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 2017

RESULT HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2017 was approximately RMB22,366.3 million, representing an increase of approximately 53.1% as compared with the corresponding period of last year. The increase in revenue mainly benefited from the Group's rapid development in the smartphone related businesses and vehicle image field.

- The gross profit for the year ended 31 December 2017 was approximately RMB4,802.8 million, representing an increase of approximately 79.2% as compared with the corresponding period of last year. The gross profit margin was approximately 21.5%.

- Profit for the year attributable to owners of the Company for the year ended 31 December 2017 increased by approximately 128.3% to approximately RMB2,901.6 million as compared with the corresponding period of last year.

- Basic earnings per share for the year ended 31 December 2017 increased by approximately 126.8% to approximately RMB266.76 cents when compared with the corresponding period of last year.

- The Board of Directors has proposed a final dividend of approximately RMB0.661 (equivalent to HK$0.812) per share for the year ended 31 December 2017.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") 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 2017, together with the comparative figures for the corresponding period in the year 2016 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
Revenue	3	**22,366,252**	14,611,778
Cost of sales		**(17,563,489)**	(11,931,643)
Gross profit		**4,802,763**	2,680,135
Other income	4(a)	**206,387**	118,863
Other gains and losses	4(b)	**136,197**	(144,517)
Selling and distribution expenses		**(205,052)**	(153,893)
Research and development expenditure		**(1,168,157)**	(694,397)
Administrative expenses		**(388,922)**	(331,236)
Share of results of associates		**(16,096)**	(12,339)
Finance costs	5	**(48,801)**	(16,181)
Profit before tax		**3,318,319**	1,446,435
Income tax expense	6	**(404,205)**	(174,834)
Profit for the year	7	**2,914,114**	1,271,601
Other comprehensive income			
Item that may be classified subsequent to profit or loss:			
Exchange differences arising on translation from foreign operations		**(2,199)**	5,754
Total comprehensive income for the year		**2,911,915**	1,277,355
Profit for the year attributable to:			
Owners of the Company		**2,901,554**	1,270,753
Non-controlling interests		**12,560**	848
		2,914,114	1,271,601
Total comprehensive income attributed to:			
Owners of the Company		**2,899,926**	1,274,801
Non-controlling interests		**11,989**	2,554
		2,911,915	1,277,355
Earnings per share – Basic (RMB cents)	9	**266.76**	117.60
– Diluted (RMB cents)	9	**265.61**	116.68

Consolidated Statement of Financial Position
At 31 December 2017

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,585,922**	1,793,510
Prepaid lease payments		**162,928**	164,025
Investment properties		**54,080**	14,997
Intangible assets		**392,424**	1
Interests in associates		**124,595**	99,781
Deferred tax assets		**40,435**	27,884
Deposits paid for acquisition of property, plant and equipment		**594,992**	152,384
Available-for-sale investments		**129,373**	62,267
Deposits paid for acquisition of land use rights		**3,823**	3,823
Derivative financial assets	12(a)	**2,283**	–
		4,090,855	2,318,672
CURRENT ASSETS			
Inventories		**2,621,844**	2,828,362
Trade and other receivables and prepayment	11	**5,665,689**	3,715,939
Prepaid lease payments		**4,515**	4,452
Derivative financial assets	12(a)	**1,092**	13,795
Financial assets designated as at fair value through profit or loss	12(b)	**1,952,340**	2,027,497
Amounts due from related parties		**2,810**	682
Pledged bank deposits		**140,288**	100,967
Short term fixed deposits		**20,000**	159,245
Bank balances and cash		**1,226,877**	466,928
		11,635,455	9,317,867
CURRENT LIABILITIES			
Trade and other payables	13	**6,182,802**	5,572,542
Amounts due to related parties		**4,087**	5,205
Derivative financial liabilities	12(a)	**30,438**	93,251
Tax payable		**101,494**	53,009
Bank borrowings		**1,347,881**	904,348
Deferred income – current portion		**38,788**	29,973
		7,705,490	6,658,328
NET CURRENT ASSETS		**3,929,965**	2,659,539
TOTAL ASSETS LESS CURRENT LIABILITIES		**8,020,820**	4,978,211

	NOTES	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**106,895**	33,864
Derivative financial liabilities	*12(a)*	**2,597**	–
Long term payables	*13*	**347,294**	2,817
Deferred income – non-current portion		**44,825**	28,188
		501,611	64,869
NET ASSETS		**7,519,209**	4,913,342
CAPITAL AND RESERVES			
Share capital	*14*	**105,177**	105,177
Reserves		**7,383,342**	4,790,078
Equity attributable to owners of the Company		**7,488,519**	4,895,255
Non-controlling interests		**30,690**	18,087
TOTAL EQUITY		**7,519,209**	4,913,342

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 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 Company and its subsidiaries (collectively the "Group") is principally engaged in the business of designing, researching and developing, manufacturing and selling of optical and optical related products and scientific instruments.

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

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

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12	*As part of the Annual Improvement to HKFRSs 2014 – 2016 Cycle*

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items will be provided in the consolidated financial statements for the year ended 31 December 2017. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in the consolidated financial statements for the year ended 31 December 2017, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	*Financial Instruments*[1]
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*[1]
HKFRS 16	*Leases*[2]
HKFRS 17	*Insurance Contracts*[4]
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[2]
Amendments to HKFRS 2	*Clarification and Measurement of Share-based Payment Transactions*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[2]
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*[1]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*[2]

1 Effective for annual periods beginning on or after 1 January 2018.
2 Effective for annual periods beginning on or after 1 January 2019.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2021.

Except as described below, the Directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact to the Group's consolidated financial statements in the foreseeable future.

HKFRS 9 *Financial Instruments*

HKFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

Equity investments classified as available-for-sale investments carried at cost less impairment: these equity investments qualified for designation as measured at FVTOCI under HKFRS 9 and the Group will measure these equity investments at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments revaluation reserve. Upon initial application of HKFRS 9, the fair value gains or losses relating to these securities would be adjusted to investments revaluation reserve at 1 January 2018.

