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SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED

舜宇光學科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2382.HK)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2020

RESULT HIGHLIGHTS

The Group's unaudited consolidated revenue for the six months ended 30 June 2020 was approximately RMB18,863.8 million, representing an increase of approximately 21.1% compared to the corresponding period of last year. The increase in revenue was mainly benefited from the Group's further development in smartphone related businesses.

The gross profit for the six months ended 30 June 2020 was approximately RMB3,676.3 million, representing an increase of approximately 28.4% compared to the corresponding period of last year. The gross profit margin was approximately 19.5%.

The net profit for the six months ended 30 June 2020 was approximately RMB1,776.1 million, representing an increase of approximately 24.0% compared to the corresponding period of last year. The net profit margin was approximately 9.4%.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of Sunny Optical Technology (Group) Company Limited (the "**Company**") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2020, together with the comparative figures for the corresponding period in 2019 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

		For the six months ended 30 June	
	<i>NOTES</i>	2020	2019
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Revenue	3	18,863,768	15,574,918
Cost of sales		(15,187,497)	(12,710,935)
Gross profit		3,676,271	2,863,983
Other income	4	193,738	187,044
Other gains and losses	5	(79,112)	(31,644)
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(7,328)	(15,534)
Selling and distribution expenses		(136,000)	(130,753)
Research and development expenditure		(1,067,980)	(826,538)
Administrative expenses		(333,430)	(257,386)
Share of results of associates		(187)	(2,192)
Finance costs		(122,544)	(126,396)
Profit before tax		2,123,428	1,660,584
Income tax expense	6	(347,299)	(228,157)
Profit for the period	7	1,776,129	1,432,427
Other comprehensive income:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		3,431	520
Other comprehensive income for the period		3,431	520
Total comprehensive income for the period		1,779,560	1,432,947

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2020

		For the six months ended 30 June	
	<i>NOTES</i>	2020	2019
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		1,749,024	1,431,175
Non-controlling interests		27,105	1,252
		<u>1,776,129</u>	<u>1,432,427</u>
 Total comprehensive income attributable to:			
Owners of the Company		1,751,066	1,431,509
Non-controlling interests		28,494	1,438
		<u>1,779,560</u>	<u>1,432,947</u>
 Earnings per share – Basic (RMB cents)	<i>8</i>	159.84	130.79
– Diluted (RMB cents)	<i>8</i>	159.62	130.65

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020

	<i>NOTES</i>	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>10(a)</i>	7,144,942	6,566,745
Right-of-use assets	<i>10(b)</i>	481,588	402,743
Investment properties	<i>10(c)</i>	43,103	45,298
Intangible assets		391,242	419,163
Interests in associates		496	683
Deferred tax assets	<i>11</i>	150,272	131,178
Deposits paid for acquisition of property, plant and equipment	<i>12</i>	417,174	315,395
Deposits paid for acquisition of land use right		–	24,831
Equity instruments at fair value through other comprehensive income (“FVTOCI”)		112,283	112,183
Debt instruments at amortised cost		57,597	27,962
Financial assets at fair value through profit or loss (“FVTPL”)	<i>13(a)(b)</i>	256,656	185,147
Derivative financial assets	<i>14</i>	17,477	13,654
Time deposits		500,000	–
Goodwill		2,119	2,119
		9,574,949	8,247,101
CURRENT ASSETS			
Inventories	<i>15</i>	4,257,652	5,145,962
Trade and other receivables and prepayment	<i>16</i>	9,681,062	9,629,684
Derivative financial assets	<i>14</i>	23,602	13,415
Financial assets at fair value through profit or loss	<i>13(c)(d)</i>	5,702,443	5,662,808
Debt instruments at amortised cost		28,246	55,749
Amount due from a related party		1,162	–
Pledged bank deposits		3,797	6,113
Short term fixed deposits		10,000	15,000
Bank balances and cash		1,800,452	1,917,239
		21,508,416	22,445,970

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2020

	<i>NOTES</i>	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	<i>18</i>	9,705,474	11,321,586
Amounts due to related parties		5,459	7,498
Derivative financial liabilities	<i>14</i>	14,433	1,430
Bank borrowings		1,951,028	1,118,572
Lease liabilities		46,986	38,140
Tax payable		53,696	49,881
Contract liabilities		91,779	83,202
Deferred income		12,803	10,106
		<u>11,881,658</u>	<u>12,630,415</u>
NET CURRENT ASSETS		<u>9,626,758</u>	<u>9,815,555</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>19,201,707</u>	<u>18,062,656</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	<i>11</i>	824,134	684,836
Long term payables	<i>18</i>	312,267	299,209
Deferred income		51,374	73,894
Lease liabilities		96,103	122,466
Bonds payable		4,222,275	4,156,074
		<u>5,506,153</u>	<u>5,336,479</u>
NET ASSETS		<u>13,695,554</u>	<u>12,726,177</u>
CAPITAL AND RESERVES			
Share capital	<i>19</i>	105,163	105,163
Reserves		13,390,730	12,447,724
		<u>13,495,893</u>	<u>12,552,887</u>
Equity attributable to owners of the Company		13,495,893	12,552,887
Non-controlling interests		199,661	173,290
TOTAL EQUITY		<u>13,695,554</u>	<u>12,726,177</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

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

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

The condensed consolidated financial statements are presented in Renminbi (“**RMB**”), which is also the functional currency of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and amendments to HKFRSs in the current 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.

Impacts of application on Amendments to HKAS 1 and HKAS 8 “Definition of Material”

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other confirmation, in the context of the financial statements taken as a whole.

The application of the amendments in the current interim period had no impact on the condensed consolidated financial statements. Changes in presentation and disclosures on the application of the amendments, if any, will be reflected on the consolidated financial statements for the year ending 31 December 2020.

