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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 2019

RESULT HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2019 was approximately RMB37,848.7 million, representing an increase of approximately 46.0% compared to that of last year. The increase in revenue was mainly benefited from the Group's further development in smartphone related businesses and rapid growth in the vehicle imaging and sensing fields.
- The gross profit for the year ended 31 December 2019 was approximately RMB7,750.7 million, representing an increase of approximately 57.8% compared to that of last year. The gross profit margin was approximately 20.5%.
- The net profit for the year ended 31 December 2019 was approximately RMB4,019.4 million, representing an increase of approximately 60.0% compared to that of last year. The net profit margin was approximately 10.6%.
- Basic earnings per share for the year ended 31 December 2019 was approximately RMB364.81 cents, representing an increase of approximately 60.1% compared to that of last year.
- The Board of Directors has proposed a final dividend of approximately RMB0.728 (equivalent to HK\$0.810) per share for the year ended 31 December 2019.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of Sunny Optical Technology (Group) Company Limited (the "**Company**") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2019, together with the comparative figures for the year of 2018 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2019

	NOTES	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue	3, 4	37,848,704	25,931,852
Cost of sales		<u>(30,098,050)</u>	<u>(21,018,737)</u>
Gross profit		7,750,654	4,913,115
Other income	5(A)	405,502	467,024
Other gains and losses	5(B)	(200,615)	(292,979)
Impairment losses under expected credit loss model, net of reversal		(10,899)	(3,851)
Selling and distribution expenses		(278,616)	(209,872)
Research and development expenditure		(2,209,337)	(1,362,345)
Administrative expenses		(650,410)	(433,894)
Share of results of associates		(5,501)	(23,787)
Finance costs	6	<u>(250,438)</u>	<u>(202,137)</u>
Profit before tax		4,550,340	2,851,274
Income tax expense	7	<u>(530,965)</u>	<u>(338,595)</u>
Profit for the year	8	<u>4,019,375</u>	<u>2,512,679</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		–	(54,065)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation from foreign operations		(1,512)	2,137
Other comprehensive expense for the year		<u>(1,512)</u>	<u>(51,928)</u>
Total comprehensive income for the year		<u>4,017,863</u>	<u>2,460,751</u>
Profit for the year attributable to:			
Owners of the Company		3,991,298	2,490,872
Non-controlling interests		28,077	21,807
		<u>4,019,375</u>	<u>2,512,679</u>
Total comprehensive income attributable to:			
Owners of the Company		3,989,331	2,438,083
Non-controlling interests		28,532	22,668
		<u>4,017,863</u>	<u>2,460,751</u>
Earnings per share – Basic (RMB cents)	10	<u>364.81</u>	<u>227.92</u>
– Diluted (RMB cents)	10	<u>364.19</u>	<u>227.25</u>

Consolidated Statement of Financial Position
At 31 December 2019

	NOTES	31/12/2019 <i>RMB'000</i>	31/12/2018 <i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	11	6,566,745	4,522,741
Right-of-use assets		402,743	–
Prepaid lease payments		–	213,823
Investment properties		45,298	49,689
Intangible assets		419,163	348,821
Interests in associates		683	100,808
Deferred tax assets	12	131,178	42,599
Deposits paid for acquisition of property, plant and equipment		315,395	401,342
Deposits paid for acquisition of land use right		24,831	–
Equity instruments at fair value through other comprehensive income (“FVTOCI”)	13	112,183	106,583
Debt instruments at amortised cost	14	27,962	54,479
Financial assets at fair value through profit or loss (“FVTPL”)	15	185,147	235,085
Derivative financial assets	16	13,654	7,799
Goodwill		2,119	–
		<u>8,247,101</u>	<u>6,083,769</u>
CURRENT ASSETS			
Inventories	17	5,145,962	3,073,922
Trade and other receivables and prepayment	18	9,629,684	6,231,486
Prepaid lease payments		–	5,581
Tax recoverable		–	111,863
Derivative financial assets	16	13,415	38,986
Financial assets at fair value through profit or loss	15	5,662,808	4,759,582
Debt instruments at amortised cost	14	55,749	54,915
Amount due from a related party		–	3,032
Pledged bank deposits		6,113	214,708
Short term fixed deposits		15,000	20,000
Bank balances and cash		1,917,239	2,254,299
		<u>22,445,970</u>	<u>16,768,374</u>
CURRENT LIABILITIES			
Trade and other payables	19	11,321,586	7,063,861
Amounts due to related parties		7,498	8,978
Derivative financial liabilities	16	1,430	741
Lease liabilities – current portion		38,140	–
Tax payable		49,881	–
Bank borrowings		1,118,572	1,482,405
Contract liabilities		83,202	110,281
Deferred income – current portion		10,106	11,175
		<u>12,630,415</u>	<u>8,677,441</u>
NET CURRENT ASSETS		<u>9,815,555</u>	<u>8,090,933</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>18,062,656</u>	<u>14,174,702</u>

	<u>NOTES</u>	<u>31/12/2019</u> <i>RMB'000</i>	<u>31/12/2018</u> <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	12	684,836	403,328
Derivative financial liabilities	16	–	2,682
Lease liabilities – non-current portion		122,466	–
Long term payables		299,209	330,452
Deferred income – non-current portion		73,894	70,113
Bonds payable	20	4,156,074	4,079,983
		<u>5,336,479</u>	<u>4,886,558</u>
NET ASSETS		<u>12,726,177</u>	<u>9,288,144</u>
CAPITAL AND RESERVES			
Share capital	21	105,163	105,163
Reserves		12,447,724	9,128,934
Equity attributable to owners of the Company		12,552,887	9,234,097
Non-controlling interests		173,290	54,047
TOTAL EQUITY		<u>12,726,177</u>	<u>9,288,144</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL

The Company was incorporated in the Cayman Islands on 21 September 2006 as an exempted company under the Companies Law Chapter 21 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands and its shares have been listed on the Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) with effect from 15 June 2007. Its ultimate holding and parent company is Sun Xu Limited, a private limited company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Wang Wenjian, also a 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 are 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 Renminbi (“**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

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 in the current year:

HKFRS 16	<i>Leases</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>

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.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application.

	At 1 January 2019
	<i>RMB'000</i>
Operating lease commitments disclosed as at 31 December 2018	155,164
Lease liabilities discounted at relevant incremental borrowing rates	133,295
Less: Recognition exemption – short-term leases	(1,632)
Recognition exemption – low value assets (excluding short-term leases of low value leases)	(446)
Lease liabilities as at 1 January 2019	<u>131,217</u>
Analysed as	
Current	38,666
Non-current	92,551
	<u>131,217</u>

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:

	Right-of-use assets
	<i>RMB'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	128,288
Reclassified from prepaid lease payments	219,404
Adjustments on rental deposits at 1 January 2019	53
	<u>347,745</u>

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019
	<i>RMB'000</i>
Retained profits	
Depreciation of right-of-use assets from the commencement dates to the initial application date of HKFRS 16	121,985
Financial cost of lease liabilities from the commencement dates to the initial application date of HKFRS 16	35,625
Less: Lease expenses of operating leases under HKAS 17 before 1 January 2019	<u>(154,681)</u>
Impact at 1 January 2019	<u><u>2,929</u></u>

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current Assets			
Prepaid lease payments	213,823	(213,823)	–
Other receivables			
– Rental deposits	290	(53)	237
Right-of-use assets	<u>–</u>	<u>347,745</u>	<u>347,745</u>
Current Assets			
Prepaid lease payments	<u>5,581</u>	<u>(5,581)</u>	<u>–</u>
Current Liabilities			
Lease liabilities	<u>–</u>	<u>38,666</u>	<u>38,666</u>
Non-current Liabilities			
Lease liabilities	<u>–</u>	<u>92,551</u>	<u>92,551</u>
Capital and Reserves			
Reserves	<u><u>9,128,934</u></u>	<u><u>(2,929)</u></u>	<u><u>9,126,005</u></u>

(ii) Performance obligations for contracts with customers

The Group sells optical and optical-related products directly to customers. For sales of optical components, optoelectronic products and optical instruments, revenue is recognised when control of the goods has transferred, being when customer acceptance has been obtained, which is the point of time when the customer has the ability to direct the use of these products and obtain substantially all of the remaining benefits of these products.