Impairment

In general, the Directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provision upon application of HKFRS 9 by the Group.

Based on the assessment of the Directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be slightly increased as compared to the accumulated amount recognised under IAS 39 mainly attributable to expected credit loss provision on trade and other receivables, pledged bank deposits, time deposits and bank balances and cash. Such further impairment recognised under expected credit loss model would reduce the opening retained profits and increase the deferred tax assets as at 1 January 2018.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the Directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 *Leases*

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset in initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of RMB143,736,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid as rights and obligations under leases to which IAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurements, presentation and disclosure as indicated above.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold to customers, less returns and discount, if any, during the year.

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 2017

	Optical Components *RMB'000*	Optoelectronic Products *RMB'000*	Optical Instruments *RMB'000*	Segments' total *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
External sales	4,301,727	17,771,025	293,500	22,366,252	–	22,366,252
Inter-segment sales	979,312	9,774	32,861	1,021,947	(1,021,947)	–
Total	5,281,039	17,780,799	326,361	23,388,199	(1,021,947)	22,366,252
Segment profit	1,715,791	1,669,543	2,149	3,387,483	–	3,387,483
Share of results of associates						(16,096)
Unallocated income						49,796
Unallocated expenses						(102,864)
Profit before tax						3,318,319

For the year ended 31 December 2016

	Optical Components *RMB'000*	Optoelectronic Products *RMB'000*	Optical Instruments *RMB'000*	Segments' total *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE						
External sales	2,955,566	11,403,194	253,018	14,611,778	–	14,611,778
Inter-segment sales	511,380	8,384	1,834	521,598	(521,598)	–
Total	3,466,946	11,411,578	254,852	15,133,376	(521,598)	14,611,778
Segment profit	988,054	532,196	9,406	1,529,656	–	1,529,656
Share of results of associates						(12,339)
Unallocated income						4,560
Unallocated expenses						(75,442)
Profit before tax						1,446,435

Segment assets and liabilities

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 reportable segments:

As at 31 December 2017

	Optical Components *RMB'000*	**Optoelectronic Products** *RMB'000*	**Optical Instruments** *RMB'000*	**Total** *RMB'000*
Assets				
Trade receivables	**1,012,143**	**3,390,929**	**46,271**	**4,449,343**
Bill receivables	**334,425**	**458,056**	**4,464**	**796,945**
Inventories	**547,878**	**2,027,368**	**46,598**	**2,621,844**
Total segment assets	**1,894,446**	**5,876,353**	**97,333**	**7,868,132**
Unallocated assets				**7,858,178**
Consolidated assets				**15,726,310**
Liabilities				
Trade payables	**923,677**	**3,550,176**	**65,946**	**4,539,799**
Note payables	**162,589**	**485,438**	**500**	**648,527**
Total segment liabilities	**1,086,266**	**4,035,614**	**66,446**	**5,188,326**
Unallocated liabilities				**3,018,775**
Consolidated liabilities				**8,207,101**

As at 31 December 2016

	Optical Components *RMB'000*	Optoelectronic Products *RMB'000*	Optical Instruments *RMB'000*	Total *RMB'000*
Assets				
Trade receivables	748,312	2,090,014	37,829	2,876,155
Bill receivables	115,530	400,230	3,031	518,791
Inventories	379,810	2,416,490	32,062	2,828,362
Total segment assets	1,243,652	4,906,734	72,922	6,223,308
Unallocated assets				5,413,231
Consolidated assets				11,636,539
Liabilities				
Trade payables	640,756	3,906,032	47,370	4,594,158
Note payables	18,762	414,887	–	433,649
Total segment liabilities	659,518	4,320,919	47,370	5,027,807
Unallocated liabilities				1,695,390
Consolidated liabilities				6,723,197

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

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

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

Other segment information

For the year ended 31 December 2017

	Optical Components *RMB'000*	**Optoelectronic Products** *RMB'000*	**Optical Instruments** *RMB'000*	**Unallocated** *RMB'000*	**Consolidated total** *RMB'000*
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	**254,229**	**264,528**	**8,837**	**7,234**	**534,828**
(Reversal of) allowance for bad and doubtful debts on trade receivables	**(444)**	**(44,191)**	**1,734**	**–**	**(42,901)**
(Gain) loss on disposal of property, plant and equipment	**(2,382)**	**2,458**	**554**	**9**	**639**
Share award scheme expense	**42,941**	**28,741**	**9,815**	**7,661**	**89,158**
Interest income from bank and financial instruments	**(4,840)**	**(68,149)**	**(434)**	**(1,513)**	**(74,936)**
(Reversal of) allowance for inventories	**(776)**	**29,536**	**259**	**–**	**29,019**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	**638,595**	**671,977**	**16,701**	**9,410**	**1,336,683**

For the year ended 31 December 2016

	Optical Components *RMB'000*	Optoelectronic Products *RMB'000*	Optical Instruments *RMB'000*	Unallocated *RMB'000*	Consolidated total *RMB'000*
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	164,160	140,204	6,357	5,989	316,710
Allowance for bad and doubtful debts on trade receivables	2,574	134,758	89	–	137,421
(Gain) loss on disposal of property, plant and equipment	(2,102)	2,345	(166)	3	80
Share award scheme expense	37,430	25,907	9,050	6,823	79,210
Interest income from bank and financial instruments	(8,334)	(36,198)	(685)	(519)	(45,736)
(Reversal of) allowance for inventories	(9)	5,965	421	–	6,377
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	355,648	619,554	3,444	–	978,646

Revenue from major products

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

	2017	2016
	RMB'000	*RMB'000*
Mobile phone related products	**19,085,564**	12,104,867
Digital camera related products	**800,660**	667,317
Optical instruments	**220,038**	200,994
Other lens sets	**1,386,944**	980,921
Digital video lens	**66,699**	122,112
Other spherical lens and plane products	**111,323**	65,448
Industrial endoscopes	**11,941**	17,074
Other products	**683,083**	453,045
	22,366,252	14,611,778

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2017	2016	2017	2016
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The PRC (excluding Hong Kong) (country of domicile)	**18,922,274**	12,001,812	**3,792,558**	2,127,854
Hong Kong	**554,431**	432,532	**–**	–
Korea	**856,048**	462,344	**1,098**	94
Japan	**563,618**	542,250	**90**	93
United States	**613,608**	629,728	**36**	77
Others	**856,273**	543,112	**387**	622
	22,366,252	14,611,778	**3,794,169**	2,128,740

Note: Non-current assets excluded interests in associates, deferred tax assets, available-for-sale investments and derivative financial assets.

