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SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED

舜宇光學科技（集團）有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2382.HK)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2023

RESULT HIGHLIGHTS

For the year ended 31 December 2023, the Group's revenue was approximately Renminbi (“**RMB**”) 31,681.3 million, representing a decrease of approximately 4.6% as compared to that of last year.

For the year ended 31 December 2023, the Group's gross profit was approximately RMB4,590.4 million, representing a decrease of approximately 30.5% as compared to that of last year. The gross profit margin was approximately 14.5%, which was approximately 5.4 percentage points lower as compared to that of last year.

For the year ended 31 December 2023, profit for the year attributable to owners of the Company was approximately RMB1,099.4 million, representing a decrease of approximately 54.3% as compared to that of last year.

The Board has proposed a final dividend of Hong Kong Dollar (“**HKD**”) 0.219 per share (equivalent to approximately RMB0.200 per share) for the year ended 31 December 2023.

FINANCIAL RESULTS

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of Sunny Optical Technology (Group) Company Limited (the “**Company**”) and its subsidiaries (collectively referred to as the “**Group**”) is pleased to present the consolidated results of the Group for the year ended 31 December 2023, together with the comparative figures for the year of 2022 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2023

	NOTES	2023 <i>RMB'000</i>	2022 <i>RMB'000</i>
Revenue	3,4	31,681,261	33,196,937
Cost of sales		<u>(27,090,820)</u>	<u>(26,591,940)</u>
Gross profit		4,590,441	6,604,997
Other income	5(A)	1,329,719	697,707
Other gains and losses	5(B)	(121,585)	(193,460)
Impairment losses under expected credit loss (“ECL”) model, net of reversal		(22,311)	(10,570)
Selling and distribution expenses		(415,104)	(352,785)
Research and development expenditure		(2,566,475)	(2,803,398)
Administrative expenses		(1,009,901)	(928,579)
Share of results of associates		22,516	(5,996)
Finance costs	6	<u>(449,147)</u>	<u>(292,937)</u>
Profit before tax		1,358,153	2,714,979
Income tax expense	7	<u>(207,830)</u>	<u>(240,831)</u>
Profit for the year	8	<u>1,150,323</u>	<u>2,474,148</u>
Other comprehensive (expense) income			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value loss on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”), net of income tax		(22,584)	(20,787)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>(4,642)</u>	<u>20,956</u>
Other comprehensive (expense) income for the year		<u>(27,226)</u>	<u>169</u>
Total comprehensive income for the year		<u><u>1,123,097</u></u>	<u><u>2,474,317</u></u>

	<u>NOTE</u>	<u>2023</u> <i>RMB'000</i>	<u>2022</u> <i>RMB'000</i>
Profit for the year attributable to:			
Owners of the Company		1,099,415	2,407,796
Non-controlling interests		50,908	66,352
		<u>1,150,323</u>	<u>2,474,148</u>
Total comprehensive income for the year attributable to:			
Owners of the Company		1,074,379	2,409,478
Non-controlling interests		48,718	64,839
		<u>1,123,097</u>	<u>2,474,317</u>
Earnings per share – Basic (RMB cents)	10	<u>100.72</u>	<u>220.26</u>
– Diluted (RMB cents)	10	<u>100.63</u>	<u>220.15</u>

Consolidated Statement of Financial Position
At 31 December 2023

	NOTES	31/12/2023	31/12/2022
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	11	9,927,315	10,119,846
Right-of-use assets		768,953	612,062
Investment properties		30,626	35,502
Intangible assets		194,505	250,715
Interests in associates		1,664,883	200,645
Deferred tax assets		204,024	257,178
Deposits paid for acquisition of property, plant and equipment		732,292	489,947
Equity instruments at FVTOCI	12	116,790	168,160
Financial assets at fair value through profit or loss (“FVTPL”)	13	19,518	19,518
Time deposits	15	1,492,091	200,000
Goodwill		2,119	2,119
		<u>15,153,116</u>	<u>12,355,692</u>
CURRENT ASSETS			
Inventories	16	5,136,941	4,720,913
Trade and other receivables and prepayment	17	7,854,787	7,205,110
Receivables at FVTOCI		629,645	548,956
Tax recoverable		–	28,120
Derivative financial assets	14	114	29,681
Financial assets at FVTPL	13	7,113,261	10,086,415
Amounts due from related parties		807	8,256
Time deposits	15	–	500,000
Pledged bank deposits	15	13,641	9,775
Short term fixed deposits	15	1,310,245	475,176
Cash and cash equivalents	15	13,084,519	7,033,194
		<u>35,143,960</u>	<u>30,645,596</u>
CURRENT LIABILITIES			
Trade and other payables	18	20,324,883	12,917,286
Amounts due to related parties		11,536	9,992
Derivative financial liabilities	14	41,276	17,655
Contract liabilities		136,316	166,096
Tax payable		29,211	–
Bank borrowings	19	699,000	1,989,981
Lease liabilities		35,861	51,378
Deferred income		8,548	6,446
Bonds payable	20	–	4,178,082
		<u>21,286,631</u>	<u>19,336,916</u>
NET CURRENT ASSETS		<u>13,857,329</u>	<u>11,308,680</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>29,010,445</u>	<u>23,664,372</u>

	<u>NOTES</u>	<u>31/12/2023</u> <i>RMB'000</i>	<u>31/12/2022</u> <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities		752,940	850,321
Long term payables	18	137,845	122,777
Bank borrowings	19	1,965,313	30,000
Lease liabilities		182,382	187,938
Deferred income		192,850	290,950
Bonds payable	20	2,897,485	–
		<u>6,128,815</u>	<u>1,481,986</u>
NET ASSETS		<u>22,881,630</u>	<u>22,182,386</u>
CAPITAL AND RESERVES			
Share capital	21	105,156	105,163
Reserves		22,317,811	21,733,224
Equity attributable to owners of the Company		<u>22,422,967</u>	21,838,387
Non-controlling interests		458,663	343,999
TOTAL EQUITY		<u>22,881,630</u>	<u>22,182,386</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands on 21 September 2006 as an exempted company under the Companies Act Chapter 22 (Law 3 of 1961 as consolidated and revised, formerly known as Companies Law) of the Cayman Islands and its shares have been listed on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) with effect from 15 June 2007. Its parent company is Sun Xu Limited and ultimate holding company is Sun Ji Limited, both are private limited company incorporated in the British Virgin Islands. All equity interest of Sun Ji is owned by Sunny Group Employee Offshore Trust. Its ultimate controlling party is Mr. Wang Wenjian, also a non-executive Director of the Company. The addresses of the registered office and principal place of business of the Company are disclosed in the Corporate Information section of the annual report.

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2023 for the preparation of the consolidated financial statements:

HKFRS 17 (including the October 2020 and and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to Hong Kong Accounting Standard (“ HKAS ”) 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies

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

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

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

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 application of the amendments has had no material impact on the Group's financial position and performance, except that the Group disclose the related deferred tax assets and deferred tax liabilities both of RMB27,856,000 on a gross basis but it has no impact on the retained earnings at the earliest period presented.

2.2 Impacts on application of Amendments to HKAS 12 Income Taxes International Tax Reform – Pillar Two model Rules

The Group has applied the amendments for the first time in the current year. HKAS 12 is 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 apply the amendments immediately upon issuance and retrospectively. The amendments also require that entities to disclose separately its current tax expense/income related to Pillar Two income taxes in periods which the Pillar Two legislation is in effect, 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 applied the temporary exception immediately upon issue of these amendments and retrospectively, i.e. applying the exception from the date Pillar Two legislation is enacted or substantially enacted. The qualitative and quantitative information about the Group's exposure to Pillar Two income taxes is set out in Note 7.

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

The Group has applied the amendments for the first time in the current year. HKAS 1 *Presentation of Financial Statements* is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 *Making Materiality Judgements* (the “**Practice Statement**”) is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements.

The application of the amendments has had no material impact on the Group’s financial positions and performance but has affected the disclosure of the Group’s accounting policies to the consolidated financial statements.

(ii) Performance obligations for contracts with customers and revenue recognition policies

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

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

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

4. OPERATING SEGMENTS

Information reported to the Board of Directors, being the chief operating decision maker (“CODM”), 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 CODM have been aggregated in arriving at the reportable segments of the Group.