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

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

4. OPERATING SEGMENTS

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

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

1. Optical Components
2. Optoelectronic Products
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 2019

	<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	8,815,380	28,748,410	284,914	37,848,704	-	37,848,704
Inter-segment sales	2,078,213	21,338	115,654	2,215,205	(2,215,205)	-
Total	<u>10,893,593</u>	<u>28,769,748</u>	<u>400,568</u>	<u>40,063,909</u>	<u>(2,215,205)</u>	<u>37,848,704</u>
Segment profit	<u>3,454,535</u>	<u>1,316,318</u>	<u>41,762</u>	<u>4,812,615</u>	<u>-</u>	<u>4,812,615</u>
Share of results of associates						(5,501)
Unallocated income						22,211
Unallocated expenses						(278,985)
Profit before tax						<u>4,550,340</u>

For the year ended 31 December 2018

	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	6,022,754	19,609,171	299,927	25,931,852	–	25,931,852
Inter-segment sales	1,536,494	13,523	30,995	1,581,012	(1,581,012)	–
Total	<u>7,559,248</u>	<u>19,622,694</u>	<u>330,922</u>	<u>27,512,864</u>	<u>(1,581,012)</u>	<u>25,931,852</u>
Segment profit	<u>2,428,098</u>	<u>636,041</u>	<u>19,059</u>	<u>3,083,198</u>	<u>–</u>	3,083,198
Share of results of associates						(23,787)
Unallocated income						111,083
Unallocated expenses						<u>(319,220)</u>
Profit before tax						<u>2,851,274</u>

Segment assets and liabilities

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

Inter-segment sales are charged at prevailing market rates.

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

As at 31 December 2019

	Optical Components	Optoelectronic Products	Optical Instruments	Total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<i>Assets</i>				
Trade receivables	2,386,069	5,934,133	38,101	8,358,303
Bill receivables	512,442	242,141	3,728	758,311
Inventories	1,048,014	4,028,794	69,154	5,145,962
Total segment assets	<u>3,946,525</u>	<u>10,205,068</u>	<u>110,983</u>	14,262,576
Unallocated assets				<u>16,430,495</u>
Consolidated assets				<u>30,693,071</u>
<i>Liabilities</i>				
Trade payables	1,858,677	6,572,271	73,568	8,504,516
Note payables	171,024	938,789	12,223	1,122,036
Total segment liabilities	<u>2,029,701</u>	<u>7,511,060</u>	<u>85,791</u>	9,626,552
Unallocated liabilities				<u>8,340,342</u>
Consolidated liabilities				<u>17,966,894</u>

As at 31 December 2018

	Optical Components	Optoelectronic Products	Optical Instruments	Total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
<i>Assets</i>				
Trade receivables	1,480,184	3,555,288	49,656	5,085,128
Bill receivables	348,330	360,422	1,611	710,363
Inventories	813,304	2,228,842	31,776	3,073,922
Total segment assets	<u>2,641,818</u>	<u>6,144,552</u>	<u>83,043</u>	8,869,413
Unallocated assets				<u>13,982,730</u>
Consolidated assets				<u>22,852,143</u>
<i>Liabilities</i>				
Trade payables	1,298,979	3,712,127	63,235	5,074,341
Note payables	139,982	825,828	4,132	969,942
Total segment liabilities	<u>1,438,961</u>	<u>4,537,955</u>	<u>67,367</u>	6,044,283
Unallocated liabilities				<u>7,519,716</u>
Consolidated liabilities				<u>13,563,999</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 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 2019

	Optical Components <i>RMB'000</i>	Optoelectronic Products <i>RMB'000</i>	Optical Instruments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	576,549	683,623	16,586	1,120	1,277,878
Impairment losses on trade receivables recognised in profit or loss	8,790	1,212	897	–	10,899
(Gain) loss on disposal of property, plant and equipment and land use right	(945)	45,724	14	179	44,972
Share award scheme expense	64,973	41,887	12,453	4,495	123,808
Interest income from bank and financial instruments	(16,197)	(194,004)	(1,030)	(17,254)	(228,485)
Allowance for inventories	69,648	84,922	918	–	155,488
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	<u>1,763,577</u>	<u>1,466,416</u>	<u>11,722</u>	<u>187</u>	<u>3,241,902</u>

For the year ended 31 December 2018

	Optical Components <i>RMB'000</i>	Optoelectronic Products <i>RMB'000</i>	Optical Instruments <i>RMB'000</i>	Unallocated <i>RMB'000</i>	Consolidated total <i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	372,007	429,333	9,247	8,818	819,405
Impairment losses on trade receivables (reversed) recognised in profit or loss	(1,165)	1,281	3,735	–	3,851
(Gain) loss on disposal of property, plant and equipment and land use right	(995)	1,179	(70)	2	116
Share award scheme expense	46,812	30,865	9,051	6,404	93,132
Interest income from bank and financial instruments	(7,900)	(182,319)	(932)	(18,032)	(209,183)
Allowance for inventories	6,262	53,696	76	–	60,034
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	<u>1,695,070</u>	<u>1,032,558</u>	<u>13,186</u>	<u>2,662</u>	<u>2,743,476</u>

Revenue from major products

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

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Mobile phone related products	32,773,687	21,803,100
Other lens sets	2,314,477	1,769,948
Digital camera related products	744,788	921,560
Optical instruments	192,682	202,448
Other spherical lens and plane products	182,883	134,276
Digital video lens	98,846	89,188
Other products	1,541,341	1,011,332
	<u>37,848,704</u>	<u>25,931,852</u>

Geographical information

The Group's operations are mainly located in the People's Republic of China (the "PRC"), 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</u>		<u>Non-current assets</u>	
	<u>external customers</u>		<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>2019</u>	2018	<u>RMB'000</u>	<u>RMB'000</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
China	31,129,983	22,234,307	7,696,674	5,533,519
Asia (except China)	4,956,307	2,421,991	77,251	2,879
Europe	926,597	675,866	227	–
North America	763,056	544,644	23	18
Others	72,761	55,044	–	–
	<u>37,848,704</u>	<u>25,931,852</u>	<u>7,774,175</u>	<u>5,536,416</u>

Note: Non-current assets excluded interests in associates, deferred tax assets, financial assets at FVTPL, equity instruments at FVTOCI, debt instruments at amortised cost, derivative financial assets and goodwill.

Information about major customers

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

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A, revenue from Optoelectronic Products	14,647,914	5,674,142
Customer B, revenue from Optoelectronic Products	4,243,617	4,230,075
Customer C, revenue from Optoelectronic Products (Note)	N/A	3,764,092

Note: Revenue from Customer C contributed less than 10% for the year ended 31 December 2019.

5(A). OTHER INCOME

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	113,148	198,599
Interest income from short term fixed deposits and bank balances	28,058	15,104
Interest income from pledged bank deposits	458	2,305
Interest income from debt instruments	10,138	10,503
Investment income from unlisted financial products at FVTPL	189,831	181,271
Interest income from small loan services	6,575	9,180
Income from sales of moulds	11,211	6,522
Income from sales of scrap materials	16,462	11,396
Rental income	10,131	9,223
Others	19,490	22,921
Total	<u>405,502</u>	<u>467,024</u>

5(B). OTHER GAINS AND LOSSES

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	(44,972)	(1,914)
Gain on disposal of land use right	-	1,798
Loss on deemed disposal of interest in an associate	(5,691)	-
Gain on disposal of subsidiaries	-	857
Net foreign exchange losses	(118,707)	(377,484)
(Loss) gain on changes in fair value of derivative financial instruments, net	(17,723)	73,022
Gain on changes in fair value of equity instruments at FVTPL	6,949	21,130
Gain (loss) on changes in fair value of debt instruments and fund investments at FVTPL	42,408	(17,675)
Loss on disposal of debt investments at FVTPL	(856)	-
Impairment loss of interest in an associate	(62,866)	-
Others	843	7,287
Total	<u>(200,615)</u>	<u>(292,979)</u>