Information about major customers

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

	2017	2016
	RMB'000	*RMB'000*
Customer A, revenue from Optoelectronic Products	**4,819,140**	3,358,361
Customer B, revenue from Optoelectronic Products	**4,113,135**	3,208,896
Customer C, revenue from Optoelectronic Products	**3,808,411**	N/A
	12,740,686	6,567,257

4(a). OTHER INCOME

	2017	2016
	RMB'000	*RMB'000*
Interest income from short term fixed deposits	**2,714**	612
Interest income from pledged bank deposits	**1,770**	2,606
Interest income from financial assets designated as at FVTPL	**68,957**	41,132
Bank interest income	**1,495**	1,386
Interest income from small loan services	**6,144**	–
Government grants	**80,595**	57,383
Income from sales of moulds	**8,052**	744
Income from sales of scrap materials	**6,160**	2,862
Income from customised specialised device services	**13,438**	–
Rental income	**4,774**	3,910
Handling service charges	**2,442**	1,803
Fund management income	**4,151**	–
Others	**5,695**	6,425
Total	**206,387**	118,863

4(b). OTHER GAINS AND LOSSES

	2017	2016
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(639)**	(80)
Gain on acquisition of a subsidiary	**1,308**	–
Gain on disposal of available-for-sale investments	**–**	37,936
Net foreign exchange gains (losses)	**42,758**	(53,124)
Gain on changes in fair value of derivative financial instruments, net	**49,796**	8,330
Reversal of (allowance for) bad and doubtful debts on trade receivables	**42,901**	(137,421)
Others	**73**	(158)
Total	**136,197**	(144,517)

5. FINANCE COSTS

	2017	2016
	RMB'000	*RMB'000*
Interests on bank borrowings	**38,903**	16,181
Interest on long term payables related to intangible assets	**9,898**	–
Total	**48,801**	16,181

6. **INCOME TAX EXPENSE**

	2017	2016
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax	**329,493**	178,858
Other jurisdictions	**13,621**	4,050
	343,114	182,908
Under (over) provision in prior years:		
PRC Enterprises Income Tax	**611**	(553)
Deferred taxation:		
Current year	**60,480**	(7,521)
	404,205	174,834

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) Zhejiang Sunny Optics Co., Ltd. ("Sunny Zhejiang Optics"), a domestic limited liability company, was approved as Hi-Tech Enterprise and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2018.

(ii) Ningbo Sunny Infrared Technologies Company Ltd. ("Sunny Infrared Optics"), a domestic limited liability company, was approved as Hi-Tech Enterprise and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2019.

(iii) Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech"), Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping Instrument"), 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 2020.

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 2017, the deferred tax liabilities amounting to RMB43,734,000 was provided in respect of the temporary differences attributed to the PRC undistributed profits to the extent exceeding the investment plan which the Directors of the Company decided to distribute.

The 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:

	2017	2016
	RMB'000	*RMB'000*
Profit before tax	**3,318,319**	1,446,435
Tax at PRC EIT tax rate of 25%	**829,580**	361,609
Tax effect of share of results of associates	**4,024**	3,085
Tax effect of expenses not deductible for tax purpose	**35,609**	6,431
Tax effect of allowance granted under share award scheme in the PRC	**(133,200)**	(46,645)
Tax effect of preferential tax rates for certain subsidiaries *(Note 1)*	**(217,435)**	(99,255)
Tax effect of additional tax deduction of research & development expenses *(Note 2)*	**(125,842)**	(65,794)
Tax effect of tax losses not recognised	**21,369**	17,180
Utilisation of tax losses not previously recognised	**(2,595)**	(2,025)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**(7,916)**	801
Under (over) provision in prior years	**611**	(553)
Income tax expense for the year	**404,205**	174,834

Note 1: For PRC subsidiaries which were approved as Hi-Tech Enterprises, they are entitled to a preferential tax rate of 15%.

Note 2: According to Guoshuifa [2008] No. 116 "Notice of the State Administration of Taxation on Issuing the Administrative Measures for the Pre-tax Deduction of Enterprise Research and Development Expenses (for Trial Implementation)" and Caishui [2013] No. 70 "Circular of the Ministry of Finance and the State Administration of Taxation issues related to super deductions for research & development expenses", certain PRC subsidiaries are also entitled to an additional 50% tax deduction on eligible research & development expenses incurred by them during the years ended 31 December 2017 and 2016.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2017	2016
	RMB'000	*RMB'000*
Directors' emoluments	**8,299**	13,558
Other staff's salaries and allowances	**1,477,510**	1,097,672
Other staff's discretionary bonuses	**268,677**	144,379
Other staff's contribution to retirement benefit scheme	**109,643**	81,745
Other staff's share award scheme expense	**84,719**	75,664
	1,948,848	1,413,018
Cost of inventories recognised as an expense	**17,563,489**	11,931,643
Auditor's remuneration	**3,251**	3,060
Depreciation of property, plant and equipment	**489,202**	315,866
Depreciation of investment properties	**2,023**	839
Release of prepaid lease payments	**4,498**	3,620
Amortisation of intangible assets	**43,603**	5
Allowance for inventories (included in cost of sales)	**29,019**	6,377

8. DIVIDENDS

	2017	2016
	RMB'000	*RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2016 final dividends – RMB29.00 cents (2016: 2015 final dividends – RMB20.80 cents) per share	**318,130**	228,176

Subsequent to the end of reporting period, a final dividend of approximately RMB66.10 cents per share, equivalent to HK$81.20 cents per share, amounting to a total of approximately RMB725,117,000 (2016: approximately RMB29.00 cents per share, equivalent to HK$32.30 cents per share, amounting to a total of approximately RMB318,130,000) 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.