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

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

Segment revenues and results

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

For the year ended 31 December 2023

	<u>Optical Components</u>	<u>Optoelectronic Products</u>	<u>Optical Instruments</u>	<u>Segment Total</u>	<u>Eliminations</u>	<u>Total</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
REVENUE						
External sales	9,555,109	21,599,398	526,754	31,681,261	–	31,681,261
Inter-segment sales	1,479,349	44,424	102,461	1,626,234	(1,626,234)	–
Total	<u>11,034,458</u>	<u>21,643,822</u>	<u>629,215</u>	<u>33,307,495</u>	<u>(1,626,234)</u>	<u>31,681,261</u>
Segment profit	<u>1,211,625</u>	<u>436,372</u>	<u>99,428</u>	<u>1,747,425</u>	<u>–</u>	<u>1,747,425</u>
Share of results of associates						22,516
Unallocated other income, other gains and losses						76,597
Unallocated administrative expenses and finance costs						(488,385)
Profit before tax						<u>1,358,153</u>

For the year ended 31 December 2022

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

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of corporate items including unallocated other income, other gains and losses, unallocated central administration costs, and finance costs and share of results of associates. There were asymmetrical allocations to operating segments because the Group allocates interest income, government grants, depreciation and amortisation and gain or loss on disposal of property, plant and equipment to each segment without allocating the related cash and cash equivalents, deferred income, property, plant and equipment and intangible assets to those segments. This is the measure reported to the Board of Directors for the purposes of resource allocation and performance assessment.

Segment assets and liabilities

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

As at 31 December 2023

	<u>Optical Components</u> <i>RMB'000</i>	<u>Optoelectronic Products</u> <i>RMB'000</i>	<u>Optical Instruments</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
Assets				
Trade receivables	2,486,794	4,178,398	118,722	6,783,914
Bill receivables	430,830	174,004	24,811	629,645
Inventories	1,616,841	3,431,160	88,940	5,136,941
Total segment assets	<u>4,534,465</u>	<u>7,783,562</u>	<u>232,473</u>	12,550,500
Unallocated assets				<u>37,746,576</u>
Consolidated assets				<u>50,297,076</u>
Liabilities				
Trade payables and accrued purchases	2,143,920	5,065,217	123,254	7,332,391
Note payables	866,003	9,497,833	60,268	10,424,104
Total segment liabilities	<u>3,009,923</u>	<u>14,563,050</u>	<u>183,522</u>	17,756,495
Unallocated liabilities				<u>9,658,951</u>
Consolidated liabilities				<u>27,415,446</u>

As at 31 December 2022

	<u>Optical Components</u> <i>RMB'000</i>	<u>Optoelectronic Products</u> <i>RMB'000</i>	<u>Optical Instruments</u> <i>RMB'000</i>	<u>Total</u> <i>RMB'000</i>
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	<u>4,307,431</u>	<u>7,163,763</u>	<u>133,586</u>	11,604,780
Unallocated assets				<u>31,396,508</u>
Consolidated assets				<u>43,001,288</u>
Liabilities				
Trade payables and accrued purchases	1,938,163	3,340,195	107,145	5,385,503
Note payables	946,672	3,380,393	39,899	4,366,964
Total segment liabilities	<u>2,884,835</u>	<u>6,720,588</u>	<u>147,044</u>	9,752,467
Unallocated liabilities				<u>11,066,435</u>
Consolidated liabilities				<u>20,818,902</u>

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

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

Other segment information

For the year ended 31 December 2023

	Optical Components	Optoelectronic Products	Optical Instruments	Unallocated	Consolidated total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	1,441,522	598,191	25,869	1,649	2,067,231
Impairment losses on trade receivables recognised (reversed) in profit or loss	26,478	(5,497)	1,330	–	22,311
Loss (gain) on disposal of property, plant and equipment	14,679	(4,195)	37	(21)	10,500
Share award scheme expense	137,788	117,560	16,558	8,490	280,396
Interest income from bank and financial instruments	(35,780)	(874,406)	(8,685)	(7,429)	(926,300)
Allowance for (reversal of) inventories	58,093	(40,156)	1,895	–	19,832

Amounts regularly provided to CODM but not included in the measure of segment assets:

Addition to property, plant and equipment	<u>1,458,163</u>	<u>404,440</u>	<u>24,125</u>	<u>68</u>	<u>1,886,796</u>
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For the year ended 31 December 2022

	Optical Components	Optoelectronic Products	Optical Instruments	Unallocated	Consolidated total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	1,188,146	732,673	18,146	1,614	1,940,579
Impairment losses on trade receivables (reversed) recognised in profit or loss	(1,945)	7,540	(1,704)	–	3,891
Impairment losses on amount due from a related party recognised in profit or loss	–	6,679	–	–	6,679
Loss (gain) on disposal of property, plant and equipment	10,796	(2,956)	118	24	7,982
Share award scheme expense	118,940	103,579	14,361	6,519	243,399
Interest income from bank and financial instruments	(13,598)	(372,136)	(6,251)	(4,600)	(396,585)
Allowance for (reversal of) inventories	74,123	(183,101)	(488)	–	(109,466)

Amounts regularly provided to CODM but not included in the measure of segment assets:

Addition to property, plant and equipment	<u>3,051,383</u>	<u>571,553</u>	<u>63,401</u>	<u>321</u>	<u>3,686,658</u>
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Revenue from major products

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

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Handset related products	20,934,678	23,277,387
Vehicle related products	5,282,725	4,107,668
Augmented reality (“AR”)/virtual reality (“VR”) related products	1,870,106	2,061,625
Digital camera related products	952,660	852,119
Other lens sets	546,470	494,500
Optical instruments	356,437	334,168
Other spherical lens and plane products	220,737	254,021
Other products	1,517,448	1,815,449
	<u>31,681,261</u>	<u>33,196,937</u>

Geographical information

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

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

	<u>Revenue from external customers</u>		<u>Non-current assets (note)</u>	
	<u>2023</u>	<u>2022</u>	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
China	21,473,990	22,300,063	10,826,838	10,817,949
Asia (except China)	7,212,700	8,364,299	796,651	689,697
Europe	1,510,142	1,289,735	33	79
North America	1,088,799	939,286	30,169	347
Others	395,630	303,554	–	–
	<u>31,681,261</u>	<u>33,196,937</u>	<u>11,653,691</u>	<u>11,508,072</u>

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

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A, revenue mainly from optoelectronic and related products	4,429,416	5,510,485
Customer B, revenue mainly from optoelectronic and related products	3,306,293	4,308,243
Customer C, revenue mainly from optoelectronic and related products	N/A*	3,381,544

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

5(A). OTHER INCOME

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	246,710	166,555
Interest income from time deposits, short term fixed deposits, pledged bank deposits and bank balances	568,258	198,203
Interest income from debt instruments	–	895
Investment income from unlisted financial products at FVTPL	358,042	197,487
Interest income from small loan services	6,405	6,308
Income from sales of moulds	18,370	15,124
Income from sales of scrap materials	36,451	57,632
Others	95,483	55,503
	<u>1,329,719</u>	<u>697,707</u>

5(B). OTHER GAINS AND LOSSES

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	(10,500)	(7,982)
Gain on disposal of subsidiaries	18,351	55,200
(Loss) gain on changes in fair value of derivative financial instruments	(53,188)	30,292
Loss on changes in fair value of debt instruments and fund investments at FVTPL	–	(28,731)
Net foreign exchange loss	(76,907)	(241,983)
Impairment loss of interest in an associate	(202)	–
Others	861	(256)
	<u>(121,585)</u>	<u>(193,460)</u>

6. FINANCE COSTS

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Interests on bank borrowings	259,886	114,651
Interests on bonds payable	175,393	161,768
Interests on lease liabilities	9,640	11,292
Interests on long term payables related to intangible assets	4,228	5,226
	<u>449,147</u>	<u>292,937</u>

7. INCOME TAX EXPENSE

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax	143,988	264,305
Withholding tax expense	59,958	61,247
Other jurisdictions	40,617	13,422
	<u>244,563</u>	<u>338,974</u>
Under provision in prior years:		
PRC Enterprises Income Tax	3,508	64,959
Deferred tax:		
Current year	(40,241)	(163,102)
	<u>207,830</u>	<u>240,831</u>

Under the Law of the PRC Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years, except as described below:

- (i) Zhejiang Sunny Optics Co., Ltd. (“Sunny Zhejiang Optics”) and Xinyang Sunny Optics Co., Ltd. (“Sunny Xinyang Optics”), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2023.
- (ii) Ningbo Sunny Infrared Technologies Co., Ltd. (“Sunny Infrared Optics”), Zhejiang Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence”), and Yuyao Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence (Yuyao)”), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2024.
- (iii) Ningbo Sunny Opotech Co., Ltd. (“Sunny Opotech”), Ningbo Sunny Automotive Opotech Co., Ltd. (“Sunny Automotive Opotech”), Sunny Optics (Zhongshan) Co., Ltd. (“Sunny Zhongshan Optics”), Ningbo Sunny Instruments Co., Ltd. (“Sunny Instruments”), Sunny Optical (Zhejiang) Research Institute Co., Ltd. (“Sunny Research Institute”) and Zhejiang Sunny SmartLead Technologies Co., Ltd. (“Sunny SmartLead”), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2025.