6. FINANCE COSTS

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Interests on bank borrowings	71,451	45,350
Interests on bonds payable	163,938	147,779
Interest on long term payables related to intangible assets	8,095	9,008
Interest on lease liabilities	6,954	-
Total	<u>250,438</u>	<u>202,137</u>

7. INCOME TAX EXPENSE

	2019	2018
	<u>RMB'000</u>	<u>RMB'000</u>
Current tax:		
PRC Enterprise Income Tax	328,747	49,520
Withholding tax expense	41,695	–
Other jurisdictions	5,393	6,442
	<u>375,835</u>	<u>55,962</u>
Over provision in prior years:		
PRC Enterprises Income Tax	(24,135)	(6,829)
Deferred tax (Note 12):		
Current year	179,265	289,462
	<u>530,965</u>	<u>338,595</u>

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except as described below:

- (i) Ningbo Sunny Infrared Technologies Co., Ltd. ("**Sunny Infrared Optics**") and Yuyao Sunny Optical Intelligence Technology Co., Ltd. ("**Sunny Optical Intelligence (Yuyao)**"), domestic limited liability companies, were approved as Hi-Tech Enterprise and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2021.
- (ii) Ningbo Sunny Opotech Co., Ltd. ("**Sunny Opotech**"), Ningbo Sunny Automotive Optech Co., Ltd. ("**Sunny Automotive Optech**"), Sunny Optics (Zhongshan) Co., Ltd. ("**Sunny Zhongshan Optics**") and Ningbo Sunny Instruments Co., Ltd. ("**Sunny Instruments**"), 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 2019.
- (iii) 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 Enterprise and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2020.
- (iv) Zhejiang Sunny Optical Intelligence Technology Co., Ltd. ("**Sunny Optical Intelligence**"), a domestic limited liability company, was recognised as Software Enterprise and entitled preferential policies of exemption from enterprise income taxation for the first two years till 31 December 2018 and reduction half for the subsequent three years till 31 December 2021.

No charges to Hong Kong Profits Tax for both years have been made in the consolidated financial statements as the Group has no assessable profit arising from Hong Kong for both years.

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

As at 31 December 2019, the deferred tax liability amounting to RMB120,532,000 (31 December 2018: RMB80,859,000) (Note 12) was provided in respect of the temporary differences attributed to the PRC undistributed profits to the extent exceeding the investment plan which the Directors of the Company decided to distribute.

The 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>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	4,550,340	2,851,274
Tax at the PRC EIT tax rate of 25%	1,137,585	712,819
Tax effect of share of results of associates	1,375	5,947
Tax effect of expenses not deductible for tax purpose	17,825	19,904
Tax effect of allowance granted under share award scheme in the PRC	(24,447)	(106,055)
Tax effect of preferential tax rates for certain subsidiaries (Note a)	(308,517)	(198,384)
Tax effect of additional tax deduction of research and development expenses (Note b)	(333,245)	(197,514)
Tax effect of tax losses not recognised	34,781	77,330
Utilisation of tax losses not previously recognised	(52,867)	(2,019)
Deferred tax provided for withholding tax on income derived in the PRC	81,368	31,530
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	1,242	1,866
Over provision in prior years	(24,135)	(6,829)
Income tax expense for the year	530,965	338,595

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

Notes:

- (a) For the PRC subsidiaries which were approved as Hi-Tech Enterprises or Software Enterprise, they are entitled to a preferential tax rate of 15% or preferential policies of exemption from or half reduction of enterprise income tax.
- (b) In August 2018, a new notice with the name of Caishui 2018 No. 99 “Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses” was released, according to which certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research and development expenses incurred by them for the both years ended 31 December 2019 and 2018.

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Directors' emoluments	14,508	8,274
Other staff's salaries and allowances	1,583,196	1,212,285
Other staff's discretionary bonuses	455,846	264,042
Other staff's contribution to retirement benefit scheme	191,075	148,216
Other staff's share award scheme expense	115,608	88,932
	<u>2,360,233</u>	<u>1,721,749</u>
Cost of inventories recognised as an expense	30,098,050	21,018,737
Auditor's remuneration	3,542	3,649
Depreciation of property, plant and equipment	1,171,430	771,411
Depreciation of investment properties	4,391	4,391
Depreciation of right-of-use assets	46,499	–
Release of prepaid lease payments	–	4,842
Amortisation of intangible assets	55,558	43,603
Allowance for inventories (included in cost of sales)	155,488	60,034

9. DIVIDENDS

	<u>2019</u>	<u>2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year: 2018 final dividends – RMB56.80 cents (2018: 2017 final dividends – RMB66.10 cents) per share	<u>623,011</u>	<u>725,117</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2019 of approximately RMB72.80 cents per share, equivalent to Hong Kong Dollar (“HK\$” or “HKD”) 81.00 cents per share, amounting to a total of approximately RMB798,507,000 (2018: approximately RMB56.80 cents per share, equivalent to HK\$66.20 cents per share, amounting to a total of approximately RMB623,011,000) has been proposed by the Directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting. The 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>2019</u>	<u>2018</u>
	<i>RMB '000</i>	<i>RMB '000</i>
<u>Earnings</u>		
Earnings for the purpose of basic and diluted earnings per share	<u>3,991,298</u>	<u>2,490,872</u>
	<u>2019</u>	<u>2018</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)	1,094,079	1,092,863
Effect of dilutive potential ordinary shares:		
Restricted Shares	<u>1,873</u>	<u>3,247</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,095,952</u>	<u>1,096,110</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 2018	390,521	3,314,464	18,328	381,327	270,300	4,374,940
Additions	1,584	1,679,663	2,659	112,752	946,818	2,743,476
Transfer	186,244	82,839	–	163,177	(432,260)	–
Disposals	(22,278)	(38,698)	(1,982)	(26,929)	–	(89,887)
Derecognised on disposal of subsidiaries	–	(7,168)	(328)	(1,295)	–	(8,791)
Exchange realignment	–	258	77	68	–	403
At 31 December 2018 and 1 January 2019	556,071	5,031,358	18,754	629,100	784,858	7,020,141
Additions	67,483	2,453,292	692	328,172	392,263	3,241,902
Transfer	292,511	102,251	–	68,112	(462,874)	–
Disposals	(2,167)	(179,125)	(383)	(5,966)	(56)	(187,697)
Acquired on acquisition of a subsidiary	–	26,942	163	1,581	28	28,714
Exchange realignment	–	57	25	51	–	133
At 31 December 2019	913,898	7,434,775	19,251	1,021,050	714,219	10,103,193
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2018	113,008	1,435,299	12,089	228,622	–	1,789,018
Charge for the year	18,907	685,920	2,416	64,168	–	771,411
Eliminated on disposals	(1,555)	(30,115)	(1,864)	(24,660)	–	(58,194)
Derecognised on disposal of subsidiaries	–	(3,917)	(292)	(933)	–	(5,142)
Exchange realignment	–	190	64	53	–	307
At 31 December 2018 and 1 January 2019	130,360	2,087,377	12,413	267,250	–	2,497,400
Charge for the year	26,459	1,051,824	2,158	90,989	–	1,171,430
Eliminated on disposals	(123)	(126,888)	(240)	(5,216)	–	(132,467)
Exchange realignment	–	25	14	46	–	85
At 31 December 2019	156,696	3,012,338	14,345	353,069	–	3,536,448
CARRYING VALUES						
At 31 December 2019	<u>757,202</u>	<u>4,422,437</u>	<u>4,906</u>	<u>667,981</u>	<u>714,219</u>	<u>6,566,745</u>
At 31 December 2018	<u>425,711</u>	<u>2,943,981</u>	<u>6,341</u>	<u>361,850</u>	<u>784,858</u>	<u>4,522,741</u>

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

Owned properties	Shorter of 20 years or over the lease term
Machinery and production equipment	5 to 10 years
Motor vehicles	4 to 5 years
Fixtures and office equipment	3 to 10 years

The carrying value of owned properties shown above comprises:

	31/12/2019	31/12/2018
	RMB'000	RMB'000
Owned properties outside Hong Kong	757,202	425,711

12. DEFERRED TAXATION

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

	31/12/2019	31/12/2018
	RMB'000	RMB'000
Deferred tax assets	(131,178)	(42,599)
Deferred tax liabilities	684,836	403,328
	553,658	360,729