9. EARNINGS PER SHARE

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

	2017	2016
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**2,901,554**	1,270,753

	2017	2016
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,087,701**	1,080,616
Effect of dilutive potential ordinary shares:		
Restricted Shares	**4,715**	8,471
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,092,416**	1,089,087

10. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings *RMB'000*	Machinery and production equipment *RMB'000*	Motor vehicles *RMB'000*	Fixtures and office equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
COST						
At 1 January 2016	312,202	1,587,010	14,416	272,682	24,410	2,210,720
Additions	204	753,876	1,849	64,692	158,025	978,646
Transfer	4,074	17,198	–	13,527	(34,799)	–
Disposals	(163)	(35,180)	(1,262)	(7,172)	–	(43,777)
Exchange realignment	–	25	14	75	–	114
At 31 December 2016 and 1 January 2017	316,317	2,322,929	15,017	343,804	147,636	3,145,703
Additions	109,618	956,497	3,689	43,492	214,949	1,328,245
Acquired on acquisition of a subsidiary	7,600	–	–	838	–	8,438
Transfer	8,205	76,234	–	7,846	(92,285)	–
Disposals	(368)	(41,210)	(365)	(14,754)	–	(56,697)
Transferred to investment properties	(50,851)	–	–	–	–	(50,851)
Exchange realignment	–	14	(13)	101	–	102
At 31 December 2017	390,521	3,314,464	18,328	381,327	270,300	4,374,940
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2016	91,588	845,150	8,655	124,518	–	1,069,911
Charge for the year	14,874	234,750	2,306	63,936	–	315,866
Eliminated on disposals	(73)	(26,747)	(1,170)	(5,671)	–	(33,661)
Exchange realignment	–	5	12	60	–	77
At 31 December 2016 and 1 January 2017	106,389	1,053,158	9,803	182,843	–	1,352,193
Charge for the year	16,657	413,358	2,643	56,544	–	489,202
Eliminated on disposals	(293)	(31,229)	(346)	(10,802)	–	(42,670)
Transferred to investment properties	(9,745)	–	–	–	–	(9,745)
Exchange realignment	–	12	(11)	37	–	38
At 31 December 2017	113,008	1,435,299	12,089	228,622	–	1,789,018
CARRYING VALUES						
At 31 December 2017	277,513	1,879,165	6,239	152,705	270,300	2,585,922
At 31 December 2016	209,928	1,269,771	5,214	160,961	147,636	1,793,510

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

Leasehold land and buildings	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 properties shown above comprises:

	2017	2016
	RMB'000	*RMB'000*
Buildings on leasehold land outside Hong Kong	**277,513**	209,928

As at 31 December 2017, no buildings of the Group was pledged to secure bank borrowings granted while certain buildings of the Group of aggregated net book value approximately RMB83,121,000 was pledged as at 31 December 2016.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	2017	2016
	RMB'000	*RMB'000*
Current assets		
Trade receivables	**4,546,193**	3,017,982
Less: allowance for doubtful debts	**(96,850)**	(141,827)
	4,449,343	2,876,155
Bill receivables	**796,945**	518,791
Loan receivables *(Note)*	**138,059**	–
Other receivables and prepayment		
Value added tax and other tax receivables	**42,807**	98,378
Individual income tax receivable from employees	**45,890**	83,972
Advance to suppliers	**35,357**	60,369
Interest receivables	**10,714**	5,816
Prepaid expenses	**76,469**	36,968
Rental and utilities deposits	**55,133**	14,717
Prepaid wages and advances to employees	**3,586**	3,162
Others	**11,386**	17,611
	281,342	320,993
Total trade and other receivables and prepayment	**5,665,689**	3,715,939

The Group allows a credit period from 60 to 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 doubtful debts presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	2017	2016
	RMB'000	*RMB'000*
Within 90 days	**4,404,611**	2,583,568
91 to 180 days	**43,102**	246,083
Over 180 days	**1,630**	46,504
	4,449,343	2,876,155

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

	2017	2016
	RMB'000	*RMB'000*
Within 90 days	**682,520**	473,975
91 to 180 days	**114,425**	44,816
	796,945	518,791

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for the customer. Limits attributed to customers are reviewed once a year. 99% (2016: 90%) of the trade receivables that are neither past due nor impaired have the best credit attributes assessed by the Group.

The Group has made allowance for certain receivables which are past due but with ageing less than 365 days based on an evaluation of the collectability of each receivable and provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

After assessment of impairment on individual balances, included in the Group's trade receivables are debtors with an aggregate carrying amount of RMB44,732,000 (2016: RMB292,587,000) which are past due at the end of the reporting period but not considered impaired. The Group does not hold any collateral over these balances. The average age of these receivables is as follow.

Ageing of trade receivables which are past due but not impaired

	2017	2016
	RMB'000	*RMB'000*
91 to 180 days	**43,102**	246,083
Over 180 days	**1,630**	46,504
Total	**44,732**	292,587

Movement in the allowance for doubtful debts

	2017	2016
	RMB'000	*RMB'000*
Balance at beginning of the reporting period	**141,827**	4,611
Impairment losses recognised on receivables	**18,735**	141,327
Amounts written off as uncollectible	**(2,076)**	(205)
Impairment losses reversed	**(61,636)**	(3,906)
Balance at end of the reporting period	**96,850**	141,827

Regarding the legal proceeding filed by the Group in early 2017 in relation to the overdue trade receivables of several customers, the Group has entered into out-of-court agreements with these customers to settle the overdue receivables. During the year, the Group had received RMB333,715,000, the specific provision made for these overdue trade receivables in the amount of RMB52,698,000 was reversed, and as at 31 December 2017, the outstanding balance of the allowance for the bad debt of these overdue trade receivables is RMB82,797,000.