3A. REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with customers

	For the six months ended 30 June	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Sales of optical and optical-related products		
Mobile phone related products	16,627,287	13,420,582
Other lens sets	1,065,814	1,004,472
Digital camera related products	228,702	305,987
Other spherical lens and plane products	69,577	116,225
Optical instruments	81,458	81,689
Digital video lens	18,756	40,486
Other products	772,174	605,477
	<u>18,863,768</u>	<u>15,574,918</u>
Total	<u>18,863,768</u>	<u>15,574,918</u>
Geographical markets		
China	16,291,135	12,454,138
Asia (except China)	1,923,805	2,329,467
Europe	356,290	413,098
North America	282,502	310,282
Others	10,036	67,933
	<u>18,863,768</u>	<u>15,574,918</u>
Total	<u>18,863,768</u>	<u>15,574,918</u>
Timing of revenue recognition		
A point in time	<u>18,863,768</u>	<u>15,574,918</u>

3B. SEGMENT INFORMATION

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

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

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

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

For the six months ended 30 June 2020

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

As at 30 June 2020

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Unallocated <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Total assets	<u>3,727,945</u>	<u>9,575,556</u>	<u>139,613</u>	<u>13,443,114</u>	<u>17,640,251</u>	<u>31,083,365</u>
Total liabilities	<u>1,741,550</u>	<u>6,190,464</u>	<u>92,138</u>	<u>8,024,152</u>	<u>9,363,659</u>	<u>17,387,811</u>

For the six months ended 30 June 2019

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Eliminations <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Revenue						
External sales	3,773,696	11,679,501	121,721	15,574,918	–	15,574,918
Inter-segment sales	988,224	4,042	39,012	1,031,278	(1,031,278)	–
Total	<u>4,761,920</u>	<u>11,683,543</u>	<u>160,733</u>	<u>16,606,196</u>	<u>(1,031,278)</u>	<u>15,574,918</u>
Segment profit	<u>1,515,830</u>	<u>290,256</u>	<u>6,104</u>	<u>1,812,190</u>	<u>–</u>	<u>1,812,190</u>
Share of results of associates						(2,192)
Unallocated income						18,157
Unallocated expenses						<u>(167,571)</u>
Profit before tax						<u>1,660,584</u>

As at 31 December 2019

	Optical Components <i>RMB'000</i> (audited)	Optoelectronic Products <i>RMB'000</i> (audited)	Optical Instruments <i>RMB'000</i> (audited)	Segments' total <i>RMB'000</i> (audited)	Unallocated <i>RMB'000</i> (audited)	Total <i>RMB'000</i> (audited)
Total assets	<u>3,946,525</u>	<u>10,205,068</u>	<u>110,983</u>	<u>14,262,576</u>	<u>16,430,495</u>	<u>30,693,071</u>
Total liabilities	<u>2,029,701</u>	<u>7,511,060</u>	<u>85,791</u>	<u>9,626,552</u>	<u>8,340,342</u>	<u>17,966,894</u>

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

Inter-segment sales are charged at prevailing market rates.

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

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

4. OTHER INCOME

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
Government grants	51,403	35,244
Interest income from time deposits and short term fixed deposits and bank balances	17,282	17,826
Interest income from pledged deposits	36	412
Investment income from unlisted financial products at FVTPL	89,855	97,428
Investment income from debt instruments	4,640	6,479
Interest income from small loan services	2,771	2,657
Income from sales of moulds	8,656	8,042
Income from sales of scrap materials	9,938	5,102
Others	9,157	13,854
	<u>193,738</u>	<u>187,044</u>

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
Net foreign exchange loss	(114,076)	(29,802)
Gain on disposal of property, plant and equipment	15,053	64
Gain (loss) on changes in fair value of derivative financial instruments, net	1,007	(27,545)
Gain on changes in fair value of debt instruments, equity investment and fund investments at FVTPL	33,479	32,194
Others	(14,575)	(6,555)
	<u>(79,112)</u>	<u>(31,644)</u>

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
Current tax:		
– The People’s Republic of China (the “PRC”) Enterprise Income Tax	226,424	111,451
– Other Jurisdiction	671	2,818
	<u>227,095</u>	<u>114,269</u>
Deferred tax (<i>Note 11</i>):		
– Current period	120,204	113,888
	<u>347,299</u>	<u>228,157</u>

No provision for Hong Kong profits tax has been made in the condensed consolidated statement of profit or loss and other comprehensive income as the Group had no assessable profits arising in Hong Kong for both periods.

7. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2020 <i>RMB'000</i> (unaudited)	2019 <i>RMB'000</i> (unaudited)
Profit for the period has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	724,720	528,845
Depreciation of investment properties	2,195	2,195
Depreciation of right-of-use assets	26,409	27,034
Amortisation of intangible assets	28,097	28,976
Allowance for inventories	84,589	10,816
	<u>84,589</u>	<u>10,816</u>

8. EARNINGS PER SHARE

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

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>1,749,024</u>	<u>1,431,175</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share (<i>Note</i>)	1,094,227	1,094,241
Effect of dilutive potential ordinary shares – restricted shares	<u>1,548</u>	<u>1,202</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,095,775</u>	<u>1,095,443</u>

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

9. DIVIDENDS

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Dividends recognised as distribution during the period: Final dividend paid in 2020 for 2019 of Hong Kong Dollar (“HK\$”) 81.00 cents per share, approximately RMB72.80 cents per share (2019: HK\$66.20 cents per share for 2018, approximately RMB56.80 cents per share)	<u>798,507</u>	<u>623,011</u>

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (corresponding period of 2019: Nil).

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

(a) Property, plant and equipment

During the current interim period, the Group acquired manufacturing equipment and incurred construction costs for manufacturing plants of approximately RMB1,347,324,000 (corresponding period of 2019: RMB1,160,262,000) in order to upgrade its manufacturing capabilities and capacity expansion.

In addition, the Group disposed certain of its plants and equipment with a carrying amount of approximately RMB43,506,000 (corresponding period of 2019: RMB6,057,000) which resulted in a disposal gain of approximately RMB15,053,000 (corresponding period of 2019: a gain of RMB64,000).

As at 30 June 2020, no buildings of the Group were pledged to secure bank borrowings granted.