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

The Group has applied the temporary exception issued by the HKICPA in July 2023 from the accounting requirements for deferred taxes in HKAS 12. Accordingly, the Group neither recognises nor discloses information about deferred tax assets and liabilities related to Pillar Two income taxes.

As at 31 December 2023, certain countries, where the group entities are incorporated, are enacted or substantially enacted but not yet in effect. The main jurisdictions in which exposures to this tax may exist include Vietnam. Under the legislation, the Company will be required to pay, in certain country, top-up tax on profits of its subsidiaries that are taxed at an effective tax rate of less than 15 per cent.

The Group is continuing to assess the impact of the Pillar Two income taxes legislation on its future financial performance.

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

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>1,358,153</u>	<u>2,714,979</u>
Tax at the PRC EIT tax rate of 25%	339,538	678,745
Tax effect of share of results of associates	(5,629)	1,499
Tax effect of expenses not deductible for tax purpose	7,109	5,520
Tax effect of allowance granted under share award scheme in the PRC	21,461	25,027
Tax effect of preferential tax rates for certain subsidiaries (note a)	(106,811)	(137,255)
Tax effect of additional tax deduction of research and development expenses (note b)	(588,900)	(623,120)
Tax effect of additional tax deduction of expenditures for equipment and appliances purchasing (note c)	–	(425,524)
Tax effect of tax losses not recognised	576,630	657,538
Tax effect of deductible temporary differences not recognised	339	(1,701)
Utilisation of tax losses not previously recognised	(6,708)	(7,629)
Withholding tax on undistributed earnings of PRC subsidiaries	11,105	24,321
Withholding tax on interest derived in the PRC	5,458	7,747
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(49,270)	(29,296)
Over provision in prior years	<u>3,508</u>	<u>64,959</u>
Income tax expense for the year	<u>207,830</u>	<u>240,831</u>

Notes:

- (a) For the PRC subsidiaries which were approved as Hi-Tech Enterprises, they are entitled to a preferential enterprise tax rate of 15%.
- (b) In March 2023, the Ministry of Finance and the State Administration of Taxation released No. 7 announcement of 2023 named “Announcement on Further Improving the Policy on Pre-tax Deduction of Research and Development Expenses”, according to which certain PRC subsidiaries are entitled to an additional 100% tax deduction on eligible research and development expenses for the year ended 31 December 2023 (2022: Additional 100% tax deduction under Caishui [2018] No. 99).
- (c) In September 2022, the Ministry of Finance, the State Administration of Taxation and the Ministry of Science and Technology released No. 28 announcement of 2022 named “Announcement on Increasing Pre-tax Deduction for Supporting Sci-tech Innovation”, according to which certain PRC subsidiaries are entitled to an additional 100% tax deduction on eligible expenditures for equipment and appliances purchasing incurred between 1 October 2022 and 31 December 2022.

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Directors' emoluments	16,082	15,799
Other staff's salaries and allowances	3,090,280	2,985,820
Other staff's discretionary bonuses	27,719	232,232
Other staff's contribution to retirement benefit scheme	452,019	395,995
Other staff's share award scheme expense	271,951	234,617
	<u>3,858,051</u>	<u>3,864,463</u>
Cost of raw material inventories recognised as an expense	21,907,801	21,451,988
Auditor's remuneration	5,220	4,709
Depreciation of property, plant and equipment	1,948,264	1,813,899
Depreciation of investment properties	4,876	4,878
Depreciation of right-of-use assets	57,881	65,591
Amortisation of intangible assets	56,210	56,211
Allowance for (reversals of) inventories (included in cost of sales)	19,832	(109,466)

9. DIVIDENDS

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2022 final dividends – HKD50.00 cents (2022: 2021 final dividends – HKD111.80 cents) per share	<u>504,852</u>	<u>1,047,715</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2023 of HKD21.90 cents per share, equivalent to approximately RMB20.00 cents per share, amounting to a total of approximately HKD240,194,000 (2022: HKD50.00 cents per share, equivalent to approximately RMB43.90 cents per share, amounting to a total of approximately HKD548,425,000) has been proposed by the Directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting (“AGM”). The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

10. EARNINGS PER SHARE

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

	<u>2023</u>	<u>2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
<u>Earnings</u>		
Earnings for the purpose of basic and diluted earnings per share	<u>1,099,415</u>	<u>2,407,796</u>
	<u>2023</u>	<u>2022</u>
	<i>'000</i>	<i>'000</i>
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share (note)	1,091,566	1,093,141
Effect of dilutive potential ordinary shares:		
Restricted shares	<u>1,009</u>	<u>567</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,092,575</u>	<u>1,093,708</u>

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

11. PROPERTY, PLANT AND EQUIPMENT

	Owned properties	Machinery and production equipment	Motor vehicles	Fixtures and office equipment	Construction in progress	Total
	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>	<i>RMB '000</i>
COST						
At 1 January 2022	1,724,043	10,038,945	18,500	1,822,039	927,215	14,530,742
Additions	6,678	2,701,395	1,309	607,844	369,432	3,686,658
Derecognised on disposal of a subsidiary	–	(2,745)	–	(10,930)	–	(13,675)
Transfer	191,360	376,335	–	22,563	(590,258)	–
Disposals	–	(360,257)	(2,100)	(33,000)	–	(395,357)
Exchange realignment	6,922	2,600	110	5,319	2,640	17,591
	<u>1,929,003</u>	<u>12,756,273</u>	<u>17,819</u>	<u>2,413,835</u>	<u>709,029</u>	<u>17,825,959</u>
At 31 December 2022	1,929,003	12,756,273	17,819	2,413,835	709,029	17,825,959
Additions	142	1,090,484	1,627	228,756	565,787	1,886,796
Transfer	223,762	266,257	–	125,913	(615,932)	–
Disposals	(2,847)	(234,435)	(1,061)	(30,090)	(5,145)	(273,578)
Exchange realignment	(957)	(166)	37	(1,175)	(953)	(3,214)
	<u>2,149,103</u>	<u>13,878,413</u>	<u>18,422</u>	<u>2,737,239</u>	<u>652,786</u>	<u>19,435,963</u>
At 31 December 2023	2,149,103	13,878,413	18,422	2,737,239	652,786	19,435,963
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2022	254,304	5,177,923	15,865	779,421	–	6,227,513
Charge for the year	75,440	1,471,631	763	266,065	–	1,813,899
Derecognised on disposal of a subsidiary	–	(2,626)	–	(7,267)	–	(9,893)
Eliminated on disposals	–	(301,651)	(1,787)	(23,019)	–	(326,457)
Exchange realignment	159	616	80	196	–	1,051
	<u>329,903</u>	<u>6,345,893</u>	<u>14,921</u>	<u>1,015,396</u>	<u>–</u>	<u>7,706,113</u>
At 31 December 2022	329,903	6,345,893	14,921	1,015,396	–	7,706,113
Charge for the year	90,332	1,579,324	942	277,666	–	1,948,264
Eliminated on disposals	(2,561)	(115,542)	(993)	(25,979)	–	(145,075)
Exchange realignment	(281)	(51)	–	(322)	–	(654)
	<u>417,393</u>	<u>7,809,624</u>	<u>14,870</u>	<u>1,266,761</u>	<u>–</u>	<u>9,508,648</u>
At 31 December 2023	417,393	7,809,624	14,870	1,266,761	–	9,508,648
CARRYING VALUES						
At 31 December 2023	<u>1,731,710</u>	<u>6,068,789</u>	<u>3,552</u>	<u>1,470,478</u>	<u>652,786</u>	<u>9,927,315</u>
At 31 December 2022	<u>1,599,100</u>	<u>6,410,380</u>	<u>2,898</u>	<u>1,398,439</u>	<u>709,029</u>	<u>10,119,846</u>

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

Owned properties	20 to 25 years
Machinery and production equipment	3 to 10 years
Motor vehicles	4 to 5 years
Fixtures and office equipment	3 to 10 years

As at 31 December 2023 and 2022, the Group has obtained the ownership certificates for all buildings and no buildings of the Group were pledged to secure bank borrowings granted.

The Directors of the Company considered no impairment loss on property, plant and equipment for both years ended 31 December 2023 and 2022.

12. EQUITY INSTRUMENTS AT FVTOCI

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Unlisted equity investments	<u>116,790</u>	<u>168,160</u>

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

No equity instrument at FVTOCI was disposed during the current year (2022: RMB108,000) and the Group made new equity investments measured as equity instruments at FVTOCI amounting to RMB200,000 (2022: RMB18,000,000).