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

12. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES/FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

(a) 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	
	2017	2016	**2017**	2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Foreign currency forward contracts	**–**	–	**28,788**	–
Foreign currency options contracts	**3,375**	13,795	**4,247**	93,251
Total	**3,375**	13,795	**33,035**	93,251
Less: current portion				
Foreign currency options contracts	**1,092**	13,795	**30,438**	93,251
	1,092	13,795	**30,438**	93,251
Non-current portion	**2,283**	–	**2,597**	–

As at 31 December 2017 and 2016, 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.

	Selling currency	**Receiving currency**	**Maturity date**	**Weighted average forward exchange rate**
Contract Q	USD20,000,000	RMB140,439,000	12 February 2018	USD:RMB at 1:7.02
Contract R	USD44,000,000	RMB306,306,000	13 June 2018	USD:RMB at 1:6.96
Contract S	USD20,000,000	RMB134,194,000	23 November 2018	USD:RMB at 1:6.71

Foreign currency options contracts

The Group entered into several USD/RMB foreign currency options contracts with banks in Hong Kong and 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+ 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.

The Reference Rate+ represents the spot rate as specified within the respective contracts.

Extracts of details of foreign currency options contracts from the respective contracts are as follow:

	Notional amount *USD'000*	**Strike/barrier/ forward rates**	**Ending Settlement Date** *(Note 1)*	
			2017	**2016**
Contract E *(Note 2)*	105,000	USD:RMB at 1:6.185/6.4/6.5	N/A	13 July 2017
Contract H *(Note 3)*	120,000	USD:RMB at 1:7.02	N/A	26 September 2017
Contract I *(Note 3)*	120,000	USD:RMB at 1:7.00	N/A	26 September 2017
Contract J *(Note 4)*	105,000	USD:RMB at 1:6.55	N/A	13 July 2017
Contract K *(Note 5)*	60,000	USD:RMB at 1:7.156	27 March 2018	N/A
Contract L *(Note 5)*	60,000	USD:RMB at 1:7.15	27 March 2018	N/A
Contract M *(Note 5)*	120,000	USD:RMB at 1:7.22	26 September 2018	N/A
Contract N *(Note 5)*	120,000	USD:RMB at 1:7.20	26 September 2018	N/A
Contract O *(Note 5)*	200,000	USD:RMB at 1:7.30	7 May 2019	N/A
Contract P *(Note 5)*	200,000	USD:RMB at 1:7.28	7 May 2019	N/A

Note 1: Each contract has a series of settlement dates. The Ending Settlement Dates stated as in the above table represents the last settlement date, specified within respective contracts.

Note 2: Contract E was terminated on 5 May 2017 in advance to mitigate the potential greater risk exposure.

Note 3: Both contract H and contract I were settled as a result of occurrence of trigger event on 26 September 2017.

Note 4: Contract J was settled as a result of occurrence of trigger event on 11 January 2017.

Note 5: Both contract K and contract L were entered into on 6 January 2017, contract M and contract N were entered into on 7 February 2017, contract O and contract P were entered into on 5 May 2017.

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 no legally enforceable right to set off the recognised amount.

As at 31 December 2017:

	Gross/net amount of presented in the consolidated financial position *RMB'000*	Related amounts not set off in the consolidated statement of financial position Financial instrument *RMB'000*	Cash collateral received/ pledged *RMB'000*	Net amount *RMB'000*
Financial assets				
Bank balances	**11,081**	**(11,081)**	**–**	**–**
Derivatives	**3,375**	**(3,375)**	**–**	**–**
Financial liabilities				
Derivatives	**(33,035)**	**14,456**	**–**	**(18,579)**
Borrowings	**(548,873)**	**–**	**–**	**(548,873)**
	(567,452)	**–**	**–**	**(567,452)**

As at 31 December 2016:

	Gross/net amount of presented in the consolidated financial position *RMB'000*	Related amounts not set off in the consolidated statement of financial position Financial instrument *RMB'000*	Cash collateral received/ pledged *RMB'000*	Net amount *RMB'000*
Financial assets				
Bank balances	9,282	(9,282)	–	–
Derivatives	13,795	(13,795)	–	–
Financial liabilities				
Derivatives	(93,251)	23,077	–	(70,174)
Borrowings	(395,409)	–	–	(395,409)
	(465,583)	–	–	(465,583)

(b) Financial assets designated as at fair value through profit or loss

During the current year, the Group entered into several contracts of structured deposits with banks. The structured deposits contain embedded derivatives which were not closely related to the host contracts. The entire combined contracts have been designated as at financial assets at FVTPL on initial recognition. Except for the principal of RMB1,010,000,000 (2016: RMB735,000,000) which was guaranteed by the relevant banks, the remaining principal of RMB942,340,000 (2016: RMB1,292,497,000) was not guaranteed by the relevant banks in which the return of the structured deposits was determined by reference to the performance of the underlying government debt instruments and treasury notes and the expected return rate stated in the contracts ranges from 2.20% to 5.30% (2016: 1.60% to 4.50%) per annum.

In the opinion of the Directors of the Company, the fair value of the structured deposits at 31 December 2017 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. All structured deposits will be matured in the year ending 31 December 2018.