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

	Withholding tax on distributed profit from the PRC	Allowance for inventories and ECL provision	Deferred subsidy income	Accelerated depreciation	Accrued Bonus	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018 (restated)	49,329	(22,723)	(7,025)	57,566	(10,687)	6,215	72,675
Charge (Credit) to profit or loss (Note 7)	31,530	(9,733)	(2,263)	256,927	3,439	9,562	289,462
Credit to other comprehensive income	-	-	-	-	-	(1,408)	(1,408)
At 31 December 2018	80,859	(32,456)	(9,288)	314,493	(7,248)	14,369	360,729
Charge (Credit) to profit or loss (Note 7)	39,673	(24,929)	(577)	227,129	(48,864)	(13,167)	179,265
Acquired on acquisition of a subsidiary	-	-	-	-	-	13,664	13,664
At 31 December 2019	120,532	(57,385)	(9,865)	541,622	(56,112)	14,866	553,658

At the end of the reporting period, the Group had unused tax losses of approximately RMB808,044,000 (2018: RMB978,348,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses for both years of 2019 and 2018 due to the unpredictability of future profit streams. The tax losses arising from the PRC non high-tech subsidiaries of RMB110,718,000 (2018: RMB96,388,000) can be carried forward for maximum of five years and will expire during 2020 to 2024 (2018: 2019 to 2023) while the tax losses arising from the PRC high-tech subsidiaries of RMB653,462,000 (2018: RMB835,768,000) can be carried forward for maximum of ten years and will expire during 2020 to 2029 (2018: 2019 to 2028) according to Caishui 2018 No. 76. which has extended the expiration period from five years to ten years. Other tax losses may be carried forward indefinitely.

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Unlisted equity investments	<u>112,183</u>	<u>106,583</u>

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

During the current year, the Group made a new equity investment measured as equity instruments at FVTOCI amounting to RMB5,600,000 (2018: RMB28,000,000). In the opinion of the Directors of the Company, the fair value change of these equity instruments at fair value through other comprehensive income was insignificant for the current year.

14. DEBT INSTRUMENTS AT AMORTISED COST

In April 2018, the Group purchased debt instruments amounting to RMB101,079,000 which carries coupon rates ranging from 3.50% to 4.75% with the business model to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding semi-annually according to the contract terms. Accordingly, these debt instruments were classified and subsequently measured at amortised cost.

During this year, the Group purchased another debt instrument of similar business model amounting to RMB27,738,000 with coupon rate of 6%, and two of the above mentioned debts amounting to RMB55,798,000 reached maturity during the current year. As at 31 December 2019, the carrying amount of the debt instruments is RMB83,711,000 (31 December 2018: RMB109,394,000) among which RMB55,749,000 (31 December 2018: RMB54,915,000) will mature within one year and the remaining amount of RMB27,962,000 (31 December 2018: RMB54,479,000) will mature after one year.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Current assets		
Fund investments (Note a)	373,638	327,512
Unlisted financial products (Note b)	5,289,170	4,432,070
	<u>5,662,808</u>	<u>4,759,582</u>
Non-current assets		
Debt investments (Note c)	84,568	157,205
Equity investments (Note d)	100,579	77,880
	<u>185,147</u>	<u>235,085</u>

Notes:

(a) Fund investments

In April 2018, the Group entered into several contracts to purchase fund units (the “Fund”) with a financial institution. The entire contracts have been accounted for financial assets at FVTPL on initial recognition. As at 31 December 2019, the fair value of the Fund is United State Dollar (“US\$” or “USD”) 53,559,000 (31 December 2018: USD47,720,000) per the investment statement of the financial institution, equivalent to RMB373,638,000 (31 December 2018: RMB327,512,000). The fair value change in the amount of USD5,839,000, equivalent to RMB40,734,000 (2018: loss of RMB15,330,000) was recognised in profit or loss in the current year.

(b) Unlisted financial products

During the current year, the Group entered into several contracts of unlisted financial products with banks. The unlisted financial products are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for financial assets at FVTPL on initial recognition of which the return of the unlisted financial products was determined by reference to the performance of the underlying government debt instruments and treasury notes and as at 31 December 2019 the expected return rate stated in the contracts ranges from 2.10% to 4.75% (31 December 2018: 1.80% to 5.30%) per annum.

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

(c) Debt investments

In April 2018, the Group entered into several contracts to purchase the debt investments with carrying coupon rates ranging from 4.65% to 7.25% with certain features which could not pass the testing of solely payments of principal and interest on the principal amount outstanding and therefore accounted for financial assets at FVTPL. During the current year, the Group disposed three of the debt investments mentioned above at the proceed of RMB75,719,000 with the disposal loss of RMB856,000 recognised in the profit or loss. The gain on the fair value change of the remaining debt investments amounting to RMB1,674,000 (2018: loss of RMB2,345,000) was recognised in the profit or loss in the current year.

(d) Equity investments

The Group’s equity investments of 餘姚市陽明智行投資中心(有限合夥) (“V Fund”) and another partnership enterprise in total amount of RMB72,500,000 (31 December 2018: RMB56,750,000) were classified as financial assets at FVTPL. During the current year, the Group further invested RMB15,750,000 into V Fund according to the investment agreement signed before. As at 31 December 2019, the fair value of all equity investments amounted to RMB100,579,000 (31 December 2018: RMB77,880,000) with a fair value gain of RMB6,949,000 (2018: RMB21,130,000) recognised in the profit or loss during the current year.

16. 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	
	31/12/2019	31/12/2018	31/12/2019	31/12/2018
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Foreign currency forward contracts	22,462	46,388	–	2,682
Foreign currency options contracts	4,607	397	1,430	741
Total	27,069	46,785	1,430	3,423
Less: current portion				
Foreign currency forward contracts	8,808	38,589	–	–
Foreign currency options contracts	4,607	397	1,430	741
	13,415	38,986	1,430	741
Non-current portion	13,654	7,799	–	2,682

As at 31 December 2019, the Group had entered into the following foreign currency forward contracts and foreign currency options contracts:

Foreign currency forward contracts

The Group entered into several 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 Series W	USD78,750,000	RMB532,371,375	Semi-annually till 18 January 2023	USD:RMB from 6.56 to 6.99

Foreign currency options contracts

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

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

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

Extracts of details of foreign currency options contracts from the respective contracts outstanding as at 31 December 2019 are as follow:

	<u>Notional amount</u> <i>USD'000</i>	<u>Strike/barrier rates</u>	<u>Ending settlement date</u>
Contract Q	30,000	USD:RMB at 1:6.9331	15 June 2020
Contract R	30,000	USD:RMB at 1:6.9330	15 June 2020
Contract S	30,000	USD:RMB at 1:6.9310	15 June 2020

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.

17. INVENTORIES

	<u>31/12/2019</u> <i>RMB'000</i>	<u>31/12/2018</u> <i>RMB'000</i>
Raw materials	796,909	529,233
Work in progress	154,988	276,104
Finished goods	4,194,065	2,268,585
	<u>5,145,962</u>	<u>3,073,922</u>

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Trade receivables	8,470,788	5,186,714
Less: allowance for expected credit losses	(112,485)	(101,586)
	8,358,303	5,085,128
Bill receivables	758,311	710,363
Loan receivables (Note)	116,184	107,731
Other receivables and prepayment		
Value added tax and other tax receivables	72,670	88,061
Advance to suppliers	96,771	83,848
Interest receivables	30,693	38,349
Prepaid expenses	95,261	63,892
Utilities deposits and prepayment	30,714	19,206
Prepaid wages and advances to employees	34,349	14,283
Others	36,428	20,625
	396,886	328,264
Total trade and other receivables and prepayment	9,629,684	6,231,486

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.

Rental deposits paid were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in Note 2.

As at 1 January 2018, trade receivables from contracts with customers amounted to RMB4,449,343,000.