The fair value loss of the equity instruments at FVTOCI in the amount of RMB22,584,000 (2022: loss of RMB20,810,000), net off with the recognition of related deferred tax assets of RMB3,986,000 (2022: deferred tax assets of RMB7,707,000) was recognised in FVTOCI reserve.

13. FINANCIAL ASSETS AT FVTPL

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Unlisted financial products (note a)	<u>7,113,261</u>	<u>10,086,415</u>
Non-current assets		
Equity investments (note b)	<u>19,518</u>	<u>19,518</u>

Notes:

(a) Unlisted financial products

During the current year, the Group entered into several contracts of unlisted financial products with banks. The unlisted financial products are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for financial assets at FVTPL on initial recognition of which the return of the unlisted financial products was determined by reference to the performance of the underlying debt instruments and treasury notes and as at 31 December 2023, the expected return rate stated in the contracts ranges from 1.92% to 5.00% (31 December 2022: 1.80% to 5.00%) per annum.

(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 as at 31 December 2023.

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	
	31/12/2023	31/12/2022	31/12/2023	31/12/2022
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current portion				
Foreign currency forward contracts	–	29,681	31,724	508
Foreign currency options contracts	–	–	5,206	17,147
Foreign currency swap contracts	114	–	4,346	–
	114	29,681	41,276	17,655

As at 31 December 2023, the Group had entered into the following foreign currency forward contracts, foreign currency options contracts and foreign exchange swap contracts:

Foreign currency forward contracts

The Group entered into several United States dollar (“USD”)/RMB foreign currency forward contracts with banks in the PRC in order to manage the Group’s foreign currency risk.

	<u>Receiving currency</u>	<u>Selling currency</u>	<u>Maturity date</u>	<u>Weighted average forward exchange rate</u>
Contract 26	RMB269,148,000	USD40,000,000	24 April 2024	USD:RMB: 6.73
Contract 27	RMB403,764,000	USD60,000,000	24 April 2024	USD:RMB: 6.73

Foreign currency options contracts

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

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

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

Extracts of details of foreign currency options contracts from the respective contracts outstanding as at 31 December 2023 are as follows:

	<u>Notional amount</u> <i>USD'000</i>	<u>Strike/barrier rates</u>	<u>Ending settlement date</u>
Contract H	25,000	USD:RMB at 1: 7.3095	16 January 2024
Contract I	50,000	USD:RMB at 1: 7.2178	29 January 2024
Contract J	43,000	USD:RMB at 1: 7.2678	29 January 2024
Contract K	40,000	USD:RMB at 1: 7.0462	27 February 2024
Contract L	59,000	USD:RMB at 1: 7.0995	26 March 2024

Foreign exchange swap contracts

The Group entered into several Vietnamese dong (“VND”)/USD and RMB/USD foreign exchange swap contracts with banks in the Vietnam and PRC in order to manage the Group’s foreign currency risk.

	<u>Receiving currency</u>	<u>Selling currency</u>	<u>Maturity date</u>	<u>Strike Rate</u>
Contract A	USD1,500,000	VND 36,405,000,000	5 January 2024	USD:VND 24,270
Contract B	USD1,500,000	VND 36,237,000,000	5 February 2024	USD:VND 24,158
Contract C	USD1,500,000	VND 36,204,000,000	5 March 2024	USD:VND 24,136
Contract D	USD2,000,000	VND 48,522,000,000	15 January 2024	USD:VND 24,261
Contract E	USD150,000,000	RMB1,071,315,000	3 January 2024	USD:RMB7.1421

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

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

As at 31 December 2023, the Group deposited RMB1,450,000,000 (2022: RMB700,000,000) time deposits with several banks in the PRC. These time deposits carry fixed interest rates ranging from 3.00% to 3.40% (2022: 3.15% to 4.18%) per annum. The original maturity period of these time deposits is three years. The time deposits with an amount of RMB1,250,000,000 will be matured within a period of more than two years.

As at 31 December 2023, the Group pledged certain of its bank deposits to banks as security for bank acceptance bills and the pledged bank deposits carry fixed interest rates ranging from 1.45% to 5.50% (2022: 0.25% to 3.75%) per annum. The pledged bank deposits will be released upon the maturity of relevant bills.

Short term fixed deposits carry fixed interest rates ranging from 0.20% to 6.90% (2022: 0.20% to 4.75%) per annum. Short term fixed deposits have original maturity dates more than three months but less than one year and therefore classified as current assets.

Cash and cash equivalents include demand deposits and short term deposits with original maturity dates less than three months for the purpose of meeting the Group’s short term cash commitments, which carry interest at market rates range from 0.01% to 5.38% (2022: 0.01% to 1.70%) per annum.

16. INVENTORIES

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	794,317	1,061,132
Work in progress	210,705	202,428
Finished goods	4,131,919	3,457,353
	<u>5,136,941</u>	<u>4,720,913</u>

17. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	6,907,066	6,428,554
Less: allowance for expected credit losses	(123,152)	(93,643)
	<u>6,783,914</u>	<u>6,334,911</u>
Loan receivables (note)	<u>226,977</u>	<u>87,619</u>
Other receivables and prepayment		
Value added tax and other tax receivables	282,536	199,895
Advance to suppliers	133,910	132,028
Prepaid expenses	103,512	177,693
Utilities deposits and prepayment	125,260	76,712
Advances to employees	134,835	124,890
Others	63,843	71,362
	<u>843,896</u>	<u>782,580</u>
Total trade and other receivables and prepayment	<u>7,854,787</u>	<u>7,205,110</u>

Note: The Group provides fixed-rate loans with a term from one month to one year to local individuals and small enterprises in the PRC. All loans are either backed by guarantees and/or secured by collaterals.

As at 1 January 2022, trade receivables amounted to RMB5,634,652,000.

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

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	6,541,100	6,082,252
91 to 180 days	234,254	252,335
Over 180 days	8,560	324
	<u>6,783,914</u>	<u>6,334,911</u>

As at 31 December 2023, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB151,218,000 (2022: RMB48,942,000) which are past due as at the reporting date. Out of the past due balances, RMB11,987,000 (2022: nil) has been past due 90 days or more.

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 the issue date at the end of reporting period.

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities		
Trade payables		
Within 90 days	5,877,594	4,193,511
91 to 180 days	761,254	625,453
Over 180 days	13,142	12,387
Accrued purchases	<u>680,401</u>	<u>554,152</u>
Total trade payables and accrued purchases	<u>7,332,391</u>	<u>5,385,503</u>
Note payables (note)		
Within 90 days	5,036,931	3,663,957
91 to 180 days	3,734,324	680,441
Over 180 days	<u>1,652,849</u>	<u>22,566</u>
	<u>10,424,104</u>	<u>4,366,964</u>

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Advance deposits from a customer	268,360	555,456
Payables for purchase of property, plant and equipment	258,432	410,958
Staff salaries and welfare payables	1,258,817	1,378,175
Labour outsourcing payables	122,099	194,150
Payables for acquisition of patents	38,775	39,534
Value added tax payables and other tax payables	217,291	214,476
Interest payables	2,032	76,738
Rental and utilities payables	52,426	61,367
Others	350,156	233,965
	<u>2,568,388</u>	<u>3,164,819</u>
	<u>20,324,883</u>	<u>12,917,286</u>

Note:

During the year ended 31 December 2023, certain of the Company's subsidiaries received bills from the other certain subsidiaries and discounted the certain bills to bank. The cash flows of such transactions have been presented in cash flow statement as financing activities.

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Non-current liabilities		
Long term payables		
Payables for acquisition of patents	79,200	122,777
Accrued employee expense	22,155	–
Government relocation compensation received (note)	36,490	–
	<u>137,845</u>	<u>122,777</u>

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 (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.

Note:

During the year ended 31 December 2023, certain subsidiaries of the Group entered into the relocation compensation agreement with local government to transfer certain leasehold lands and owned properties due to the urban planning adjustment of Yuyao People's Government. As the completion of asset transfer is under the administration process of the relevant regulatory authorities and expected to complete more than 12 months, the amount received is classified as "Government relocation compensation received" as non-current liability.