13. TRADE AND OTHER PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
Current liabilities		
Trade payables		
Within 90 days	**3,802,811**	3,994,292
91 to 180 days	**384,235**	264,922
Over 180 days	**2,402**	3,259
Accrued purchases	**350,351**	331,685
Total trade payables and accrued purchases	**4,539,799**	4,594,158
Note payables		
Within 90 days	**614,156**	421,837
91 to 180 days	**34,371**	11,812
	648,527	433,649
Payables for purchase of property, plant and equipment	**133,647**	77,518
Payable for acquisition of assets	**3,520**	4,233
Staff salaries and welfare payables	**461,953**	308,314
Advance from customers	**76,050**	30,981
Payable for acquisition of patents	**40,224**	–
Value added tax payables and other tax payables	**171,324**	16,470
Technology grant payables	**25,832**	29,914
Commission payables	**11,078**	28,146
Interest payable	**3,314**	1,437
Rental and utilities payable	**15,017**	2,325
Accrued research and development expenses	**1,272**	21,348
Others	**51,245**	24,049
	994,476	544,735
	6,182,802	5,572,542
Non-current liability		
Long term payables		
Payable for acquisition of assets	**–**	2,817
Payable for acquisition of patents	**347,294**	–

The credit period on purchases of goods is up to 180 days (2016: 180 days) and the credit period for note payables is 90 days to 180 days (2016: 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.

14. SHARE CAPITAL

	Number of shares	Amount	Equivalent to
		HK$'000	*RMB'000*
Authorised:			
Ordinary shares of HK$0.10 each at 1 January 2016, 31 December 2016 and 31 December 2017	100,000,000,000	10,000,000	
Issued & fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2016, 31 December 2016 and 31 December 2017	1,097,000,000	109,700	105,177

15. EVENT AFTER THE REPORTING PERIOD

(a) Up to the date of approval for issuance of the consolidated financial statements, the Directors of the Company proposed a final dividend. Further details are disclosed in Note 8.

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

The Company intends to use the net proceeds from the bonds for funding capital expenditures, fulfilling working capital requirements, refinancing existing indebtedness and other general corporate purposes.

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 2017 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 to 2017, the world economy entered into a gradually improving situation. The growth of the global economy was expected to improve. The economic growth of the developed economies showed a good momentum while the growth of the emerging markets and developing economies was stabilising and recovering. However, the threats from the risks to which the global economy was exposed still exist, and the situation of the world economy was still under changes and adjustments. As one of the world's major economies, China's economic strength has reached a new stage, and its economic structure has also been changed significantly. Meanwhile, the consumer electronics industry which had shown rapid development in the past few years entered into a stable stage with its growth continuing to slowdown. Although China is still the world's largest smartphone market, the market saturation trend is further intensified. According to the data issued by Gesellschaft für Konsumforschung ("**GfK**"), the year-on-year growth of retail sales of Chinese smartphone market in 2017 still only accounted for 1.5%. By making positive responses, change of the strategies and continuous introduction of flagship models and high-end models with high quality and high performance, Chinese local brands have further seized market share and thus reshaped the market landscape. Meanwhile, Chinese local brands have been very popular in the overseas market by reason of their technologies and innovation. In addition, with the development of internet of vehicle and the international popularisation and promotion of laws and regulations, the vehicle lens sets, as one kind of important components of vehicle imaging systems and advanced driver assistance systems ("**ADAS**"), realised quick development in global market and maintained a high growth momentum. Being a leading handset lens sets and handset camera modules provider as well as the largest vehicle lens sets supplier in the world, the Group has benefited thereby.

According to the latest report issued by Gartner, Inc. ("**Gartner**") in February 2018, an information technology research and consulting company, the global shipment volume of smartphones in 2017 increased by approximately 2.7% from last year to approximately 1,540,000,000 units, among which, the shipment volume of Chinese smartphones brands reached approximately 420,000,000 units in total, contributing to approximately 27.3% of the market share. As the demand in smartphone market becomes increasingly saturated, the improvement of product quality and performance and the optimisation of consumers' smart experiences in handsets have become the key competitive factors among all major handset brand manufacturers. More and more high-end products such as high-end camera modules with large-aperture, wide-angle, ultra-thin, dual-camera, optical zoom, biometric identification, miniaturisation and other complicated functions have become the focus of all major smartphone brand manufacturers and have further gained favour from the market. Besides these, smartphones have entered into a new era for innovative three dimensional ("**3D**") cameras. The applications of 3D technology in the field of consumer electronics will quickly expand, which presents promising prospects in the market. Through staying in line with market trends, actively investing resources, formulating plan in advance and deeply cooperating with various 3D related companies with core and key technologies, these help the Group to play a leading role in the field of 3D camera continuously and consolidate its leading advantages in the optical industry.

As a result of the penetration of vehicle active safety technologies and continuous advancement of automatic pilot technologies, the vehicle imaging field has been growing rapidly and the penetration rate and adoption rate of vehicle lens sets have further increased. Globally, not only have the United State of America, Europe and Japan enacted relevant laws and regulations, the PRC government has also accelerated the introduction of regulations relating to automatic pilot. The proportion of smart vehicles in new cars is targeted at 50% by 2020, according to the Innovative Developmental Strategy of Smart Vehicles (Invitation for opinions version) (《智能汽車創新發展戰略》(徵求意見稿)) issued by National Development and Reform Commission of the PRC. The Ministry of Transport of the PRC has issued the notice on implementing the Safety Technique Conditions of Operating Vehicles for Passengers (《營運客車安全技術條件》), which is the standard for transportation industry, requiring that, commencing from May 2018, operating vehicles for passengers that are over nine metres in length be equipped with the functions of the lane departure warning ("**LDW**") system and the forward collision warning ("**FCW**") system. These two warning functions are essential components of ADAS. On 18 December 2017, Beijing Municipal Commission of Transport formally issued guidance document for real road testing of automatic pilot, which marked the introduction of the first regulation relating to automatic pilot in China. At the same time, as a bridge connecting the active and passive safety systems, it is possible for ADAS to implement functions such as LDW, vehicles, pedestrian and obstacle warning, and traffic sign recognition, which is one of the basic technologies for realising automatic driving. In terms of ADAS solution, vision processing technology of cameras can not only better identify the information about road signs, pedestrians and road conditions, but also calculate the movement of pedestrians and vehicles through algorithm. It also has more comprehensive function and higher accuracy. With the increasing penetration rate of ADAS and the coming of semi-automatic and full-automatic pilot era in the future, reliance on vehicle cameras will further increase and the room for vehicle cameras in the market will also be further released. As a core component of vehicle camera, vehicle lens sets have a great market potential for development. Taking advantage of its leading technological innovation abilities and the first-mover advantages in establishing market presence together with excellent resource integration abilities, the Group will comprehensively benefit from the continuous high-speed growth in vehicle lens sets industry.