The Group allows a credit period of average 90 days to its trade customers and 90 to 180 days for bill receivables. 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>31/12/2019</u>	<u>31/12/2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	8,146,567	4,967,107
91 to 180 days	208,686	117,752
Over 180 days	3,050	269
	<u>8,358,303</u>	<u>5,085,128</u>

Aging of bill receivables based on the issue date at the end of the reporting period is as follows:

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	713,304	645,037
91 to 180 days	45,007	65,326
	<u>758,311</u>	<u>710,363</u>

As at 31 December 2019, total bills received amounting to RMB758,311,000 (31 December 2018: RMB710,363,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB59,643,000 (31 December 2018: RMB77,019,000) which are past due as at the reporting date. Nil (31 December 2018: RMB40,000) of the past due has been past due 90 days or more.

19. TRADE AND OTHER PAYABLES

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

	<u>31/12/2019</u>	<u>31/12/2018</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities		
Trade payables		
Within 90 days	7,062,167	3,991,794
91 to 180 days	963,569	651,096
Over 180 days	3,509	3,362
Accrued purchases	475,271	428,089
	<u>8,504,516</u>	<u>5,074,341</u>
Note payables		
Within 90 days	1,021,415	948,474
91 to 180 days	100,621	21,468
	<u>1,122,036</u>	<u>969,942</u>
Payables for purchase of property, plant and equipment	278,461	195,588
Staff salaries and welfare payables	807,252	387,020
Labor outsourcing payables	201,405	129,430
Payable for acquisition of patents	42,068	41,134
Value added tax payables and other tax payables	151,177	150,001
Technology grant payables	–	450
Commission payables	33,386	11,262
Interest payable	69,744	70,062
Rental and utilities payable	31,500	8,264
Others	80,041	26,367
	<u>1,695,034</u>	<u>1,019,578</u>
	<u>11,321,586</u>	<u>7,063,861</u>
Non-current liabilities		
Long term payables		
Payable for acquisition of patents	299,209	330,452

The credit period on purchases of goods is up to 180 days (2018: 180 days) and the credit period for note payables is 90 days to 180 days (2018: 90 days to 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

20. BONDS PAYABLE

On 16 January 2018, the Company issued unsecured bonds in the amount of US\$600 million at the rate of 3.75% which will be due by 2023 to professional investors outside of the United States in accordance with Regulation S under the U.S. Securities Act. The issuance has been completed on 23 January 2018 and the listing of the bonds in the Hong Kong Stock Exchange became effective on 24 January 2018.

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

During the current year, interest expense of approximately RMB163,938,000 (2018: RMB147,779,000) was recognised in consolidated statement of profit or loss and other comprehensive income.

21. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount</u> <i>HK\$'000</i>	<u>Equivalent to</u> <i>RMB'000</i>
Authorised:			
Ordinary shares of HK\$0.10 each at 31 December 2018 and 31 December 2019	<u>100,000,000,000</u>	<u>10,000,000</u>	
Issued & fully paid:			
Ordinary shares of HK\$0.10 each at 31 December 2018 and 31 December 2019	<u>1,096,849,700</u>	<u>109,685</u>	<u>105,163</u>

22. EVENT AFTER THE REPORTING PERIOD

Since January 2020, the outbreak of the 2019 Novel Coronavirus (“COVID-19”) in China and the subsequent quarantine measures imposed by the Chinese government have had a negative impact on the operations of the Group, as most of the Group’s operations and customers of the Group are located in China. The Group had had to delay its manufacturing activities due to the mandatory government quarantine measures in an effort to contain the spread of the epidemic and has recovered to the normal operating capacity as of this announcement approval date.

The Directors of the Company have closely monitored the development of the outbreak of COVID-19 and kept regular communications with its customers and suppliers to understand whether there would be any significant impacts on the Group’s ongoing operation, and/or any shortages in supply on the materials required by the Group’s production projects.

Based on the currently available information as of this announcement approval date, the Directors of the Company consider that the COVID-19 event would not have a material financial impact on the Group. However, given the inherent unpredictable nature and rapid development relating to COVID-19 globally, the Group’s business might be affected and the Directors of the Company will continue to closely monitor in this regard.

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 2019 as set out in this Preliminary Announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Looking back at 2019, the global economic growth continued to slow down with intensifying trade tensions. The global trade fell into a weak state. In particular, the Sino-US trade dispute further led to the sluggish momentum of economic growth in the PRC, but the overall economy of the PRC showed a steady trend. For the smartphone industry, competition among different brands remained fierce with the continued market saturation, and overall sales momentum was sluggish. According to the report issued by Canalys, a market analyst firm, the shipment volume of smartphone for 2019 reached approximately 368.6 million units in China mainland market, representing a decrease of approximately 6.8% compared to that of 2018. Nevertheless, by seizing the opportunity of technology upgrade, several domestic top smartphone brand manufacturers continuously increased the number of cameras adopted per smartphone and expanded their application scenarios to improve the consumer experiences in taking pictures, videos and 3D sensing, thereby stimulating consumers' demand for replacement. Besides, 5G technologies become increasingly mature and the promotion of their commercialisation is gradually expanded, which provides more possibilities for the innovation of cameras' specifications.

The global automobile market sales volume in 2019 recorded a slight decrease with a flat overall performance. However, what cannot be ignored is that under the trend of “New Four Modernizations” represented by electrified, intelligent, connected and shared. Further technological development of autonomous driving and Internet of Vehicles will bring profound changes to the driving experience and promote the continuous upgrade of cars. On one hand, various intelligent operating systems are gradually penetrating from high-end car models to mid-end car models. Consumers proactively add various intelligent safety devices to their cars, so as to improve their driving experiences. On the other hand, the governments of various countries have also adopted legislative enforcement measures to improve road traffic safety. At present, driven by factors such as policy, cross-boundary competition of Internet and consumers' demand, the advanced driver assistance systems (“ADAS”) continue to rapidly increase the penetration rate and become one of the fastest-growing sectors in the automotive electronics market. The vehicle cameras, as one category of the important components of vehicle imaging and sensing systems, will maintain a rapid growth in the coming years.

In spite of the complex and changing external environment, with leading technological advantages, diversified customer base, continued adherence to the development strategy of “Thoroughly Refining the Existing Advantageous Businesses” and in-depth advancement of talent team construction, the Group achieved a relatively sound growth in its overall performance and further consolidated the leading position in the industry as an optical expert. As a global leading supplier of handset lens sets and handset camera modules as well as the global largest vehicle lens sets supplier, the Group will continue to enjoy benefit.

During the year of 2019, the Group's major businesses achieved good results. The shipment volume of handset lens sets for the year increased by approximately 41.3% compared to that of last year. As the industry's position continued to enhance, it firmly ranked the second globally in terms of market share for the year. The product mix and customer base have also been further optimised. The shipment volume of vehicle lens sets for the year increased by approximately 25.4% compared to that of last year. It has continued to maintain a better growth momentum than the industry and ranked the first globally with increasing market share. Under the multiple pressure of fierce competition in the industry and global economic and trade instability, the handset camera modules business surmounted the challenges and its shipment volume for the year increased by approximately 27.7% compared to that of last year. This business effectively checked and rectified the manufacturing system and the management processes, and also adjusted the organization structure. Meanwhile, with further getting through sales, research and development ("R&D"), manufacturing, quality control and other aspects, the product yield rate improved and operating costs further declined.

The Group's revenue for the year ended 31 December 2019 increased by approximately 46.0% to approximately RMB37,848.7 million. Profit for the year attributable to owners of the Company increased by approximately 60.2% to approximately RMB3,991.3 million. Besides, the basic earnings per share increased by approximately 60.1% to approximately RMB364.81 cents. The Board has proposed a final dividend of approximately RMB0.728 (equivalent to HK\$0.810) (2018: approximately RMB0.568) per share.

The Group's net current assets as at 31 December 2019 increased by approximately 21.3% to approximately RMB9,815.6 million. The Group's total assets as at 31 December 2019 increased by approximately 34.3% to approximately RMB30,693.1 million.

OUTLOOK AND FUTURE STRATEGIES

Looking into 2020, there are many uncertainties in the global economic situation and the COVID-19 spreads around the world rapidly. In the view of the Directors, 2020 is still a year with both challenges and opportunities. The Group's management will closely monitor the development in the industries, capture the opportunities from the technological innovation, continue to make good use of the advantages of scale, technology, resources and talents by virtue of its business transformation and upgrade as well as thoroughly implement its development strategies, so as to obtain sustainable and steady development by the Group.

