increase of approximately 11.0% as compared to the corresponding period of last year. The increase in revenue was mainly attributable to the increase in the market demand for optical instruments applied to domestic industrial and medical fields and overall overseas market demand.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the six months ended 30 June 2023 was approximately RMB2,130.6 million, representing a decrease of approximately 39.5% as compared to the corresponding period of last year. The gross profit margin was approximately 14.9%, which was approximately 5.9 percentage points lower than that of the corresponding period of last year. The decrease in gross profit margin was mainly attributable to the decrease in gross profit margins of handset lens sets and handset camera modules as compared to the corresponding period of last year, which was affected by the continued weak demand of the smartphone market and the prolonged trend of de-specification of smartphone cameras.

The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 26.0%, 6.9% and 42.7%, respectively (corresponding period of 2022: approximately 35.5%, 11.6% and 44.6%, respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2023 was approximately RMB240.1 million, representing an increase of approximately 46.9% as compared to the corresponding period of last year. It accounted for approximately 1.7% of the Group's revenue during the period under review, as compared to approximately 1.0% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in the headcount and remuneration of sales staff and the increased marketing activities.

R&D Expenditure

The R&D expenditure of the Group for the six months ended 30 June 2023 was approximately RMB1,204.8 million, representing a decrease of approximately 17.9% as compared to the corresponding period of last year. It accounted for approximately 8.4% of the Group's revenue during the period under review, as compared to approximately 8.7% for the corresponding period of last year. The decrease in absolute amount was mainly attributable to the strengthening of the management of the Group's R&D investment.

Administrative Expenses

The administrative expenses of the Group for the six months ended 30 June 2023 was approximately RMB457.9 million, representing an increase of approximately 4.6% as compared to the corresponding period of last year. It accounted for approximately 3.2% of the Group's revenue during the period under review, as compared to approximately 2.6% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in the remuneration of administrative staff, and the increase in expenses related to the grant of restricted shares under the restricted share award scheme (the "**Restricted Share Award Scheme**") of the Company and the informationization construction.

Income Tax Expenses

The Group's income tax expenses for the six months ended 30 June 2023 was approximately RMB132.5 million, representing a decrease of approximately 56.6% as compared to the corresponding period of last year. The decrease in absolute amount was mainly attributable to the decrease of profit before tax. The Group's effective tax rate was approximately 22.4% during the period under review, and it was approximately 18.1% for the corresponding period of last year.

Net Profit and Net Profit Margin

For the six months ended 30 June 2023, the Group's net profit was approximately RMB459.4 million, representing a decrease of approximately 66.7% as compared to the corresponding period of last year. The decrease in net profit was mainly attributable to (i) the factors such as slow recovery of the Chinese economy and the uncertainties of the global economy for the six months ended 30 June 2023, continued weak global demand of smartphone market, the intense industrial competition and the prolonged trend of de-specification of smartphone camera, which resulted in the year-on-year decrease of the shipment volume of handset lens sets and handset camera modules of the Group, with increasing pressure on average selling prices and gross profit margins; and (ii) the depreciation of the Renminbi for the six months ended 30 June 2023, an unrealized foreign exchange loss amounting to approximately RMB161.5 million was caused by the USD400.0 million sustainability-linked bonds issued by the Company on 17 January 2023 and long-term bank borrowings amounting to approximately USD277.0 million, which was a non-cash item. The net profit margin was approximately 3.2% for the six months ended 30 June 2023 and it was approximately 8.1% for the corresponding period of last year.

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

The profit for the period attributable to owners of the Company for the six months ended 30 June 2023 was approximately RMB436.7 million, representing a decrease of approximately 67.8% as compared to the corresponding period of last year.

The basic earnings per share for the six months ended 30 June 2023 was approximately RMB39.99 cents, representing a decrease of approximately 67.8% as compared to the corresponding period of last year.

Interim Dividend

The Company has paid the dividend for the year ended 31 December 2022 in June 2023, which was HKD0.500 per share of the Company. The payout ratio was approximately 20.0% of the profit for the year attributable to owners of the Company.

The Board of the Company does not recommend the payment of an interim dividend for the six months ended 30 June 2023 (corresponding period of 2022: nil).