(b) Right-of-use assets

During the current interim period, the Group entered into some new lease agreements for the use of staff dormitory for a range of 3-10 years. On lease commencement, the Group recognised RMB11,167,000 of right-of-use assets (corresponding period of 2019: RMB60,459,000) and RMB11,093,000 of lease liabilities (corresponding period of 2019: RMB60,302,000).

During the current interim period, the Group acquired a piece of leasehold land located in the PRC amounting to RMB96,772,000, which was also recognised as right-of-use assets on the commencement date (corresponding period of 2019: RMB23,857,000).

As at 30 June 2020, no leasehold lands of the Group were pledged to secure bank borrowings granted.

(c) Investment properties

During the current interim period, a depreciation charge of RMB2,195,000 (corresponding period of 2019: RMB2,195,000) was recognised in profit or loss and the carrying amount of investment properties was amounted to RMB43,103,000 as at 30 June 2020.

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 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Deferred tax assets	(150,272)	(131,178)
Deferred tax liabilities	824,134	684,836
	<u>673,862</u>	<u>553,658</u>

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

	Withholding tax on distributed profit from the PRC RMB'000	Allowance for inventories and ECL provision RMB'000	Deferred subsidy income RMB'000	Accelerated depreciation RMB'000	Accrued bonus RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019 (audited)	80,859	(32,456)	(9,288)	314,493	(7,248)	14,369	360,729
Charge (credit) to profit or loss	39,673	(24,929)	(577)	227,129	(48,864)	(13,167)	179,265
Acquired on acquisition of a subsidiary	-	-	-	-	-	13,664	13,664
At 31 December 2019 (audited)	120,532	(57,385)	(9,865)	541,622	(56,112)	14,866	553,658
(Credit) charge to profit or loss (<i>Note 6</i>)	(6,332)	(13,390)	2,938	142,370	(10,045)	4,663	120,204
Credit to other comprehensive income	-	-	-	-	-	-	-
At 30 June 2020 (unaudited)	<u>114,200</u>	<u>(70,775)</u>	<u>(6,927)</u>	<u>683,992</u>	<u>(66,157)</u>	<u>19,529</u>	<u>673,862</u>

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 the Group's production plant.

During the current interim period, the Group paid an amount of approximately RMB335,549,000 (corresponding period of 2019: RMB319,499,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB233,770,000 (corresponding period of 2019: RMB172,344,000) to property, plant and equipment.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Non-current		
– Debt investments (a)	134,344	84,568
– Equity investments (b)	122,312	100,579
Total	<u>256,656</u>	<u>185,147</u>
Current		
– Fund investments (c)	381,309	373,638
– Unlisted financial products (d)	5,321,134	5,289,170
Total	<u>5,702,443</u>	<u>5,662,808</u>

(a) Debt investments

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

During the current interim period, the Group disposed one debt investment at the proceed of RMB27,538,000 (corresponding period of 2019: RMB19,454,000) and the Group purchased another debt instruments at FVTPL amounting to RMB77,617,000 with coupon rates ranging from 4.45% to 5.00%.

The gain on the fair value change of the remaining debt investments amounting to RMB116,000 (corresponding period of 2019: RMB1,994,000) was recognised in the profit or loss in the current interim period.

(b) Equity investments

The Group's equity investments of 餘姚市陽明智行投資中心(有限合夥) (“V Fund”) and another partnership enterprise in total amount of RMB72,500,000 (31 December 2019: RMB72,500,000) were classified as financial assets at FVTPL. As at 30 June 2020, the fair value of all equity investments amounted to RMB122,312,000 (31 December 2019: RMB100,579,000) with a fair value gain of RMB21,733,000 (corresponding period of 2019: RMB2,736,000) recognised in the profit or loss during the current interim period.

(c) **Fund investments**

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

During the current interim period, the Group disposed several fund investments at the proceed of RMB360,110,000 (corresponding period of 2019: nil) and the Group purchased another new fund investments with the same nature at FVTPL amounting to RMB352,415,000 (corresponding period of 2019: nil).

As at 30 June 2020, the fair value of the remaining Fund was United States Dollar (“**US\$**” or “**USD**”) 53,861,000 (31 December 2019: USD53,559,000) per the investment statement of the financial institution, equivalent to RMB381,309,000 (31 December 2019: RMB373,638,000). The fair value gain in the amount of RMB28,894,000 (corresponding period of 2019: RMB27,464,000) was recognised in the profit or loss in the current interim period.

(d) **Unlisted financial products**

The Group entered into several contracts of unlisted financial products with banks which are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for as financial assets at FVTPL on initial recognition in which that the return on the unlisted financial products was determined by reference to the performance of the underlying investment assets and as at 30 June 2020, the expected return rate stated in the contracts ranges from 2.60% to 3.95% (31 December 2019: 2.10% to 4.75%) per annum.

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

14. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	30 June 2020	31 December 2019	30 June 2020	31 December 2019
	RMB'000	RMB'000	RMB'000	RMB'000
	(unaudited)	(audited)	(unaudited)	(audited)
Foreign currency forward contract	27,714	22,462	–	–
Foreign currency options contracts	13,365	4,607	14,433	1,430
Total	41,079	27,069	14,433	1,430
Less: current portion				
Foreign currency forward contract	10,237	8,808	–	–
Foreign currency options contracts	13,365	4,607	14,433	1,430
	23,602	13,415	14,433	1,430
Non-current portion	17,477	13,654	–	–

As at 30 June 2020, the Group had entered into the following foreign currency forward contract and foreign currency options contracts:

Foreign currency forward contract

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

	Receiving currency	Selling currency	Maturity date	Weighted average forward exchange rate
Contract Series W	USD67,500,000	RMB458,613,000	Semi-annually till 18 January 2023	USD:RMB from 6.62 to 6.99

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 currency risk.