In spite of the complex and changing external environment, the Group achieved huge growth of overall performance with its excellent comprehensive competitive strength and its persistence on the development strategy of "Improving and Expanding the Existing Advantageous Businesses". The three major business segments, namely Optical Components, Optoelectronic Products and Optical Instruments have promising development, which further consolidated the Group's leading position in the industry as an optical expert. Furthermore, the Group continued to base itself in the promising optoelectronic industry, promoted the implementation of new transformation and upgrade, and laid a solid foundation for achieving its ambitious goal as soon as possible.

The Group's revenue for the year ended 31 December 2017 increased by approximately 53.1% to approximately RMB22,366.3 million. Profit for the year attributable to owners of the Company increased by approximately 128.3% to approximately RMB2,901.6 million. Besides these, the basic earnings per share increased by approximately 126.8% to approximately RMB266.76 cents. The Board has proposed an annual dividend of approximately RMB0.661 (equivalent to HK$0.812) (2016: approximately RMB0.290) per share.

In 2017, the Group focused on achieving technological breakthrough in key areas, further perfected the manufacturing system, improved the construction of information platform, optimised the supply chain management and continuously promoted the construction of quality management and control system. With the joint effort from its staff, the Group received numerous honours and awards from its customers, industrial associations and institutions, local governments and the capital market. The receipt of all these awards indicated that the products' quality, technical capabilities, services, delivery time and other aspects of the Group have been highly affirmed and recognised by our customers and the industry. It will encourage the Group to provide its customers with better products and services continuously, and confirm the Group's determination to carry on the strategy of "Transformation and Upgrade". Please refer to the section headed "Management Discussion and Analysis – Awards and Recognitions" in the annual report 2017 for details of the awards and recognitions received by the Group in 2017.

OUTLOOK AND FUTURE STRATEGIES

During the year under review, adhering to the mission of ensuring sustainable growth of the Group, the Group strived to make progress with perseverance while focusing on innovation, which brought sustainable and sound development of the Group's major businesses. Looking into 2018, the macro-economic environment will face a lot of risks and challenges with uncertainties, but the Group is optimistic about its future operations.

In the view of the Directors, 2018 is a year with both challenges and opportunities. The Group's management will closely monitor the development in the markets and the industries, accelerate its business transformation and upgrade, continue to implement its development strategies and lead the Group to obtain a good result in 2018.

1. Continue to improve the existing advantageous businesses thoroughly, further create core competitiveness and gain market share

In 2018, the Group will continue to:

- intensify research and development (the "**R&D**") and investment in key technologies, in order to maintain its leadership in product performance and create technological competitiveness;
- promote development and optimisation of manufacturing process practically and speed up and improve the process of production line automation in order to ensure production efficiency and product quality and build manufacturing competitiveness;
- keep propelling lean manufacturing management and improving management functions and process so as to improve production line flexibility and product delivery ability and foster management competitiveness;
- enhance supply chain construction constantly and improve purchase efficiency significantly so as to reduce purchase cost effectively and create competitiveness in supply chain.

By creating competitiveness in the aforesaid aspects, the Group will further form an overall competitive edge and improve its market position.

2. Continue to deepen "Two Transformations" and accelerate the incubation and growth of new businesses

The Group will speed up the R&D and promotion of existing new products in the markets such as augmented reality/virtual reality and 3D structured-light, and leveraging its technological advantages and industry foundation in early stage, take the lead in launching mature products to gain market share. In addition, the Group will further integrate its advantageous resources and focus on key market segments. Based on its in-depth analysis and understanding of market demand, the Group will strive to develop generic and extensible products that are in demand in the industry. In the meantime, the Group needs to actively develop new marketing modes for existing new businesses, make its organisational structure and staffing more suitable for new business development in the new markets, and achieve major breakthroughs in key market segments.

3. Continue to innovate by focusing on new technologies, exploring new fields and cultivating new growth points of businesses for the Group

In 2018, the research institute of the Group will actively explore new technologies and new fields as a technology leader to implement more new technologies and bring the R&D capability of the Group to a new level, so as to grasp new trends and open new markets for the Company. To this end, the research institute of the Group will conscientiously strengthen communication and cooperation with marketing and R&D departments of various business units. At the same time, it will keep deepening the communication and cooperation with external enterprises and institutions to achieve advantageous complementation and promote the transformation of R&D achievements into reliable products and launch them in the markets, so as to cultivate new growth points of businesses for the Company.

4. Continue to improve talent introduction and cultivation mechanism, actively promote enterprise culture construction and provide an important guarantee for sustainable development in the future

The Group will continue to strengthen the introduction of high-level talents and enhance employment and reserve of fresh graduates to build a talent cultivation system which features a smoother growth, more scientific mechanism and sounder management through further improving the talent cultivation mechanism to consolidate the talent base of the Group continuously. Moreover, all the staff will take the opportunity of in-depth study of "Practice and Exploration" to continue promoting the unified understanding of "Prevention of Slackness and Keeping Motivated". By exchanging, understanding, implementing and executing the Company's culture at a deeper level, deficiencies which are often associated with large enterprises such as organisational rigidity and departmental estrangement bred in enterprise development will be effectively prevented and this can ensure the health and vitality of the Group as an organism.

In coming years, the Group will continue to benefit from the broad development prospects of the optical and optoelectronic industry, and by actively utilising the Group's leading position in the industry as an optical expert, maintaining innovation and adhering to enhancing its comprehensive competitive strength constantly with its customer-oriented strategy led by technologies, the Group will continue to provide the global top-tier hi-tech companies with more high-quality 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 2017, the Group's revenue was approximately RMB22,366.3 million, representing an increase of approximately 53.1% or approximately RMB7,754.5 million as compared with the corresponding period of last year. The increase in revenue was mainly benefited from the Group's rapid development in the smartphone related businesses and vehicle imaging field.