19. BANK BORROWINGS

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Unsecured and guaranteed	2,664,313	1,393,051
Unsecured and unguaranteed	–	626,930
	<u>2,664,313</u>	<u>2,019,981</u>
	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
The carrying amounts of the above borrowings are repayable*:		
Within one year	699,000	1,989,981
Within a period of more than one year but not exceeding two years	254,977	30,000
Within a period of more than two years but not exceeding five years	1,710,336	–
	<u>2,664,313</u>	<u>2,019,981</u>

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

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

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Fixed-rate borrowings	1,212,360	975,000
Variable-rate borrowings	1,451,953	1,044,981
	<u>2,664,313</u>	<u>2,019,981</u>

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

	<u>Year ended</u>	<u>Year ended</u>
	<u>31/12/2023</u>	<u>31/12/2022</u>
Fixed-rate borrowings	2.10% to 3.97%	2.30% to 3.20%
Variable-rate borrowings	3.00%	3.60% to 3.70%

The variable-rate borrowings as at 31 December 2023 were denominated in USD (2022: USD and HKD) which carried the floating-rates at Secured Overnight Financing Rate (“SOFR”) (2022: SOFR and Hong Kong Inter-Bank Offer Rate (“HIBOR”) plus a premium).

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

	<u>31/12/2023</u>	<u>31/12/2022</u>
	<i>RMB'000</i>	<i>RMB'000</i>
USD	1,961,200	348,230
HKD	–	696,751
	<u>1,961,200</u>	<u>1,044,981</u>

20. BONDS PAYABLE

On 16 January 2018, the Company issued unsecured bonds in the amount of USD600 million at the rate of 3.75% per annum to professional investors outside of the United States in accordance with Regulation S under the U.S. Securities Act. 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 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 had 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 year, interest expense of approximately RMB175,393,000 (2022: RMB161,768,000) was recognised in the consolidated statement of profit or loss and other comprehensive income.

21. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount</u> <i>HKD'000</i>	<u>Equivalent to</u> <i>RMB'000</i>
Authorised:			
Ordinary shares of HKD0.10 each at 1 January 2022, 31 December 2022 and 31 December 2023	<u>100,000,000,000</u>	<u>10,000,000</u>	
Issued & fully paid:			
Ordinary shares of HKD0.10 each at 1 January 2022 and 31 December 2022	1,096,849,700	109,685	105,163
Share repurchased and cancelled	<u>(74,900)</u>	<u>(7)</u>	<u>(7)</u>
At 31 December 2023	<u>1,096,774,800</u>	<u>109,678</u>	<u>105,156</u>

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2023 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year as approved by the Board of Directors on 20 March 2024. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the design, research and development (the “**R&D**”), manufacture and sales of optical and optical-related products. Such products include Optical Components (such as vehicle lens sets, optical parts of vehicle light detection and ranging (“**LiDAR**”), VR positioning lens sets, handset lens sets, glass spherical and aspherical lenses and other optical components), Optoelectronic Products (such as vehicle modules, VR visual modules, handset camera modules, 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.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2023 shall be presented in the following three business segments, namely Optical Components, Optoelectronic Products and Optical Instruments.

OPTICAL COMPONENTS

In terms of the vehicle lens sets business, with the gradual easing of the COVID-19 pandemic globally and the increasing stability of the supply chains, the automobile industry is gradually recovering from the dilemma of global semiconductor shortage and the automobile production started to recover towards normalised conditions. The global automobile market shows a trend of diversified development. However, vehicle cameras, which remain to be the key configurations for the intelligent development of all automobiles and advanced driver assistance systems (“**ADAS**”) vehicle lens sets, in particular, witness the most rapid growth. During the year under review, the shipment volume of vehicle lens sets of the Group increased by approximately 15.1% to approximately 90,812,000 units as compared to that of last year. The global market share of the Group was still ahead of others, which further enlarged the gap between the Group and the second market player. In terms of the updating and iteration of products, the Group has completed the R&D of the 17-mega pixel “two-in-one” front-view vehicle lens sets, which can achieve the combined function of a telephoto 8-mega pixel front sensing vehicle lens set and a wide field-of-view 17-mega pixel front sensing vehicle lens set. Meanwhile, in terms of hybrid vehicle lens sets, the Group continues to boost innovation for optical structure design to reduce the impact of plastic lenses’ deformation at high temperatures on optical performance for the application of high-pixel hybrid vehicle lens sets. During the year under review, the Group has completed the R&D of an 8-mega pixel hybrid in-cabin monitoring vehicle lens sets.

In terms of the emerging vehicle optical field, the Group continues to explore market opportunities in the fields, including LiDAR, head-up display (“HUD”) and smart headlamps, to strengthen product and patent layouts and seek differentiated technological breakthroughs. In the LiDAR aspect, the Group has successfully developed high-precision patch-type polygons, scanning modules with polygons and various transceiver modules by using different technical principles. During the year under review, the Group obtained three new mass production projects, and continued empowering the LiDAR manufacturers. In the HUD aspect, the Group focused on the core optical engine – picture generation unit (“PGU”) 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 Group made great progress in AR-HUD products during the year under review. The PGU module, with the application of the digital light processing (“DLP”) technological route, has achieved mass production during the year under review. In the smart headlamps aspect, the Group has obtained various designated projects for high-pixel headlamp products during the year under review. Core lens sets for 1-mega level pixel headlamps have achieved mass production, and the R&D of the hybrid micro-structural lens sets for 0.01-mega level pixel headlamps has been completed. Meanwhile, the Group actively seizes the opportunities arising from the ground projection unit market. It has achieved a small batch of supply of dynamic ground projection modules based on the digital micromirror device (“DMD”) solution, which could apply to various scenarios including safety warning, vehicle window projection, ground welcome and chair back projection.

In terms of the emerging consumer-grade optical business, the Group further deepened its strategic cooperation with famous VR customers worldwide and successfully achieved the mass production of key projects. Meanwhile, the Group actively invested in the R&D of VR near-to-eye display-related products and perception and interaction lens sets and deployed key technologies and processes. It has become the top-pick supplier of world-renowned customers. In addition, the Group continuously strengthened the R&D efforts in AR optical waveguides, optical machinery and optical engines and enhanced the scaled product manufacturing capability to provide customers with various product options, including comprehensive solutions to the optical technology of AR products.

For the handset lens sets business, the shipment volume of handset lens sets of the Group decreased by approximately 1.8% to approximately 1,170,845,000 units during the year under review as compared to that of last year. Due to the impacts of the slower macroeconomic growth and the weak global demand of the smartphone market in the first half of 2023, the demand for handset lens sets declined significantly. In the face of the challenging industry situation, the Group acted quickly and adopted various proactive measures to respond to market changes. Firstly, the Group continuously implemented the product strategy of “expanding revenue sources” and rapidly followed up on customers’ demands in high-frequency interactions with customers, thus maintaining its position as the global No. 1 in terms of the shipment volume of handset lens sets for four consecutive years amidst severe industry competition. Secondly, the Group seized market opportunities, boosted technological inputs, and accelerated the development of new products. It has customized high-end products for various smartphone brand manufacturers, and the handset lens sets with large image size and variable apertures for main cameras and dual-group internal focusing periscope handset lens sets have achieved mass production during the year under review. Thirdly, the Group carried out various engineering improvement programs with customers to optimise detailed control in the production process, thus gaining recognition from many customers.

OPTOELECTRONIC PRODUCTS

In terms of the vehicle modules business, the Group continuously and closely participated in the cooperation of industry ecosystems, deepened the close interactions with Mobileye^{Note 1}, Horizon Robotics^{Note 2}, NVIDIA^{Note 3} and QUALCOMM^{Note 4} and became a certified partner in advanced autonomous driving. The Group was devoted to significantly expanding the market share of its products, especially for the environmental perception product line, it successfully obtained a global large designated project on 8-mega pixel vehicle modules from the world's number one automobile manufacturer, and further consolidated its position as the global No. 1 in the market share of 8-mega pixel vehicle modules. For the in-cabin monitoring product line, the Group developed the compact driver monitoring system (“DMS”) with algorithm partners. It vigorously explored overseas markets and has obtained designated DMS projects from European customers. For the viewing product line, leveraging on the advantages of the passive anti-condensation technology, the Group rapidly increased the supply proportion of 3-mega pixel panoramic vehicle modules to customers. In addition, the Group has vigorously developed new products and processes. For the risks on the blind area of the chassis during driving through advanced automatic parking, the Group launched the real-time monitoring system on the blind area of the chassis, which is favoured by several potential customers both at home and abroad. Meanwhile, the shipment volume of vehicle modules using automotive-grade chip-on-board (“COB”) packaging technology is experiencing continuous growth, and the Group has completed the delivery of various products with lower costs and shorter delivery cycles.

In terms of VR/AR fields, the Group and a renowned platform provider completed the development of visual modules adapted to the next-generation major platforms as a main solution of reference design for the platform. Meanwhile, the Group completed the development of a series of innovative miniaturised packaging technologies with a priority on high-cost effectiveness to apply to all series of VR/AR visual modules. In addition, in terms of the robotic vision field, new solutions with the palm vein algorithm have been applied in intelligent door locks and achieved small batch shipment while the red, green, blue and depth (“RGBD”) robotic vision modules based on self-developed algorithms have achieved mass production and shipment for mainstream customers in the industry.