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

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

Extracts of details of foreign currency options contracts from the respective contracts outstanding as at 30 June 2020 are as follow:

	Notional amount USD'000	Strike/ barrier rates	Ending settlement date
Contract A	30,000	USD:RMB at 1:6.4000	26 April 2021
Contract B	40,000	USD:RMB at 1:7.1883	15 June 2021
Contract C	40,000	USD:RMB at 1:7.1882	15 June 2021
Contract D	75,000	USD:RMB at 1:7.1901	15 June 2021
Contract E	75,000	USD:RMB at 1:7.1900	15 June 2021

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

15. INVENTORIES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Raw materials	591,634	796,909
Work in progress	440,898	154,988
Finished goods	3,225,120	4,194,065
	4,257,652	5,145,962

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	8,562,280	8,470,788
Less: allowance for credit losses	<u>(116,861)</u>	<u>(112,485)</u>
	8,445,419	8,358,303
Bill receivables	<u>740,043</u>	<u>758,311</u>
Loan receivables	<u>105,669</u>	<u>116,184</u>
Other receivables and prepayment		
Value added tax and other tax receivables	10,092	72,670
Advance to suppliers	96,294	96,771
Interest receivables	24,681	30,693
Prepaid expenses	153,533	95,261
Utilities deposits and prepayment	37,688	30,714
Prepaid wages and advances to employees	47,627	34,349
Others	<u>20,016</u>	<u>36,428</u>
	389,931	396,886
Total trade and other receivables and prepayment	9,681,062	9,629,684

The Group allows an average credit period of 90 days to its trade customers and 90 to 180 days for bill receivables. The following is an aging analysis of trade receivables net of allowance for credit losses presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 90 days	8,247,963	8,146,567
91 to 180 days	196,903	208,686
Over 180 days	553	3,050
	<u>8,445,419</u>	<u>8,358,303</u>

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Within 90 days	585,151	713,304
91 to 180 days	154,892	45,007
Total	<u>740,043</u>	<u>758,311</u>

Movement in the allowance for credit losses:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Balance at the beginning of the reporting period	112,485	101,586
Impairment losses recognised on receivables	20,346	15,148
Amounts written off as uncollectible	(2,952)	–
Impairment losses reversed	(13,018)	(4,249)
Balance at end of the reporting period	<u>116,861</u>	<u>112,485</u>

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

As part of the Group's credit risk management, except for the debtors with credit-impaired, the Group uses debtors' aging to assess the impairment for its customers which are with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. Debtors with credit-impaired are assessed individually by the Group. The following table provides information about the exposure to credit risk and ECL for trade receivables which are assessed collectively based on provision matrix as at 30 June 2020.

	Average loss rate	Gross carrying amount <i>RMB'000</i>	Impairment loss allowance <i>RMB'000</i>
1 to 90 days	0.08%	8,254,392	6,430
91 to 120 days	2.89%	183,632	5,313
121 to 180 days	1.72%	18,909	325
More than 180 days	93.87%	9,031	8,477
		<u>8,465,964</u>	<u>20,545</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 were the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

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

As at 30 June 2020, the impairment allowance was provided in the amount of RMB116,861,000 among which RMB20,545,000 was made based on the provision matrix with life time ECL (not credit-impaired) and RMB96,316,000 was assessed individually on the debtors credit-impaired.

18. TRADE AND OTHER PAYABLES

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

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Current liabilities		
Trade payables		
Within 90 days	5,916,225	7,062,167
91 to 180 days	708,879	963,569
Over 180 days	25,475	3,509
Accrued purchases	449,570	475,271
	<u>7,100,149</u>	<u>8,504,516</u>
Total trade payables		
Note payables		
Within 90 days	830,502	1,021,415
91 to 180 days	87,575	100,621
Over 180 days	5,926	–
	<u>924,003</u>	<u>1,122,036</u>
Other payables		
Payables for purchase of property, plant and equipment	273,026	278,461
Staff salaries and welfare payables	770,048	807,252
Labor outsourcing payables	125,017	201,405
Payable for acquisition of patents	42,545	42,068
Value added tax payables and other tax payables	199,126	151,177
Commission payables	29,544	33,386
Interest payable	71,038	69,744
Utilities payable	41,388	31,500
Deposits received	33,569	17,754
Others	96,021	62,287
	<u>1,681,322</u>	<u>1,695,034</u>
	<u>9,705,474</u>	<u>11,321,586</u>
Non-current liability		
Long term payables		
Payable for acquisition of patent	312,267	299,209

The credit period on purchases of goods is up to 180 days (2019: 180 days) and the credit period for note payables is 90 days to 180 days averagely (2019: 90 days to 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

19. SHARE CAPITAL

Issued share capital as at 30 June 2020 amounted to HK\$109,684,970 (equivalent to approximately RMB105,163,000) with number of ordinary shares amounted to 1,096,849,700 of HK\$0.1 each. There were no movements in the issued share capital of the Company in the current interim period.

20. SHARE AWARD SCHEME

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

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

	Weighted average fair value (per share) HK\$	No. of Restricted Shares ('000)
At 1 January 2019 (audited)	97.508	2,513
Forfeited	102.460	(116)
Vested	61.123	(1,862)
Granted	101.976	<u>2,390</u>
At 31 December 2019 and 1 January 2020 (audited)	124.122	2,925
Forfeited	110.001	(67)
Vested	114.843	(950)
Granted (<i>Note</i>)	122.500	<u>846</u>
As at 30 June 2020 (unaudited)	127.166	<u><u>2,754</u></u>

The equity-settled share-based payments expense charged to profit or loss was approximately RMB71,760,000 for the current interim period (corresponding period of 2019: RMB55,785,000).

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

Restricted Shares	Fair value (per share) HK\$	Scales
846,000 shares	122.500	One-half

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

On 16 March 2020, the Board of Directors resolved to amend the existing Scheme Rules and adopted the further amended and restated Scheme Rules with effect from 22 March 2020 to extend the share award scheme period for ten years. Under the further amended and restated Scheme Rules, the Scheme shall (unless previously terminated by a resolution of the Board of Directors) terminate on the revised expiry date, being 21 March 2030.

21. COMMITMENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u><u>840,756</u></u>	<u><u>953,200</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

Save as disclosed in this announcement, there has been no material change in the development of the Group’s business and financial position, and no important event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2019.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2020, the Group’s revenue was approximately RMB18,863.8 million, representing an increase of approximately 21.1% compared to the corresponding period of last year. The increase in revenue was mainly benefited from the Group’s further development in smartphone related businesses.

Revenue generated from the Optical Components business segment was approximately RMB3,863.5 million, representing an increase of approximately 2.4% compared to the corresponding period of last year. The slight increase in revenue was mainly attributable to the sound development of handset lens sets and infrared lens sets, while the delayed demand for vehicle lens sets was influenced by the overseas epidemic.

Revenue generated from the Optoelectronic Products business segment was approximately RMB14,873.8 million, representing an increase of approximately 27.3% compared to the corresponding period of last year. The increase in revenue was mainly attributable to the growth in the shipment volume of handset camera modules.

Revenue generated from the Optical Instruments business segment was approximately RMB126.5 million, representing an increase of approximately 3.9% compared to the corresponding period of last year. The slight increase in revenue was mainly attributable to the increased market demand for optical instruments applied in domestic industrial field.

Gross Profit and Margin

The gross profit of the Group for the six months ended 30 June 2020 was approximately RMB3,676.3 million, representing an increase of approximately 28.4% compared to the corresponding period of last year. The gross profit margin was approximately 19.5%, which was approximately 1.1 percentage points higher compared to the corresponding period of last year. The increase in gross profit margin was mainly attributable to the increased gross profit margin of handset camera modules under Optoelectronic Products business segment compared to the corresponding period of last year.

The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 41.5%, 11.1% and 38.6%, respectively (corresponding period of 2019: approximately 44.1%, 5.9% and 41.2%, respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2020 was approximately RMB136.0 million, representing an increase of approximately 4.0% compared to the corresponding period of last year. It accounted for approximately 0.7% of the Group's revenue during the period under review, compared to approximately 0.8% for the corresponding period of last year. There was no significant change in absolute amount compared to the corresponding period of last year.

R&D Expenditure

The R&D expenditure of the Group for the six months ended 30 June 2020 was approximately RMB1,068.0 million, representing an increase of approximately 29.2% compared to the corresponding period of last year. It accounted for approximately 5.7% of the Group's revenue during the period under review, compared to approximately 5.3% for the corresponding period of last year. The increase in overall R&D expenditure was attributable to the Group's continuous investments in the upgrade of existing products and the R&D of the products related to the emerging businesses.

Administrative Expenses

The administrative expenses of the Group for the six months ended 30 June 2020 was approximately RMB333.4 million, representing an increase of approximately 29.5% compared to the corresponding period of last year. It accounted for approximately 1.8% of the Group's revenue during the period under review, compared to approximately 1.7% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in the headcount and remuneration of administrative staff, the grant of restricted shares and the corresponding increase in relevant fringe benefits.

Income Tax Expenses

The Group's income tax expenses for the six months ended 30 June 2020 was approximately RMB347.3 million, representing an increase of approximately 52.2% compared to the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in profit before tax. The Group's effective tax rate was approximately 16.4% during the period under review and it was approximately 13.7% for the corresponding period of last year.

Profit for the Period and Net Profit Margin

The Group's profit for the six months ended 30 June 2020 was approximately RMB1,776.1 million, representing an increase of approximately 24.0% compared to the corresponding period of last year. The increase in profit for the period was mainly attributable to the increase in gross profit. The net profit margin was approximately 9.4% for the six months ended 30 June 2020 and it was approximately 9.2% for the corresponding period of last year.

Profit for the Period Attributable to Owners of the Company

The profit for the period attributable to owners of the Company for the six months ended 30 June 2020 was approximately RMB1,749.0 million, representing an increase of approximately 22.2% compared to the corresponding period of last year.

Interim Dividend

For the year ended 31 December 2019, the dividend proposed by the Board was approximately RMB0.728 (equivalent to HK\$0.810) per share, with a payout ratio of approximately 20.0% of the profit attributable to owners of the Company for the year ended 31 December 2019 and was paid in June 2020.

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020 (corresponding period of 2019: nil).

BUSINESS REVIEW

During the period under review, facing a complex and volatile external environment and fierce market competition, the Group responded positively to and surmounted the challenges. The Group continued to increase investments in the R&D of new products to gain a foothold in high-specification products, made timely and effective adjustments to the customer strategies and product strategies, optimized the customer structure and product mix and increased customer stickiness to further leverage the advantages in scale. The Group optimized the internal manufacturing systems, increased the proportion of automated production processes, implemented and promoted the application of advanced technology, and improved product quality and reduced manufacturing costs. The Group strengthened supply chain management and further promoted the process construction of internal operation to improve management efficiency and reduce operating costs. Through the above efforts, the Group will continue to consolidate its leading position in the industry.

In order to effectively contain operating risks in intellectual property rights, the Group has established a professional intellectual property rights management team and has been proactively formulating overall planning in relation to patents. During the period under review, the Group was authorized 260 new patents. As at 30 June 2020, the Group had 1,781 authorized patents, including 519 invention patents, 1,210 utility model patents and 52 exterior design patents. Besides, another 2,718 patents are pending for approval.

Optical Components

For the six months ended 30 June 2020, the revenue from the Optical Components business segment was approximately RMB3,863.5 million, representing an increase of approximately 2.4% compared to the corresponding period of last year. This segment accounted for approximately 20.5% of the Group's total revenue, compared to approximately 24.2% in the corresponding period of last year.