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

In 2020, the Group will continue to:

- Improve the R&D capabilities and make breakthroughs in key technologies, optimize the construction of the R&D system and enlarge the technical value added to the products;

- Strengthen the manufacturing capabilities, continuously optimise the manufacturing management procedures and organization structure, persistently innovate the technological skills, accelerate to propel the automatic production and inspection, improve the production efficiency and quality and elevate the value added to the production; and
- Enhance the capability of cost control, persistently optimise suppliers and supply channels, standardize the management procedures, improve the management systems, increase the management efficiency and accuracy and reduce the operating costs.

2. Closely concentrate on the “Two Transformations”, increase investments in new businesses and cultivate new growth points for businesses

In 2020, the Group will closely focus on the transformation from an optical product manufacturer to a smart optical system solution provider and the transformation from an instrument product manufacturer to a system solution integrator. Meanwhile, the Group will continue to look into the market trend, explore a deep insight on the clients’ demands, increase the R&D investments and promote the upgrade of existing products to quickly meet the market demand. The Group will also form the advantages in the segment markets to enhance the market competitiveness. Besides, the Group will also continue to make an exploration into the new technologies and fields, follow the new trend and open up the new markets as well as other fields such as the robotic vision system, augmented reality (“AR”) optical display, spatial localization and multi-sensor fusion. At the same time, Sunny Optical (Zhejiang) Research Institute Co., Ltd. will also continue to pursue close communication and in-depth cooperation with external enterprises and institutes and complement each other’s advantages to enable the R&D achievements quickly transforming to the reliable products in the market.

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

The Group will continue to make in-depth analysis on the employment demand and refine recruitment program to build a more stable and quality supply channel of talents. Meanwhile, the Group will further optimise the talent cultivation system, perfect the employment qualification and training system, and set up a more sound and reasonable developing path for talents. Moreover, the Group will implement the “Rules of Cadre Management” (《幹部管理辦法》), improve the cultivation system for cadre and build a cadre team with excellent management ability with strong enterprise value. The Group will promote the in-depth learning and discussion of the “Practice and Exploration” (《實踐與探索》) to deepen the understanding and knowledge by all staff on the enterprise culture. The Group will enhance the construction of talent teams and enterprise culture to support the sustainable and rapid development.

In the coming years, the Group will continue to benefit from the broad development prospects of the optical and optoelectronic industry. By actively utilizing the Group’s leading advantages in the industry as an optical expert, following the market demand, focusing on R&D and innovation, pursuing product quality and adhering to enhancing its comprehensive competitive strengths, the Group will continue to provide the global top-tier Hi-Tech companies with more superior products and services, thereby promoting corporate growth and value enhancement to create more returns for the shareholders continuously.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the Group's revenue was approximately RMB37,848.7 million, representing an increase of approximately 46.0% or approximately RMB11,916.9 million compared to that of last year. The increase in revenue was mainly benefited from the Group's further development in smartphone related businesses and rapid growth in the vehicle imaging and sensing fields.

Revenue generated from the Optical Components business segment increased by approximately 46.4% or approximately RMB2,792.6 million to approximately RMB8,815.4 million compared to that of last year. The increase in revenue was mainly attributable to the sound development of handset lens sets and vehicle lens sets businesses.

Revenue generated from the Optoelectronic Products business segment increased by approximately 46.6% or approximately RMB9,139.3 million to approximately RMB28,748.4 million compared to that of last year. The increase in revenue was mainly attributable to the growth in the shipment volume and average selling price of handset camera modules.

Revenue generated from the Optical Instruments business segment decreased by approximately 5.0% or approximately RMB15.0 million to approximately RMB284.9 million compared to that of last year. The decrease in revenue was mainly attributable to the weak market demand for optical instruments.

Gross Profit and Margin

The gross profit of the Group for the year ended 31 December 2019 was approximately RMB7,750.7 million, which was approximately 57.8% higher compared to that of last year. The gross profit margin was approximately 20.5% (2018: approximately 18.9%), which was approximately 1.6 percentage points higher compared to that of last year. The increase in gross profit margin was mainly attributable to the increase in gross profit margins of the Optical Components and Optoelectronic Products business segments compared to that of last year.

The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 45.2%, 9.3% and 41.3%, respectively (2018: approximately 41.5%, 8.4% and 40.5%, respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the year ended 31 December 2019 increased by approximately RMB68.7 million compared to that of last year to approximately RMB278.6 million. It accounted for approximately 0.7% of the Group's revenue during the current year, compared to approximately 0.8% for last year. The increase in absolute amount was primarily attributable to the increase in the costs of selling, marketing and distribution personnel resulted from the increased sales activities.

R&D Expenditure

The R&D expenditure of the Group for the year ended 31 December 2019 increased by approximately RMB847.0 million compared to that of last year to approximately RMB2,209.3 million. It accounted for approximately 5.9% of the Group's revenue during the current year, compared to approximately 5.3% for last year. The increase in overall R&D expenditure was attributable to the Group's continuous investments in the upgrade of existing products and the R&D of the products related to the emerging businesses.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2019 increased by approximately RMB216.5 million compared to that of last year to approximately RMB650.4 million. It accounted for approximately 1.7% of the Group's revenue during the current year, which was the same compared to that of last year. The increase in absolute amount was mainly attributable to the increase in the headcount and remuneration of administrative staff, the grant of restricted shares and the increase in relevant fringe benefits.

Income Tax Expense

The income tax expense of the Group for the year ended 31 December 2019 increased by approximately RMB192.4 million compared to that of last year to approximately RMB531.0 million. The increase in income tax expense was mainly attributable to the increase in profit before tax. The Group's effective tax rate was approximately 11.7% during the current year, compared to approximately 11.9% for last year.

The tax rates applicable to the Group’s subsidiaries in the PRC are shown as follows:

Name of subsidiaries	Type of subsidiaries	2018	2019	2020 (Expected)	2021 (Expected)
**Zhejiang Sunny Optics Co., Ltd. (“Sunny Zhejiang Optics”)	Limited liability company (Taiwan, Hong Kong or Macau joint venture)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Instruments Co., Ltd. (“Sunny Instruments”)	Limited liability company (Taiwan, Hong Kong or Macau joint venture)	15.0%	15.0%	15.0%	15.0%
**Sunny Optics (Zhongshan) Co., Ltd. (“Sunny Zhongshan Optics”)	Limited liability company (Taiwan, Hong Kong or Macau and domestic joint venture)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Opotech Co., Ltd. (“Sunny Opotech”)	Limited liability company (Taiwan, Hong Kong or Macau and domestic joint venture)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Infrared Technologies Co., Ltd. (“Sunny Infrared Optics”)	Limited liability company (investment by foreign investment company)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Automotive Optech Co., Ltd. (“Sunny Automotive Optech”)	Limited liability company (legal person sole investment by foreign investment company)	15.0%	15.0%	15.0%	15.0%
**Xinyang Sunny Optics Co., Ltd. (“Sunny Xinyang Optics”)	Limited liability company (investment by foreign investment company)	15.0%	15.0%	15.0%	15.0%
**Yuyao Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence (Yuyao)”)	Limited liability company (legal person sole investment)	25.0%	15.0%	15.0%	15.0%
Shanghai Sunny Yangming Precision Optics Co., Ltd. (“Sunny Shanghai Optics”)	Limited liability company (legal person sole investment by foreign investment company)	25.0%	25.0%	25.0%	25.0%
Ningbo Sunny Intelligent Technology Co., Ltd. (“Sunny Intelligent Technology”)	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
Sunny Group Company Limited (“Sunny Group”)	Limited liability company (legal person sole investment by foreign investment company)	25.0%	25.0%	25.0%	25.0%
Zhejiang Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence”)	Limited liability company	0%	12.5%	12.5%	12.5%

Name of subsidiaries	Type of subsidiaries	2018	2019	2020 (Expected)	2021 (Expected)
Sunny Optical (Zhejiang) Research Institute Co., Ltd. ("Sunny Research Institute")	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
[!] Ningbo Mei Shan Bao Shui Gang Qu Sunxin Investment Partnership (Limited Partnership) ("Ningbo Sunxin Investment")	Limited partnership company	N/A	N/A	N/A	N/A
Ningbo Mei Shan Bao Shui Gang Qu Sunyi Investment Co., Ltd. ("Ningbo Sunyi Investment")	Limited liability company	25.0%	25.0%	25.0%	25.0%
Yuyao City Sunny Huitong Microcredit Co., Ltd. ("Sunny Huitong")	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
[#] Ningbo Sunny OmniLight Technology Co., Ltd. ("Sunny OmniLight Technology")	Limited liability company (legal person sole investment)	N/A	25.0%	25.0%	25.0%
[@] Sunny Mobility Technologies (Ningbo) Co., Ltd. ("Sunny Mobility")	Limited liability company (legal person sole investment)	N/A	25.0%	25.0%	25.0%
[#] Ningbo Wissen Intelligent Sensing Technology Co., Ltd. ("Wissen Intelligent Sensing")	Limited liability company (legal person sole investment)	N/A	25.0%	25.0%	25.0%
[#] Shanghai Wissen Automotive Sensing Technology Co., Ltd. ("Shanghai Wissen")	Limited liability company (legal person sole investment)	N/A	25.0%	25.0%	25.0%

* Companies were recognised as Hi-Tech Enterprises prior to the balance sheet date.