Under the background of the macroeconomic downturn, the sluggish demand in the global smartphone market and the downgrade in the specification of cameras, the handset camera modules business of the Group was adversely affected. However, the demand for the smartphone market showed a trend of recovery in the second half of 2023, and the market demand for handset camera modules was also improved. During the year under review, the shipment volume of handset camera modules of the Group reached approximately 567,482,000 units, representing an increase of approximately 9.8% as compared to that of last year. However, in light of the complex market environment and the increasingly intensified pressure of cost and competition, the profitability of the Group's handset camera modules business was under high pressure. As a result, the Group

Notes:

1. Mobileye represents Mobileye Global Inc.
2. Horizon Robotics represents Beijing Horizon Robotics Technology R&D Co., Ltd. (北京地平线机器人技术研
發有限公司).
3. NVIDIA represents NVIDIA CORPORATION.
4. QUALCOMM represents QUALCOMM Incorporated.

continued to implement the “customer-oriented” policy, consolidated its endogenous power, focused on business breakthroughs and further reinforced leading technological strengths and product innovation capabilities to enhance customer stickiness, thereby maintaining its position as the global No. 1 amidst severe market competition. During the year under review, the Group has achieved mass production of variable aperture handset camera modules with large image size and optical image stabilization (“OIS”) and 180-mega pixel periscope handset camera modules. Meanwhile, the Group also strengthened the layout of core actuators, continuously built advantages in the vertical integration of lens set, motor and module, further improved the product systematic integration and customization capabilities and enhanced its product comprehensive competitiveness. During the year under review, the Group has achieved mass production of large image size (image size is 1/1.3”) handset camera modules based on integrated design (equipped with the self-developed OIS motor). In addition, the Group continuously promoted the construction of intelligent factories and the global layout of manufacturing bases, and further boosted its strengths in high-end scale manufacturing capability and its industry-leading position.

OPTICAL INSTRUMENTS

In terms of the intelligent equipment business, with the focus on industrial intelligent equipment, medical equipment and the demand for equipment in emerging markets, the Group fully leveraged on its advantages in optical imaging, image processing algorithms and other technologies and continuously empowered advanced manufacturing. During the year under review, the Group completed the R&D of handset chip component inspection equipment, which adopted high-precision optical system and the combination of self-developed artificial intelligence (“AI”) models with traditional image algorithms to achieve high-precision inspection on defects, and is at the industry-leading position in overall efficiency and inspection performance of equipment.

In terms of the microscopic instrument business, the Group seized the intelligent upgrading of the medical business and the trend of import substitution, continuously tapped into technological innovation, built the advantages of the “Mingpeijiao Strategy” (名配角戰略) and “self-owned brands”, consolidated and expanded the market size of the microscope and intelligent medical scanner business. During the year under review, the Group has completed the R&D of blood morphological scanners, participated in the strategic cooperation with a leading enterprise in the blood detection sector and achieved small batch delivery. The scanning speed and imaging quality of this product are in the first echelon in China. Meanwhile, the Group expanded the fluorescence for circulating tumour cell scanners to five channels to support the integrated imaging with fluorescence in light fields and various channels. It has successfully promoted this product to overseas markets. In addition, the Group and its partners formulated and completed solutions on the diagnosis of circulating tumor cells. The success of the product demonstrated the Group’s progress and leading position in fluorescence imaging technology, as well as its strong core competitiveness in the high-end microscopic scanner market. Besides, the Group made innovations and breakthroughs in the technology for semi-apochromatic metallurgical objectives with an ultra-long working distance and achieved the mass production of full series of objectives. Such product has the longest working distance in China and can achieve high-resolution and high-precision imaging in the industrial semiconductor sector.

OUTLOOK AND FUTURE STRATEGIES

In 2024, the Group is still confronted with the bumpy recovery of the global economy, insufficient consumption demand, supply chain restructuring, intensified market competition and other challenges. Despite uncertainties surrounding the global economy as indicated by the complicated environment, it is anticipated that emerging technologies and industries featuring high technology content, high added value and intensive resources, such as new energy and AI, will serve as new growth points for economic development. In addition, the continuous penetration of intelligence into various industries has brought about new demands for the optoelectronic industry and given rise to new development opportunities. Looking forward, the Group will maintain its strategic focus, commit to the development of the main business of optoelectronics and continue to promote the following three aspects of work:

1. Explore new potential in smartphone related businesses and strive to improve business quality

- Developing hard skills to improve product quality and benchmarking to peers to enhance inferior projects, thus strengthening comprehensive competitiveness;
- Improving product mix and optimizing customer structure to increase the Group's supply proportion in clients' high-end projects; and
- Deepening the joint cooperation capability of smartphone related businesses and enhancing added value to products in pursuit of high-quality leading industry advantages.

2. Build competitiveness in the fields of vehicles, extended reality ("XR") and robotic vision and focus on improving market position

- Exploring potential in various aspects such as research and development, process technology, quality, cost and key components to expand the competitive advantage of vehicle lens sets;
- Enhancing the technical capabilities of vehicle modules, improving refined management and quality management capabilities, actively expanding target customers at home and abroad, and further increasing market share; and
- Being committed to making breakthroughs in key technologies in the field of XR and robotic vision, as well as the development of manufacturing process elements, while strengthening resource integration among various business units of the Group to seize market opportunities.

3. Strengthen management in capital investment, improve input-output efficiency and focus on optimizing operational efficiency

- In terms of capacity investment in mature businesses, the Group needs to allocate resources on the basis of order conditions and market trends to prevent rising in operating costs due to overcapacity; and

- In terms of equipment investment in emerging businesses, as the products have not yet finished and the process technology route is not yet clear, the Group will strive for controlling investment risks with minimum investment based on meeting trial production requirements.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group's revenue was approximately RMB31,681.3 million, representing a decrease of approximately 4.6% as compared to that of last year. The decrease in revenue was mainly attributable to the decrease in the revenue of handset lens sets and handset camera modules of the Group as a result of the continued weak global demand of 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 the global economy.

Revenue generated from the Optical Components business segment was approximately RMB9,555.1 million, representing a slight increase of approximately 0.9% as compared to that of last year. The slight increase in revenue was mainly attributable to the increase of revenue of the vehicle lens sets by increased shipment volume resulted from the easing of the tight supply of key components in the automotive industry. Meanwhile, the revenue of vehicle LiDAR and HUD related products achieved significant increase as the market was further expanded. The increase in revenue from these businesses offset the decrease in revenue of handset lens sets and VR lens sets.

Revenue generated from the Optoelectronic Products business segment was approximately RMB21,599.4 million, representing a decrease of approximately 7.4% as compared to that of last year. The decrease in revenue was mainly attributable to the decreased average selling price of handset camera modules affected by the prolonged trend of de-specification of smartphone cameras and the intense industrial competition.

Revenue generated from the Optical Instruments business segment was approximately RMB526.8 million, representing an increase of approximately 30.5% as compared to that of last year. The increase in revenue was mainly attributable to the increase in the market demand for optical instruments applied to domestic industrial and medical fields and the increase in the market demand for mid- to high-end optical microscopic instruments driven by the implementation of the "import substitution" strategy.

Gross Profit and Gross Profit Margin

The gross profit of the Group for the year ended 31 December 2023 was approximately RMB4,590.4 million, representing a decrease of approximately 30.5% as compared to that of last year. The gross profit margin was approximately 14.5%, which was approximately 5.4 percentage points lower than that of last year.

The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 28.4%, 5.5% and 41.2%, respectively (2022: approximately 33.4%, 10.7% and 42.0% respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the year ended 31 December 2023 were approximately RMB415.1 million, representing an increase of approximately 17.7% as compared to that of last year. It accounted for approximately 1.3% of the Group's revenue during the year, as compared to approximately 1.1% of last year. The increase in absolute amount was 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 year ended 31 December 2023 was approximately RMB2,566.5 million, representing a decrease of approximately 8.5% as compared to that of last year. It accounted for approximately 8.1% of the Group's revenue during the year, as compared to approximately 8.4% of last year. The decrease in absolute amount was attributable to the strengthening of the management of the Group's R&D investment.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2023 were approximately RMB1,009.9 million, representing an increase of approximately 8.8% as compared to that of last year. It accounted for approximately 3.2% of the Group's revenue during the year, as compared to approximately 2.8% of last year. The increase in absolute amount was attributable to the increase in the remuneration of administrative staff, and the increase in expenses related to the grant of restricted shares ("**Restricted Shares**") under the restricted share award scheme of the Company ("**Restricted Share Award Scheme**") and the informationization construction.