In terms of the handset lens sets business, the Group's business development objective is to "improve both quality and quantity", while focusing on further increase in market share. For the six months ended 30 June 2020, the shipment volume of the handset lens sets of the Group amounted to approximately 645,353,000 units, representing an increase of approximately 16.5% compared to the corresponding period of last year, with 6P and above products accounting for approximately 24.6% of the shipment volume. The Group has completed the R&D of ultra-large aperture (FNo.1.27) handset lens sets and 48-mega pixel super-small distortion wide-angle (115°) handset lens sets. Meanwhile, a number of the Group's high-specification products were put into mass production, including 44-mega pixel ultra-miniaturised head autofocus handset lens sets, ultra-miniaturised head (head size is 1.74 mm) handset lens sets, 10-time optical zoom handset lens sets and 3 cm professional macro shooting handset lens sets. In addition to handset lens sets, the Group has also taken advantage of its extensive experience in glass cold processing to develop and mass produce the prisms applied to periscope modules with various smartphone brand manufacturers, which enables the Group to capture a higher market share, and the Group has already commenced the pre-research of new generation products.

In terms of the vehicle lens sets business, due to the global outbreak of coronavirus disease 2019 ("COVID-19"), the Group's delivery to overseas customers was delayed. For the six months ended 30 June 2020, the shipment volume of the vehicle lens sets of the Group was approximately 20,506,000 units, representing a decrease of approximately 8.7% compared to the corresponding period of last year. However, with its extensive experience in the optical field and leading technological advantages, the Group's vehicle lens sets business continued to maintain the global No. 1 as the industry leader. During the period under review, through technological breakthroughs in lens sets assembly technology and the precision of glass aspherical processing, the Group's 8-mega pixel vehicle lens sets used in the mainstream autonomous driving platform has obtained mass production approval from a major customer.

Additionally, the Group also actively developed new businesses in other vehicle optical components. During the period under review, the Group completed the development of the assembly equipment for the core component of LiDAR and the establishment of a pilot production line, which solved the core technological difficulties of LiDAR assembly and significantly improved the assembly precision and efficiency of each component. At the same time, the Group has focused on the R&D of automotive AR head-up display related products and achieved technical breakthroughs in digital light procession of its core components, and has obtained cooperation opportunities with major customers.

Optoelectronic Products

For the six months ended 30 June 2020, the revenue from the Optoelectronic Products business segment was approximately RMB14,873.8 million, representing an increase of approximately 27.3% compared to that of the corresponding period of last year. This segment accounted for approximately 78.8% of the Group's total revenue, compared to approximately 75.0% in the corresponding period of last year.

In terms of the handset camera modules business, the Group leveraged on its market-driven technological innovation to invest resources in the R&D of new products and process innovation, optimize its internal manufacturing systems and management processes to improve production efficiency and yield rate, and fully cooperate with mainstream smartphone brand manufacturers, further consolidating its leading position in the optoelectronic industry. For the six months ended 30 June 2020, the shipment volume of handset camera modules of the Group was approximately 268,632,000 units, representing an increase of approximately 24.9% compared to the corresponding period of last year, with the periscope modules and large image size (image size is 1/1.7" and above) modules accounting for approximately 12.0% of the shipment volume. The Group has completed the R&D of a number of high-specification handset camera modules, including ultra-large aperture (FNo.1.27) handset camera modules. At the same time, the Group's 100-mega pixel handset camera modules with large image size, 10-time optical zoom handset camera modules and 3 cm professional macro shooting handset camera modules have achieved mass production. In addition, to meet the needs of smartphone manufacturers for infinity-screen, the Group has completed the R&D of under-screen optical fingerprint recognition modules.

The Group has also made further breakthroughs in core packaging technology and has completed the R&D of handset camera modules using the second-generation of molding on board and second-generation of molding on chip solutions, which can reduce the thickness of handset camera modules, improve heat dissipation and enhance reliability.

In order to improve product yield rate, enhance production efficiency and leverage cost advantage, the Group has further promoted the construction of intelligent factories to enhance the capability of the production process for handset camera modules. With the gradual increase in the adoption rate of high-time optical zoom periscope-style handset camera modules, the use of prisms and plane mirrors has become the trend. During the period under review, the Group's newly developed and applied equipment such as prism active alignment and active mirror alignment effectively improved the product yield rate and production efficiency.

In terms of the vehicle modules business, the Group closely follows the market and customers' demands, and has ploughed deep into the technical elements of its products to increase the added value with unique technological innovations so as to seek cooperation opportunities with different customers. During the period under review, the Group's in-cabin monitoring vehicle modules were recognized by customers, and the Group has preliminarily confirmed the commencement of cooperation of some projects.

In terms of the robotic vision business, the Group will continue to focus on market demand and leverage its strengths in 3D depth sensing technology as well as hardware and software integration to build a robotic vision platform. The Group will develop core capabilities including high-precision time of flight (“TOF”) technology, color and depth (“RGBD”) camera calibration and mass production as well as the algorithm of robotic recognition and positioning. The Group will focus on the deployment of two kinds of product lines for recognition or positioning functions, with facial recognition payment and sweeping robots as the entry points to accelerate the implementation of robotic vision business in various market segments.

Optical Instruments

For the six months ended 30 June 2020, the revenue from the Optical Instruments business segment was approximately RMB126.5 million, representing an increase of approximately 3.9% compared to the corresponding period of last year. This segment accounted for approximately 0.7% of the Group’s total revenue, compared to approximately 0.8% in the corresponding period of last year.

During the period under review, the Group made further efforts in transforming to the role of instrument system solution integrator. The microscopes and intelligent equipment businesses made certain progress. In terms of microscopes business, the Group has completed the R&D of the first global upright near-infrared region-II fluorescence microscopic in vivo imaging system, and it successfully addresses the problem that traditional microscopes cannot directly observe vivo biological tissues. The system combines the near-infrared region-II fluorescence imaging with microtechnology for the first time, realizing the dynamic and real-time imaging and observation of vivo biological samples. The successful R&D of the system not only fills the gap in the international vivo micro-imaging technology, but also provides strong technical support for the world’s basic medical research, clinical medical applications and other fields. In addition, the Group pioneered and mass produced the first domestic 1.25-time apochromatic objective with broadband (400-1,700 nm) and large field of view. The objective can freely observe a large area of vivo samples in the visible light to near-infrared waveband, significantly enhance the coverage area and improve the detecting efficiency of the area array. Furthermore, the Group firstly realised the mass production of the objective with a numerical aperture of 0.8, a field number of 30 mm and high distinguishability (wavefront error<0.085). This objective can meet the high distinguishability imaging need of customers and achieve large field of view, enhancing imaging efficiency.