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2023 and 30 June 2022:

	For the six months ended 30 June	
	2023	2022
	RMB million	*RMB million*
Net cash from operating activities	**1,053.6**	1,571.1
Net cash used in investing activities	**(1,379.8)**	(723.6)
Net cash from (used in) financing activities	**4,449.3**	(1,510.5)

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing in the short run to meet its working capital and other requirements. In the long run, the Group will be mainly funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the six months ended 30 June 2023.

As at 30 June 2023, the Group had current assets of approximately RMB31,990.4 million (31 December 2022: approximately RMB30,645.6 million); and current liabilities of approximately RMB18,207.8 million (31 December 2022: approximately RMB19,336.9 million). The Group's current ratio was approximately 1.8 times (31 December 2022: approximately 1.6 times). The Group's total assets as at 30 June 2023 was approximately RMB46,685.3 million, representing an increase of approximately 8.6% as compared to that as at 31 December 2022.

As at 30 June 2023, the Group's cash and cash equivalents were approximately RMB11,170.0 million (31 December 2022: approximately RMB7,033.2 million). The cash and cash equivalents were mainly denominated in RMB and USD.

Capital Expenditure

For the six months ended 30 June 2023, the Group's capital expenditure amounted to approximately RMB1,050.3 million, which was mainly used for the purchase of property, plant and equipment, acquisition of land use right and purchases of other tangible assets. All of the capital expenditure was financed by internal resources.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 30 June 2023 amounted to approximately RMB2,761.5 million (31 December 2022: approximately RMB2,020.0 million). As at 30 June 2023, no bank borrowings were secured by certain buildings and land of the Group. As at 30 June 2023, the bank borrowings were denominated in RMB and USD.

Bank facilities

As at 30 June 2023, 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, RMB2,670.0 million with Industrial and Commercial Bank of China Limited, RMB2,200.0 million with China Merchants Bank Co., Ltd., RMB2,000.0 million with China Construction Bank Corporation, RMB380.0 million with of Bank of Communications Co., Ltd., RMB3,115.0 million and USD75.0 million with Bank of China Limited respectively, USD120.0 million with BNP Paribas, USD110.0 million with The Hongkong and Shanghai Banking Corporation Limited, USD154.0 million with China Development Bank, USD20.0 million and Indian rupee 4,500.0 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 30 June 2023, the Group had debt securities of approximately RMB2,953.7 million (31 December 2022: approximately RMB4,178.1 million). The Group issued USD400.0 million sustainability-linked bonds on 17 January 2023.

As at 30 June 2023, the Group's gearing ratio was approximately 12.2%, with the basis of the ratio of total borrowings to total capital (total capital being the sum of total liabilities and shareholders' equity), reflecting the Group's financial position at a sound level.

Contingent liabilities

As at 30 June 2023, the Group did not have any material contingent liabilities or guarantees.

Financing and funding and treasury policies and objectives

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

PLEDGE OF ASSETS

As at 30 June 2023, the Group did not have any pledge or charge on assets, except for the pledged bank deposits of approximately RMB142.4 million (31 December 2022: approximately RMB9.8 million).

COMMITMENTS

As at 30 June 2023, the capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements amounted to approximately RMB1,081.6 million (31 December 2022: approximately RMB1,257.5 million).

As at 30 June 2023, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2023, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS AND FUTURE INVESTMENTS PLAN

The Group's investing activities primarily include the purchase and redemption of unlisted financial products, placement and release of short-term fixed deposits, placement and release of time deposits, purchase of property, plant and equipment and acquisition of investment in an associate. The purchase and disposal of financial assets at FVTPL include equity investments and unlisted financial products. Among them, 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.

Important Investments, Acquisitions and Disposals

As at 30 June 2023, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB8,142.6 million (31 December 2022: approximately RMB10,086.4 million), of which approximately RMB1,726.8 million has been released on or before 18 August 2023. As at 30 June 2023, the size of the unlisted financial products subscribed by the Group in aggregate represented approximately 17.4% of the Group's total assets (31 December 2022: approximately 23.5%). The investment costs for the unlisted financial products subscribed as at 30 June 2023 was approximately RMB7,988.8 million (31 December 2022: approximately RMB10,007.6 million). For the six months ended 30 June 2023, the amount of investment income from the unlisted financial products was approximately RMB227.8 million (corresponding period of 2022: approximately RMB144.4 million).