Income Tax Expense

The income tax expense of the Group for the year ended 31 December 2023 was approximately RMB207.8 million, representing a decrease of approximately 13.7% as compared to that of last year. The Group's effective tax rate was approximately 15.3% during the year, as compared to approximately 8.9% of last year. For more details related to the income tax expense, please refer to the Note 7 to the consolidated financial statements in this announcement.

Net Profit and Net Profit Margin

The net profit of the Group for the year ended 31 December 2023 was approximately RMB1,150.3 million, representing a decrease of approximately 53.5% as compared to that of last year. The decrease in net profit was primarily attributable to the factors such as slow recovery of the Chinese economy and the uncertainties of the global economy for the year ended 31 December 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 increasing pressure on average selling prices and gross profit margins of handset lens sets and handset camera modules of the Group.

The net profit margin of the Group for the year ended 31 December 2023 was approximately 3.6% (2022: approximately 7.5%).

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

The profit for the year attributable to owners of the Company for the year ended 31 December 2023 was approximately RMB1,099.4 million, representing a decrease of approximately 54.3% as compared to that of last year.

The basic earnings per share of the Company for the year ended 31 December 2023 were approximately RMB100.7 cents, representing a decrease of approximately 54.3% as compared to that of last year.

Final Dividend

For the year ended 31 December 2023, the Board proposed a final dividend of HKD0.219 per share (equivalent to approximately RMB0.200 per share), with payout ratio of approximately 20.0% of the profit for the year attributable to owners of the Company.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2023 and 31 December 2022:

	For the year ended 31 December	
	2023	2022
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	2,664.5	7,377.3
Net cash used in investing activities	(1,487.9)	(3,833.9)
Net cash from (used in) financing activities	4,857.7	(2,159.2)

Funding and Financial Policy

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing in the short run to meet its working capital and other requirements. In the long run, the Group will be mainly funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the year ended 31 December 2023.

As at 31 December 2023, the Group had current assets of approximately RMB35,144.0 million (31 December 2022: approximately RMB30,645.6 million); and current liabilities of approximately RMB21,286.6 million (31 December 2022: approximately RMB19,336.9 million). The Group's current ratio was approximately 1.7 times (31 December 2022: approximately 1.6 times). The Group's total assets as at 31 December 2023 were approximately RMB50,297.1 million, representing an increase of approximately 17.0% as compared to that as at 31 December 2022.

As at 31 December 2023, the Group's cash and cash equivalents were approximately RMB13,084.5 million (31 December 2022: approximately RMB7,033.2 million). The cash and cash equivalents were mainly denominated in RMB and USD.

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from sales of the Group's products. Cash outflow from operating activities was mainly used for the purchases of raw materials, selling and distribution expenses, R&D expenditure and administrative expenses. Net cash from operating activities was approximately RMB2,664.5 million for the year ended 31 December 2023 and net cash from operating activities was approximately RMB7,377.3 million for the year ended 31 December 2022.

The trade receivables turnover days (average of the opening and closing trade receivables balances/revenue \times 365 days) increased from approximately 66 days for the year ended 31 December 2022 to approximately 76 days for the year ended 31 December 2023. The increase in trade receivables turnover days was mainly attributable to the fact that the revenue from those customers with longer credit terms grew faster during the year of 2023.

The trade payables and accrued purchases turnover days (average of the opening and closing trade payable and accrued purchases balances/cost of sales \times 365 days) increased from approximately 78 days for the year ended 31 December 2022 to approximately 86 days for the year ended 31 December 2023. The increase in the trade payables and accrued purchases turnover days was mainly attributable to the strengthening of the Group's management of suppliers.

The inventory turnover days (average of the opening and closing inventory balances/cost of sales \times 365 days) decreased from approximately 70 days for the year ended 31 December 2022 to approximately 66 days for the year ended 31 December 2023. The decrease in the inventory turnover days was mainly attributable to the strengthening of the Group's inventory management.

Investing Activities

For the year ended 31 December 2023, the Group recorded a net cash used in investing activities of approximately RMB1,487.9 million, which mainly included purchases and release of unlisted financial products of approximately RMB9,262.1 million and approximately RMB12,321.4 million respectively, capital expenditure amounting to approximately RMB2,487.8 million, placement of short term fixed deposits of approximately RMB1,226.6 million, placement of time deposits of approximately RMB1,250.0 million and acquisition of investment and capital injection in associates of approximately RMB1,426.3 million.

Financing Activities

For the year ended 31 December 2023, the Group recorded a net cash from financing activities of approximately RMB4,857.7 million. The cash inflow mainly came from proceeds from notes financing of approximately RMB13,591.2 million, proceeds from bonds issuance of approximately RMB2,675.5 million and proceeds from new bank borrowings raised of approximately RMB6,776.4 million, while major outflows were the repayment of bank borrowings of approximately RMB6,263.4 million, payments for notes financing of approximately RMB6,672.2 million and repayment of bonds payable of approximately RMB4,147.2 million.

Capital Expenditure

For the year ended 31 December 2023, the Group's capital expenditure amounted to approximately RMB2,487.8 million, which was mainly used for the purchases of property, plant and equipment, acquisition of land use right and payments for intangible assets. All of the capital expenditure was financed by internal resources.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 31 December 2023 amounted to approximately RMB2,664.3 million (2022: approximately RMB2,020.0 million). No bank borrowings were secured by certain buildings and land of the Group as at 31 December 2023 and 31 December 2022. As at 31 December 2023, the bank borrowings were denominated in RMB and USD.

Details of the bank borrowings are set out in Note 19 to the consolidated financial statements in this announcement.

Bank facilities

As at 31 December 2023, the Group had bank facilities of RMB8,604.0 million with Agricultural Bank of China Limited, RMB5,000.0 million with Bank of Ningbo Co., Ltd., RMB2,400.0 million with The Export-Import Bank of China, RMB1,870.0 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, RMB1,420.0 million with Bank of Communications Co., Ltd., RMB1,500.0 million with Bank of Hangzhou Co., Ltd., RMB1,500.0 million with China Minsheng Banking Corp., Ltd., RMB1,000.0 million with Industrial Bank Co., Ltd., RMB4,200.0 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, USD155.0 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 31 December 2023, debt securities of the Group amounted to approximately RMB2,897.5 million (2022: approximately RMB4,178.1 million). The Group issued USD400.0 million sustainability-linked bonds on 17 January 2023. For more details, please refer to Note 20 to the consolidated financial statements in this announcement.

As at 31 December 2023, the Group's gearing ratio of approximately 11.1% refers to the ratio of total borrowings to total capital (total capital being the sum of total liabilities and equity of the shareholders of the Company (the "Shareholders")), reflecting the Group's financial position at a sound level.

Contingent liabilities

As at 31 December 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

The Group did not have any pledge or charge on assets as at 31 December 2023, except for the pledged bank deposits of approximately RMB13.6 million (2022: approximately RMB9.8 million).

For details of the pledged bank deposits, please refer to Note 15 to the consolidated financial statements in this announcement.

COMMITMENTS

As at 31 December 2023, the capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounted to approximately RMB690.8 million (2022: approximately RMB1,257.5 million).

As at 31 December 2023, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2023, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENT PLAN

The Group's investing activities primarily include the purchases and release of unlisted financial products, placement and release of short-term fixed deposits, placement and release of time deposits, purchase of property, plant and equipment and acquisition of investment in an associate. 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. Details of the acquisition of investment and capital injection in associates are as follows.

Significant Investments

As disclosed in the announcements of the Company dated 14 November 2022 and 11 January 2023, Sunny Zhejiang Optics, a wholly-owned subsidiary of the Company, has subscribed for registered capital of RMB1,110.0 million by way of capital injection into Chongqing Ant Consumer Finance Co., Ltd. (the "**Target Company**") in the sum of RMB1,110.0 million (the "**1st Subscription**"), representing 6% equity interests of the Target Company as enlarged by the capital increase. The completion of the 1st Subscription took place on 11 January 2023. For more details, please refer to the "Significant Investments" section of the interim report of the Company for the six months ended 30 June 2023.

As disclosed in the announcements of the Company dated 28 September 2023 and 31 October 2023, Sunny Zhejiang Optics has subscribed for registered capital of RMB270.0 million by way of capital injection into the Target Company in the sum of RMB270.0 million (the "**2nd Subscription**"), representing 6% equity interests of the Target Company as enlarged by the capital increase. The completion of the 2nd Subscription took place on 31 October 2023.

Please refer to the annual report for the year ended 31 December 2023 to be issued by the Company for more details.