+ The companies have obtained the Hi-Tech Enterprise Certification with the expiry dates on 31 December 2019, 31 December 2020 or 31 December 2021.

– The company was recognised as a Software Company prior to the balance sheet date, and entitled preferential policies of exemption from enterprise income tax for the first two years and reduction half for the subsequent three years.

! The partners of the company shall be responsible for the income tax because it is a limited partnership company.

Companies were established or acquired during the current year.

@ The company's registered name has been changed from Wuxi Wissen Intelligent Sensing Technology Co., Ltd. to Sunny Mobility Technologies (Ningbo) Co., Ltd. during the current year.

Profit for the Year and Net Profit Margin

The profit for the year of the Group for the year ended 31 December 2019 increased by approximately RMB1,506.7 million compared to that of last year to approximately RMB4,019.4 million. The increase in profit for the year was mainly attributable to the increase in gross profit. The net profit margin was approximately 10.6% (2018: approximately 9.7%).

Profit for the Year Attributable to Owners of the Company

The profit for the year attributable to owners of the Company for the year ended 31 December 2019 increased by approximately RMB1,500.4 million compared to that of last year to approximately RMB3,991.3 million.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2019 and 31 December 2018:

	For the year ended 31 December	
	2019	2018
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	4,661.6	3,567.9
Net cash used in investing activities	(3,555.8)	(5,499.3)
Net cash (used in) from financing activities	(1,441.4)	2,956.8

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 from operating activities, bank borrowings and debt financing to meet the demand of working capital and other capital expenditure requirements in the short run. 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 2019.

The Group's balance of cash and cash equivalents was approximately RMB1,917.2 million as at 31 December 2019, representing an decrease of approximately RMB337.1 million compared to the balance as at the end of last year.

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 due to the purchases of raw materials, staff costs, selling and distribution expenses, R&D expenditure and administrative expenses. Net cash generated from operating activities was approximately RMB4,661.6 million for the financial year of 2019 and net cash generated from operating activities was approximately RMB3,567.9 million for the financial year of 2018. The increase in the net cash generated from operating activities was mainly attributable to the increase in profit before tax and the increase in trade and other payables, which was partly offset by the increase in inventories and increase in trade and other receivables and prepayment compared to those of last year.

The trade receivable turnover days (average of the opening and closing trade receivable balances/revenue \times 365 days) decreased from approximately 67 days for the financial year of 2018 to approximately 65 days for the financial year of 2019. There was no significant difference in the number of trade receivable turnover days in these two financial years.

The trade payable turnover days (average of the opening and closing trade payable balances/cost of sales \times 365 days) decreased from approximately 83 days for the financial year of 2018 to approximately 82 days for the financial year of 2019. There was no significant difference in the number of trade payable turnover days in these two financial years.

The inventory turnover days (average of the opening and closing inventory balances/cost of sales \times 365 days) increased from approximately 49 days for the financial year of 2018 to approximately 50 days for the financial year of 2019. There was no significant difference in the number of inventory turnover days in these two financial years.

Investing Activities

The Group recorded a net cash used in investing activities of approximately RMB3,555.8 million for the financial year of 2019, which was mainly attributable to purchases and release of unlisted financial products of approximately RMB51,248.9 million and approximately RMB50,391.8 million during the year respectively, and the Group's capital expenditure amounting to approximately RMB3,167.9 million during the year.

Financing Activities

The Group recorded a net cash used in financing activities of approximately RMB1,441.4 million for the financial year of 2019. The cash inflow mainly came from proceeds from new bank borrowings raised of approximately RMB3,071.5 million. Major outflows were the repayment of bank borrowings of approximately RMB3,453.3 million and dividends paid to shareholders of approximately RMB623.0 million declared last year.

Capital Expenditure

For the year ended 31 December 2019, the Group's capital expenditure amounted to approximately RMB3,167.9 million, which was mainly used for the purchases of property, plant and equipment, payments for leasehold lands, payment for intangible assets and purchase of other tangible assets. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 31 December 2019 amounted to approximately RMB1,118.6 million (2018: approximately RMB1,482.4 million). No bank borrowings were secured by certain buildings and land of the Group as at 31 December 2019 and 2018.

Bank facilities

As at 31 December 2019, the Group had bank facilities of RMB2,615.0 million with Yuyao Branch of Agricultural Bank of China Limited, RMB893.0 million with Yuyao Branch of Bank of China Limited, RMB1,300.0 million with Ningbo Branch of The Export-Import Bank of China, RMB600.0 million with Yuyao Branch of Ningbo Bank Co., Ltd., RMB200.0 million with Yuyao Branch of Bank of Communication Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd., RMB70.0 million with Xinyang Pingzhong Street Branch of Industrial and Commercial Bank of China Limited, USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas Shanghai Branch, USD60.0 million with The Hongkong and Shanghai Banking Corporation Limited Hong Kong Branch and USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd..

Debt securities

As at 31 December 2019, the Group had approximately RMB4,156.1 million of debt securities (2018: approximately RMB4,080.0 million).

The Group's gearing ratio of approximately 17.2% refers to the ratio of total borrowings to total capital (total capital is the sum of total liabilities and shareholders' equity), reflecting the Group's stable financial position.

Contingent liabilities

As at 31 December 2019, the Group did not have any material contingent liabilities or guarantees.

Financing and fiscal policies and objectives

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

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as at 31 December 2019, except for the pledged bank deposits of approximately RMB6.1 million.

COMMITMENTS

As at 31 December 2019, 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 RMB953.2 million (2018: approximately RMB880.9 million).

As at 31 December 2019, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2019, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS AND FUTURE INVESTMENTS PLAN

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

During the year of 2019, such unlisted financial products mainly involved the unlisted financial products of Agriculture Bank of China Limited and Bank of Ningbo Co., Ltd..

During the year of 2019, the subscriptions by Sunny Opotech of "An Xin Kuai Xian Bubugao" Open-ended RMB wealth management product for legal entity ("安心快線步步高" 法人專屬開放式人民幣理財產品) with Agriculture Bank of China Limited reached RMB1,330.0 million between 27 December 2019 and 30 December 2019 and its peak at RMB1,364.0 million on 31 December 2019, rendering one or more of the applicable percentage ratios (as defined under the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**")) exceeded 5% but was/were less than 25%. Such subscriptions therefore constituted discloseable transactions of the Company under Rule 14.06 of the Listing Rules.

During the year of 2019, the subscriptions of the unlisted financial product "Jin Yao Shi • An Xin Kuai Xian" Tian Tian Li Gun Li Second Phase Open-ended RMB wealth management product ("金鑰匙•安心快線" 天天利滾利第2期開放式人民幣理財產品) by the Company through its subsidiaries with Agriculture Bank of China Limited reached its peak at approximately RMB2,978.1 million and did not exceed the subscription cap of RMB3,000.0 million, which was determined and approved by the resolutions of the Board on 19 March 2019.