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 30 June 2023 (in descending order):

Name of the unlisted financial products*	Name of banks	Investment costs	Fair value of the unlisted financial products as at 30 June 2023	Percentage of fair value of the unlisted financial products relative to the total assets of the Group as at 30 June 2023
		RMB'000	*RMB'000*	
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	823,600	1.8%
Bank of Ningbo NingXin fixed income one-year fixed-term open-ended wealth management No. 32 – B shares* 寧銀理財寧欣固定收益類一年定期開放式理財32號－B份額	Bank of Ningbo Co., Ltd.	300,000	306,400	0.7%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 664* 寧銀理財寧欣固定收益類封閉式理財664號	Bank of Ningbo Co., Ltd.	300,000	303,700	0.7%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 429* 寧銀理財寧欣固定收益類封閉式理財429號	Bank of Ningbo Co., Ltd.	300,000	303,500	0.7%
Bank of Ningbo NingXin TianYi fixed income close-ended wealth management No. 55* 寧銀理財寧欣添益固定收益類封閉式理財55號	Bank of Ningbo Co., Ltd.	300,000	301,400	0.6%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 485* 寧銀理財寧欣固定收益類封閉式理財485號	Bank of Ningbo Co., Ltd.	300,000	300,000	0.6%
Others#		5,688,800	5,804,000	12.3%
	Total	7,988,800	8,142,600	17.4%

* 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 45 unlisted financial products with 4 different banks to lower the concentration risk. The fair value of such 45 unlisted financial products as at 30 June 2023 was approximately RMB129.0 million in average.

The unlisted financial products were measured at fair value as at 30 June 2023. 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 of the Company (the "**Shareholders**") as a whole.

For the six months ended 30 June 2023, the Group's investments amounted to approximately RMB1,050.3 million, which was primarily for the purchases of property, plant and equipment, acquisition of a land use right and purchase of other tangible assets. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

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 30 June 2023, the effective interest rate on fixed-rate bank borrowings was approximately 2.30% to 3.97% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 4.80% 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 option contracts, please refer to Note 14 to the condensed consolidated financial statements in this announcement. Except certain investments which are in line with the Group's business and which are denominated in foreign currencies, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

The Group's financial assets include derivative financial assets, cash and cash equivalents, pledged bank deposits, short-term fixed deposits, time deposits, financial assets at FVTPL, trade and other receivables and prepayments, amounts due from related parties, 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 follow-up actions are taken to recover overdue debts. The Group has also purchased insurance relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. The amounts presented in the condensed consolidated statement of financial position are net of allowance for credit losses, estimated by the Management based on prior experience and historical observed default rates, their assessment of the current economic environment and the discounted cash flows to be received in future.

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

Cash Flow Interest Rate Risk

The Group's cash flow interest rate risk is primarily related to variable rates applicable to 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.

OTHER INFORMATION

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

The Company is empowered by the applicable Cayman Islands Companies Act and the Company's articles of association (the "**Articles of Association**") to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustee of the Restricted Share Award Scheme, of the Company's listed shares for the six months ended 30 June 2023.

B. RESTRICTED SHARE AWARD SCHEME

On 22 March 2010 (the "**Adoption Date**"), the Board adopted the Restricted Share Award Scheme. Pursuant to the Restricted Share Award Scheme (the "**Scheme**"), the Directors, all employees, senior staff, agents and consultants of the Company and its subsidiaries are entitled to participate in the Scheme. The purposes of the Scheme are (i) to assist the Company in attracting new staff and (ii) to motivate and retain its existing talents.

For more details of the Scheme, please refer to Note 22 to the condensed consolidated financial statements in this announcement.

C. CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT AND SECURITIES TRANSACTIONS BY DIRECTORS

Corporate Governance

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability and to maximise the Shareholders' benefits. For the six months ended 30 June 2023, the Company complied with all of the mandatory disclosure requirements of the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules. Meanwhile, the Company has applied the 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.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules. Having made specific enquiries to all Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions throughout the six months ended 30 June 2023.

D. AUDIT COMMITTEE

The audit committee of the Board (the "**Audit Committee**") consists of four independent non-executive Directors (namely Mr. Zhang Yuqing (committee chairman), Mr. Feng Hua Jun, Mr. Shao Yang Dong and Ms. Jia Lina). The Audit Committee and the Company's external auditors have reviewed the interim report of 2023 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2023. Members of the Audit Committee agreed with the accounting treatment adopted in the preparation of the condensed consolidated financial statements.

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

Hong Kong, 22 August 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 a 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.