Important Investments

As at 31 December 2023, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB7,113.3 million (31 December 2022: approximately RMB10,086.4 million), of which approximately RMB2,679.5 million has been released on or before the latest practicable date (i.e. 15 March 2024). As at 31 December 2023, the fair value of the unlisted financial products subscribed by the Group in aggregate represented approximately 14.1% of the Group's total assets (31 December 2022: approximately 23.5%). The investment costs for the unlisted financial products subscribed as at 31 December 2023 were approximately RMB6,948.3 million (31 December 2022: approximately RMB10,007.6 million). For the year ended 31 December 2023, the amount of investment income from the unlisted financial products at FVTPL was approximately RMB358.0 million (corresponding period of 2022: approximately RMB197.5 million).

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 31 December 2023 (in descending order):

Name of the unlisted financial products*	Name of banks	Investment costs	Fair value of the unlisted financial products as at 31 December 2023	Percentage of fair value of the unlisted financial products relative to the total assets of the Group as at 31 December 2023
		RMB'000	RMB'000	
Bank of Ningbo NingXin fixed income close-ended wealth management No. 1201*	Bank of Ningbo Co., Ltd.	500,000	502,197	1.0%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 664*	Bank of Ningbo Co., Ltd.	300,000	309,762	0.6%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 429*	Bank of Ningbo Co., Ltd.	300,000	309,532	0.6%
Bank of Ningbo NingXin Tianyi fixed income close-ended wealth management No. 55*	Bank of Ningbo Co., Ltd.	300,000	306,732	0.6%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 485*	Bank of Ningbo Co., Ltd.	300,000	305,636	0.6%
Others#		5,248,282	5,379,402	10.7%
Total		6,948,282	7,113,261	14.1%

* 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 38 unlisted financial products with 4 different banks to lower the concentration risk. The fair value of such 38 unlisted financial products as at 31 December 2023 was approximately RMB141.6 million in average.

The unlisted financial products were measured at fair value as at 31 December 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 the Shareholders as a whole.

For the year ended 31 December 2023, the Group's investments amounted to approximately RMB2,487.8 million, which were primarily for the purchases of property, plant and equipment, acquisition of land use right and payment for intangible assets. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

Future Plans for Significant Investments or Capital Assets

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks arising from its bank borrowings for working capital, capital expenditure for expansion and other purposes of the Group and refinancing. The rising of interest rates increases the costs of both existing and new debts. As at 31 December 2023, the effective interest rate on fixed-rate bank borrowings was approximately 2.10% to 3.97% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 3.00% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in USD or other foreign currencies. For details of the Group's foreign currency forward contracts, foreign currency options contracts and foreign exchange swap contracts, please refer to Note 14 to the 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 other foreign currency investment.

Credit Risk

The Group's financial assets include derivative financial assets, cash and cash equivalents, pledged bank deposits, short-term fixed deposits, time deposits, financial assets at 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 was significantly reduced. The amounts presented in the consolidated statement of financial position are net of allowance for ECL, estimated by the Management based on prior experience and historically observed default rates, their assessment of the current economic environment and the discounted cash flows to be received in future.

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

Cash Flow Interest Rate Risk

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

Liquidity Risk

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

MAJOR ACQUISITIONS AND DISPOSALS

For the year ended 31 December 2023, other than the acquisition of equity interests in the aforesaid Target Company, there were no other material acquisitions and disposals of subsidiaries, associates and joint ventures of the Group.

EMPLOYEE AND REMUNERATION POLICY

The Group had 29,524 full-time employees as at 31 December 2023. In line with the overall operation of the Company, the industry level and the performance of individual employees, the Group has established a fair and competitive emolument system and welfare system to recruit new talents and to reward and retain existing talents, in which the emolument system includes annual basic salary, year-end bonus, the economic-value-added bonus and share award, while the welfare system includes social insurance, housing provident fund, employee holidays and emergency relief fund. The Group is committed to achieving the goals of “consistency in responsibilities and interests, abilities and values, risks and returns, performance and income” in remuneration distribution.

The Group adopted the Restricted Share Award Scheme in 2010, and extended the period for another ten years which would terminate on 21 March 2030 unless terminated earlier by a resolution of the Board, for the purposes of providing incentives and rewards to eligible participants to recognise their contributions to the Group and to enhance their ownership spirits. For the year ended 31 December 2023, 4,414,419 Restricted Shares were granted to eligible employees in accordance with the Restricted Share Award Scheme by the Group.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the eligibility for attending the AGM, which is to be held on 24 May 2024, the register of members of the Company will be closed from 21 May 2024 to 24 May 2024, both days inclusive, during which no transfer of shares will be registered. All transfer of shares of the Company (the “**Shares**”) accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 20 May 2024.

In order to determine the eligibility for receiving the final dividends, the register of members of the Company will be closed from 3 June 2024 to 6 June 2024, both days inclusive, during which no transfer of shares will be registered. All transfer of Shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 31 May 2024.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Cayman Islands Companies Act and the Articles of Association to repurchase the Shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Hong Kong Stock Exchange. The Company repurchased a total of 74,900 Shares on the Hong Kong Stock Exchange pursuant to the general mandate to repurchase Shares granted by the Shareholders at the annual general meeting on 24 May 2023 (the “**Repurchase Mandate**”) during the year ended 31 December 2023 and all such repurchased Shares were cancelled accordingly. The Directors believed that repurchase of Shares shall enhance the net value of the Group and its assets and/or earnings per share. Details of repurchase of Shares by the Company pursuant to the Repurchase Mandate for the year ended 31 December 2023 are set out below:

<u>Month of repurchase</u>	<u>Number of Shares repurchased</u>	<u>Highest price per Share</u>	<u>Lowest price per Share</u>	<u>Aggregate purchase price</u>
		<i>HKD</i>	<i>HKD</i>	<i>HKD</i>
September 2023	70,000	54.95	54.7	3,841,610
October 2023	4,900	53.1	53.1	260,190
	<u>74,900</u>			<u>4,101,800</u>

Save as disclosed above, the Group (except purchased by the trustee in accordance with the Restricted Share Award Scheme) has not purchased, sold, redeemed or written-off any Shares for the year ended 31 December 2023.

CORPORATE GOVERNANCE

Corporate Governance Practices

For the year ended 31 December 2023, the Company complied with all of the mandatory disclosure requirements set out in part 1 of the Corporate Governance Code (the “**Corporate Governance Code**”) contained in Appendix C1 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”). Meanwhile, the Company has applied the principles of good corporate governance (the “**Principles**”) and complied with the code provisions and most of the recommended best practices set out in Part 2 of the Corporate Governance Code. The Company annually reviews the application of the Principles and will improve its corporate governance practices with the reference to the latest development of the corporate governance.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix C3 of the Listing Rules. Having made specific enquiry with regard to securities transactions of the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code and its code of conduct regarding Directors’ securities transactions for the year ended 31 December 2023.

IMPORTANT EVENTS SINCE 31 DECEMBER 2023

As disclosed in the announcement of the Company dated 28 December 2023, Mr. Zhang Yuqing (“**Mr. Zhang**”), an independent non-executive Director, has tendered his resignation to the Company in respect of his positions as the independent non-executive Director, the chairman of the audit committee of the Board and a member of the remuneration committee of the Board with effect from 1 January 2024 in order to devote more time to his personal affairs.

Save as disclosed above, there were no other important events affecting the Group which have occurred since 31 December 2023.

REVIEW OF FINANCIAL STATEMENTS

The Group’s audited annual results for the year ended 31 December 2023 were reviewed by all the members of the audit committee of the Board (the “**Audit Committee**”), namely Ms. Jia Lina (chairlady of the Audit Committee), Mr. Feng Hua Jun and Mr. Shao Yang Dong who are all independent non-executive Directors.

SHAREHOLDERS ENGAGEMENT

The Company is committed to creating channels of communication between the Directors, senior Management and investors, maintaining close contact with all the Shareholders through a variety of channels and promoting the communication with investors. The Chairman of the Board would ensure the appropriate steps are taken to provide effective communication with the Shareholders and that their views are communicated to the Board as a whole. The Company has adopted an updated Shareholders’ communication policy (the “**Shareholders’ Communication Policy**”) on 28 December 2021 which is available on the website of the Company (www.sunnyoptical.com), to formalise and facilitate an effective and sound communication between the Company and the Shareholders and other stakeholders. The Company considers that the Shareholders’ Communication Policy facilitated effective communication between the Company and the Shareholders for the year ended 31 December 2023.

Investor Contact and Inquiries

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual results announcement is available for viewing on the website of HKEXnews of the Hong Kong Stock Exchange (www.hkexnews.hk) and on the website of the Company (www.sunnyoptical.com). The annual report of the Company for the year ended 31 December 2023 will be despatched to the Shareholders and will be published on the above websites in due course.

APPRECIATION

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

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

Hong Kong, 20 March 2024

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