In terms of intelligent equipment business, the Group places strong emphasis on medical and industrial fields. In the medical field, the Group has completed the R&D of the first domestic microscopic image analysis system and has obtained certification from the National Medical Products Administration. The equipment has a high-definition imaging system, AR imaging module and high-definition image acquisition module. It can adopt intelligence analysis software and show the results of artificial intelligence analysis in the field of view in real time, assisting doctors’ clinical diagnosis, improving efficiency and reducing errors caused by manual analysis. In the industrial field, the Group continued to increase the R&D investments in online optical inspection equipment, further improved the software capabilities which combine artificial intelligence algorithms and traditional algorithms, and has implemented batch applications in the optical components inspection industry.

OUTLOOK AND FUTURE STRATEGIES

Looking ahead to the second half of 2020, the Group still faces pressures and challenges brought by many external factors, such as the extremely slow recovery of market and economy under the influence of COVID-19, disputes between major global trading economies, and the technology competition among countries. Looking forward, under the complex and volatile external environment, the Group will continue to pay close attention to the market and industry dynamics, convert stress into motivation, seek opportunities in the midst of challenges, boost technological innovation, enhance customer stickiness, take its advantages in scale, promote automated production, and improve the overall competitiveness of products, in order to further increase its market share, promote global layout, and strengthen supply chain management and construction. Meanwhile, the Group will continue to enhance human resources construction, strengthen talent cultivation and development, and improve employees' comprehensive capabilities in order to support the sustainable development of the Group.

1. Thoroughly refine the existing advantageous businesses and enhance the overall competitive advantages

The Group will continue to improve the R&D capabilities and optimize the construction of the R&D system to increase the technological value added to the products. Meanwhile, the Group will continue to strengthen the manufacturing capabilities, optimise the manufacturing management procedures and structure, innovate the manufacturing processes and propel the processes of automated production to improve the production efficiency and elevate the value added to the manufacturing of products. In addition, the Group will continue to enhance the capability of cost control, expand supply channels, optimise supply chain management system and improve the management efficiency and accuracy to reduce the operating costs.

2. Adhere to the “Two Transformations”, increase investments in new businesses and cultivate new growth points for businesses

The Group will continue to adhere to “the transformation from an optical product manufacturer to a smart optical system solution provider” and “the transformation from an instrument product manufacturer to a system solution integrator”. The Group will continue to improve the sensitivity of market insights, increase investments in new businesses, seize new market opportunities and develop emerging markets such as the robotic vision system, AR optical display, spatial positioning and multisensory fusion to foster new business growth points. At the same time, as an explorer of cutting-edge optical technology, the Group will continue to pursue close communication and cooperation with external enterprises to enable the new R&D achievements quickly transforming to the reliable products in the market.

3. Strengthen the construction of the talent teams and the enterprise culture to improve the talents' quality

The Group will continue to make in-depth analysis on the employment demand and improve the professional proficiency of Human Resources Department to build a more efficient supply channel of talents. The Group will further optimise the talent cultivation system, perfect the professional position qualification and talent training system to set up more comprehensive career development channels for employees. The Group will continuously implement the "Rules of Cadre Management" (《幹部管理辦法》), improve the cultivation mechanism for cadre and build a management team with excellent management ability. In addition, the Group will continue to promote the in-depth learning and discussion of the "Practice and Exploration" (《實踐與探索》) to deepen the understanding and recognition of all employees on the enterprise culture.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2020 and 30 June 2019:

	For the six months ended 30 June	
	2020 <i>RMB million</i>	2019 <i>RMB million</i>
Net cash from operating activities	2,003.9	1,158.4
Net cash used in investing activities	(1,918.8)	(574.3)
Net cash used in financing activities	(206.2)	(1,226.0)

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing in the short run to meet its working capital and other capital expenditure requirements. In the long run, the Group will be 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 2020.

The Group's balance of cash and cash equivalents represented by bank balances and cash was approximately RMB1,800.5 million as at 30 June 2020, representing a decrease of approximately RMB116.8 million when compared to the balance of the end of last year.

Capital Expenditure

For the six months ended 30 June 2020, the Group's capital expenditure amounted to approximately RMB1,526.7 million, which was mainly used for the purchase of property, plant and equipment, acquisition of a land use right, payment for intangible assets and purchases of other tangible assets. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 30 June 2020 amounted to approximately RMB1,951.0 million (31 December 2019: approximately RMB1,118.6 million). As at 30 June 2020 and 31 December 2019, no bank borrowings were secured by buildings and land of the Group.

Bank facilities

As at 30 June 2020, the Group had bank facilities of RMB2,757.0 million with Yuyao Sub-branch of Agricultural Bank of China Limited, RMB1,300.0 million with Ningbo Branch of The Export-Import Bank of China, RMB893.0 million with Yuyao Branch of Bank of China Limited, RMB600.0 million with Yuyao Sub-branch of Ningbo Bank Co., Ltd., RMB200.0 million with Yuyao Sub-branch of Bank of Communications Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd., RMB70.0 million with Xinyang Pingzhong Street Sub-branch of Industrial and Commercial Bank of China Limited, USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas Shanghai Branch, USD60.0 million with The Hongkong and Shanghai Banking Corporation Limited Hong Kong Branch, USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd., USD60.0 million with Crédit Agricole Corporate and Investment Bank Hong Kong Branch, USD75.0 million with Bank of China (Hong Kong) Limited, USD50.0 million with Standard Chartered (Hong Kong) Limited and USD20.0 million with Standard Chartered Bank.

Debt securities

As at 30 June 2020, the Group had debt securities of approximately RMB4,222.3 million (31 December 2019: approximately RMB4,156.1 million).

The Group's gearing ratio of approximately 19.9% refers to the ratio of total borrowings to total capital (total capital is the sum of total liabilities and total equity), reflecting the Group's stable financial position.