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 31 December 2019:

Name of banks	Name of products	Amount/ Fair value RMB'000
Agriculture Bank of China Limited	“An Xin Kuai Xian Bubugao” Open-ended RMB wealth management product for legal entity (“安心快線步步高” 法人專屬開放式人民幣理財產品)	1,364,000
Agriculture Bank of China Limited	“Jin Yao Shi • An Xin Kuai Xian” Tian Tian Li Gun Li Second Phase Open-ended RMB wealth management product (“金鑰匙•安心快線” 天天利滾利第2期開放式人民幣理財產品)	1,080,010
Industrial Bank Co., Ltd.	“Tian Li Kuai Xian” NAV type wealth management product (添利快線淨值型理財產品)	900,000
Bank of Ningbo Co., Ltd.	Close-ended private NAV type 2019 No.140 (2019封閉式私募淨值型140號)	420,000
Others (Note)		<u>1,525,160</u>
	Total	<u><u>5,289,170</u></u>

Note: Involved 12 other unlisted financial products with four different banks to lower the concentration risk.

In the opinion of the Directors of the Company, the fair value change of the unlisted financial products was insignificant during the year of 2019.

The size of the unlisted financial products subscribed by the Group in aggregate as at 31 December 2019 represented approximately 17.2% of the Group's total assets as at 31 December 2019 (31 December 2018: approximately 19.4%). The investment costs for the unlisted financial products subscribed as at 31 December 2019 was approximately RMB5,289.2 million (31 December 2018: approximately RMB4,432.1 million). During the year of 2019, the amount of investment income from the unlisted financial products was approximately RMB189.8 million (2018: approximately RMB181.3 million).

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

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

For the year ended 31 December 2019, the Group's investments amounted to approximately RMB3,167.9 million, mainly involving in the purchases of property, plant and equipment, the initial production settings for new products, payments for leasehold lands and the necessary equipment configurations for new projects. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

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

Looking forward, the Group intends to further invest to enhance its competitiveness.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks arising from its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. The rising of interest rates increases the costs of both existing and new debts. As at 31 December 2019, the effective interest rate on fixed-rate bank borrowings was approximately 2.77% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 3.26% to 3.29% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in USD or other foreign currencies. Please refer to the information of the Group's foreign currency forward contracts and foreign currency options contracts at Note 16 of this announcement. Except certain investments which are in line with the Group's business and which are denominated in foreign currencies, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

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

In order to minimise the credit risk in relation to trade receivables, the management has delegated a team which is responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. The Group also has purchased insurance relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. The amounts presented in the consolidated statement of financial position are net of allowance for bad and doubtful debts, estimated by the management based on prior experience, 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 to a large number of counterparties and customers. The credit risk on liquidity is limited because a majority of the counterparties are banks with high credit-ratings as rated by international credit-rating agencies.

Cash Flow Interest Rate Risk

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

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 20,180 dedicated full-time employees as at 31 December 2019, including 11,017 management and administrative staff members, 8,405 production workers and 758 operation supporting staff members. In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain talents, including salaries, medical insurance, discretionary bonuses, other fringe benefits as well as mandatory provident fund scheme for employees in Hong Kong and state-managed retirement benefit scheme for employees in the PRC.

The Group has also adopted the Restricted Share Award Scheme (“**Restricted Share Award Scheme**”), for the purposes of providing incentives and rewards to eligible participants to recognise their contribution to the Group and to enhance their ownership spirits. During the year ended 31 December 2019, an aggregate of 2,390,089 shares were granted to eligible participants in accordance with the terms of the Restricted Share Award Scheme by the Group.

On 16 March 2020, the Board resolved to extend the Restricted Share Award Scheme period for ten years. As a result, the Restricted Share Awards Scheme, which shall originally terminate on 21 March 2020, shall now, unless terminated earlier by a resolution of the Board, terminate on 21 March 2030.

FINAL DIVIDENDS

For the year ended 31 December 2019, the dividends proposed by the Board was approximately RMB0.728 (equivalent to HK\$0.810) per share, with payout ratio of approximately 20.0% of the profit attributable to owners of the Company for the year. The final dividends payable on 24 June 2020 is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (the “**AGM**”) to be held on 22 May 2020.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the eligibility of shareholders to attend the AGM, which is to be held on 22 May 2020, the register of members of the Company will be closed from 19 May 2020 to 22 May 2020, both days inclusive, during which no transfer of shares will be registered. All transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 18 May 2020.

In order to determine the eligibility of shareholders to the dividends, the register of members of the Company will be closed from 29 May 2020 to 3 June 2020, 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 28 May 2020.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Cayman Islands Companies Law and the Company's Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable regulations imposed from time to time by the Hong Kong Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustees of the Restricted Share Award Scheme, of the Company's listed shares during the year ended 31 December 2019.

CORPORATE GOVERNANCE

Corporate Governance Practices

For the year ended 31 December 2019, the Company complied with all of the code provisions of and adopted most of the recommended best practices of the Corporate Governance Code (applicable to financial reports for the periods subsequent to 1 April 2012) contained in Appendix 14 to the Listing Rules.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, and after having made specific enquiry with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the year ended 31 December 2019.

REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee with written terms of reference. The Group's audited annual results for the year ended 31 December 2019 were reviewed by all the members of the Audit Committee of the Board, namely Mr. Zhang Yuqing (Chairman of the Audit Committee), Mr. Feng Hua Jun and Mr. Shao Yang Dong (all are independent non-executive Directors).

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Company is committed to creating two-way channels of communication between senior management and investors, maintaining close relationships with all its shareholders through a variety of channels and promoting the communication with investors. The Company has adopted a shareholders' communication policy to formalise and facilitate an effective and healthy communication between the Company and the shareholders and other stakeholders, which is available on the website of the Group (<http://www.sunnyoptical.com>).

Investor Contact and Inquiries

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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The final results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited (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 2019 will be despatched to shareholders of the Company and will be published on the above websites in due course.

EVENTS AFTER THE REPORTING PERIOD

Since the outbreak of the COVID-19 pneumonia epidemic (the “**Epidemic**”) in the PRC in January 2020, various emergency public health measures and actions have been imposed by the Chinese government across multiple provinces and municipalities in the PRC to curb the spread of the Epidemic, including extending the Chinese Lunar New Year holiday. As at the date of this announcement, the Group’s four production bases are located in Yuyao of Zhejiang Province, Shanghai, Zhongshan of Guangdong Province and Xinyang of Henan Province, respectively. The Group has not established production bases in regions seriously affected by the Epidemic, such as Hubei Province.

On 23 January 2020, the Group activated the first-level emergency plan, which was executed under the leadership of the Chairman Mr. Ye Liaoning and the Chief Executive Officer Mr. Sun Yang, formulated the “Working Plan of Emergency Response Organizations and Management Groups for Epidemic Prevention”, and established 11 teams covering overall coordination, temperature measurement, sterilization, quarantine, canteen, dormitory, procurement, human resources, finance, monitoring and outreach publicity in order to make deliberate arrangement and deployment for the Epidemic prevention and strictly implement various prevention and control measures in various departments of the Group. The Group has specially appointed two famous medical doctors as its health consultants to provide professional medical guidance on the Epidemic prevention to effectively protect the health of staff and production safety. The Group adopted the “Three Colors Classified Management Method and Grid Management Method for the Staff (員工三色化分類管控和全員網格化管理)” to ensure the resumption of production in an orderly manner.

As at the date of this announcement, the capacity utilization of the Group has resumed normal. However, given the inherent unpredictable nature and rapid spread relating to COVID-19 globally, the Group’s business might be affected and the Directors of the Company will continue to closely monitor in this regard. Looking ahead, the Group will further improve the emergency response plan and conduct practical trainings to enhance the risk management and improve the internal control systems.

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 contribution. It is the unremitting efforts of each member that enable the Group to make great achievements. Also, 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 meet its business objectives for the year of 2020 and 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

China, 16 March 2020

As at the date of this announcement, the Board comprises Mr. Ye Liaoning, Mr. Sun Yang and Mr. Wang Wenjie, who are executive Directors; Mr. Wang Wenjian, who is non-executive Director, and Mr. Zhang Yuqing, Mr. Feng Hua Jun and Mr. Shao Yang Dong, who are independent non-executive Directors.