Contingent liabilities

As at 30 June 2020, the Group did not have any material contingent liabilities or guarantees.

Financing and fiscal policies and objectives

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

PLEDGE OF ASSETS

As at 30 June 2020, the Group did not have any pledge or charge on assets, except for the pledged bank deposits of approximately RMB3.8 million.

COMMITMENTS

As at 30 June 2020, 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 RMB840.8 million (31 December 2019: approximately RMB953.2 million).

As at 30 June 2020, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2020, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS PLAN

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

Significant Investments

As at 30 June 2020, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB5,321.1 million (31 December 2019: approximately RMB5,289.2 million). As at 30 June 2020, the size of the unlisted financial products subscribed by the Group in aggregate represented approximately 17.1% of the Group's total assets (31 December 2019: approximately 17.2%). The investment costs for the unlisted financial products subscribed as at 30 June 2020 was approximately RMB5,321.1 million (31 December 2019: approximately RMB5,289.2 million). For the six months ended 30 June 2020, the amount of investment income from the unlisted financial products was approximately RMB89.9 million (corresponding period of 2019: approximately RMB97.4 million).

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 30 June 2020:

Name of the unlisted financial products	Name of banks	Investment costs <i>RMB'000</i>	Fair value of the unlisted financial products	Percentage of fair value of the unlisted financial products relative to the total assets of the Group as at
			as at 30 June 2020 <i>RMB'000</i>	30 June 2020
“Jin Yao Shi • An Xin Kuai Xian” Tian Tian Li Gun Li Second Phase Open-ended RMB wealth management product	Agricultural Bank of China Limited	1,038,800	1,038,800	3.3%
“Tian Li Kuai Xian” net-asset-value type wealth management product	Industrial Bank Co., Ltd.	1,000,000	1,000,000	3.2%
“Bank of Communications • Cash Tian Li” net-asset-value type RMB wealth management product	Bank of Communications Limited	928,900	928,900	3.0%
Close-ended private net-asset-value type 2020 No.155	Bank of Ningbo Co., Ltd.	500,000	500,000	1.6%
Close-ended private net-asset-value type 2020 No.147	Bank of Ningbo Co., Ltd.	400,000	400,000	1.3%
Others (<i>Note</i>)		1,453,400	1,453,400	4.7%
	Total	5,321,100	5,321,100	17.1%

Note: Other unlisted financial products included 13 unlisted financial products with 3 different banks to lower the concentration risk.

In the opinion of the Directors, the fair value change of the unlisted financial products was insignificant for the six months ended 30 June 2020.

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

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

For the six months ended 30 June 2020, the Group's investments amounted to approximately RMB1,526.7 million, which was primarily for the purchase of property, plant and equipment, the initial production settings for new products, acquisition of a land use right and the necessary equipment configurations for new projects. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks arising from its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. The rising of interest rates increases the costs of both existing and new debts. As at 30 June 2020, the effective interest rate on fixed-rate bank borrowings was approximately 3.15% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 0.89% to 3.29% 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 contract and foreign currency options contracts, please refer to Note 14 of the notes to the condensed consolidated financial statements of this announcement. Except certain investments which are in line with the Group's business and which are denominated in foreign currencies, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

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

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

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

Cash Flow Interest Rate Risk

The Group's cash flow interest rate risk relates primarily to variable rates applicable to short term bank deposits. Therefore, any future variations in interest rates will not have any significant impact on the results of the Group.

Liquidity Risk

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

OTHER INFORMATION

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

The Company is empowered by the applicable Cayman Islands Companies Law and the Company's Articles of Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"). There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustees of the restricted share award scheme ("**Restricted Share Award Scheme**"), of the Company's listed shares for the six months ended 30 June 2020.

B. RESTRICTED SHARE AWARD SCHEME

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

C. RISK MANAGEMENT, INTERNAL CONTROL AND CORPORATE GOVERNANCE

Code of Corporate Governance Practices

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

For the six months ended 30 June 2020, the Company complied with all of the code provisions of and adopted most of the recommended best practices of the Corporate Governance Code (applicable to financial reports for the periods subsequent to 1 April 2012) contained in Appendix 14 to the Listing Rules.

Internal Controls and Risk Management

The internal Audit Department of the Group should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Group's assets. The main functions of the internal Audit Department are to audit the operating efficiencies of each of the operating units, to carry out audit upon resignation of any key management personnel, to assist the Board in reviewing the effectiveness of the internal control system of the Group and to review internal control of business processes and project based auditing (such as auditing of trade receivables and issuance of commodities auditing report). Evaluation of the Group's internal controls covering financial, operational compliance controls and risk management functions will be conducted annually by the Board.

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

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

Securities Transactions by Directors

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules. After having made specific enquiries to all Directors with regard to the securities transactions, all Directors have confirmed their compliance with the requirements set out in the Model Code regarding Directors' securities transactions throughout the six-month period ended 30 June 2020.

D. AUDIT COMMITTEE

The Company's audit committee ("**Audit Committee**") consists of three independent non-executive Directors (namely Mr. Zhang Yuqing (committee chairman), Mr. Feng Hua Jun and Mr. Shao Yang Dong). The Audit Committee, together with the Company's external auditor, has reviewed and discussed about relevant issues such as auditing, internal control and financial statements, which include review of the Interim Report of 2020 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2020. Members of the Audit Committee agree with the accounting treatments adopted in the preparation of the condensed consolidated financial statements.

E. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The Company releases voluntary announcement of the shipment volume of each major product every month, so as to improve the transparency. In the first half of 2020, given the travel restrictions of COVID-19, the Company held an audio investor meeting in relation to 2019 annual results announcement, and attended a number of virtual investor meetings, which include an investor day, 14 non-deal roadshows and other types of communication activities, so as to keep close contact with the investors. The Group will hold a virtual investor meeting in relation to 2020 interim results announcement.

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

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

China, 17 August 2020

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 and Mr. Shao Yang Dong, who are independent non-executive Directors.