Revenue generated from the Optical Components business segment increased by approximately RMB1,346.2 million to approximately RMB4,301.8 million as compared with the corresponding period of last year. The increase in revenue was mainly due to the increase in the shipment volume of handset lens sets and vehicle lens sets, and the rise in the average selling price through the improvement of product mix of handset lens sets.

Revenue generated from the Optoelectronic Products business segment increased by approximately RMB6,367.8 million to approximately RMB17,771.0 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the increase in the shipment volume of handset camera modules and the rise in the average selling price through the improvement of product mix.

Revenue generated from the Optical Instruments business segment increased by approximately RMB40.5 million to approximately RMB293.5 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the recovery of the market demand for industrial instruments.

Gross Profit and Margin

The gross profit for the year ended 31 December 2017 was approximately RMB4,802.8 million, which was approximately 79.2% higher as compared with the corresponding period of last year. The gross profit margin was approximately 21.5% (2016: approximately 18.3%),which was 3.2 percentage points higher than that of last year. The increase in gross profit margin was mainly attributable to the fast growth in sales of Optical Components business segment as well as its substantially improved gross profit margin, and the improved gross profit margin of the Optoelectronic Products business segment as compared with the corresponding period of last year. The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 44.0%, 13.1% and 43.2%, respectively (2016: approximately 39.8%, 10.5% and 40.4% respectively).

Selling and Distribution Expenses

The selling and distribution expenses for the year ended 31 December 2017 increased by approximately RMB51.2 million as compared with the corresponding period of last year to approximately RMB205.1 million. It accounted for approximately 0.9% of the Group's revenue during the year, as compared with approximately 1.1% for last year. The increase in such expenses was primarily attributable to the increase in costs of selling, marketing and distribution personnel resulted from the growth in sales activities.

R&D Expenditure

The R&D expenditure for the year ended 31 December 2017 increased by approximately RMB473.8 million as compared with the corresponding period of last year to approximately RMB1,168.2 million. It accounted for approximately 5.2% of the Group's revenue during the year, as compared with approximately 4.8% for last year. The increase in such expenditure was attributable to the Group's continuous investment in R&D activities and business development. The R&D expenditure was mainly used in the R&D of high-end handset lens sets and handset camera modules, innovative optoelectronic products for mobile terminals, vehicle lens sets, infrared products, security surveillance systems products, mid- to high-end optical instruments and the upgrade of existing product categories.

Administrative Expenses

The administrative expenses for the year ended 31 December 2017 increased by approximately RMB57.7 million as compared with the corresponding period of last year to approximately RMB388.9 million. It accounted for approximately 1.7% of the Group's revenue during the year, as compared with approximately 2.3% for last year. The increase in such expenses was mainly attributable to the increase in the headcount of administrative staff, the increase in remuneration and the grant of restricted shares and the corresponding increase in relevant fringe benefits.

Income Tax Expense

The income tax expense for the year ended 31 December 2017 increased by approximately RMB229.4 million as compared with the corresponding period of last year to approximately RMB404.2 million. The increase in income tax expense was mainly attributable to the growth in earnings. The Group's actual effective tax rate was approximately 12.2% during the year, as compared with approximately 12.1% 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	2016	2017	2018 (Expected)	2019 (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%
+*Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("**Sunny Hengping Instrument**")	Limited liability company (domestic joint venture)	15.0%	**15.0%**	15.0%	15.0%
+*Ningbo Sunny Automotive Optech Co., Ltd. ("**Sunny Automotive Optech**")	Limited liability company (sole investment by foreign investment company)	15.0%	**15.0%**	15.0%	15.0%
#Sifang Technology (Hangzhou) Co., Ltd. ("**Sifang Technology**")	Limited liability company (legal person sole investment)	25.0%	**25.0%**	25.0%	25.0%
Xinyang Sunny Optics Co., Ltd. ("**Sunny Xinyang Optics**")	Limited liability company (investment by foreign investment company)	25.0%	**25.0%**	25.0%	25.0%
Shanghai Sunny Yangming Precision Optics Co., Ltd. ("**Sunny Shanghai Optics**")	Limited liability company (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 Co., Ltd. ("**Sunny Group**")	Limited liability company (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	25.0%	**25.0%**	25.0%	25.0%
Qingdao Sunny Hengping Instrument Co., Ltd. ("**Sunny Hengping Instrument (Qingdao)**")	Other limited liability company	25.0%	**25.0%**	25.0%	25.0%
Sunny Optics (Zhejiang) Research Institute Co., Ltd. ("**Sunny Central Research Institute**")	Limited liability company (legal person sole investment)	25.0%	**25.0%**	25.0%	25.0%

Name of Subsidiaries	Type of Subsidiaries	2016	2017	2018 (Expected)	2019 (Expected)
Yuyao Sunny Optical Intelligence Technology Co., Ltd. ("**Sunny Optical Intelligence Yuyao**")	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**")	Limited partnership company	N/A	**N/A**	N/A	N/A
Ningbo Mei Shan Bao Shui Gang Qu Sunyi Investment Co., Ltd. ("**Ningbo Sunyi**")	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%

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

\+ The Hi-Tech Enterprise Certification of the companies will expire on 31 December 2018, 31 December 2019 or 31 December 2020.

\# The company has changed its registered name from Hangzhou Sunny Security Technology Co., Ltd. to Sifang Technology (Hangzhou) Co., Ltd. during the year.

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

Profit for the Year and Net Profit Margin

The profit for the year ended 31 December 2017 increased by approximately RMB1,642.5 million as compared with the corresponding period of last year to approximately RMB2,914.1 million. The increase in net profit was mainly attributable to the increase in gross profit and the effective control in operating expenses. The net profit margin was approximately 13.0% as compared with approximately 8.7% for last year.

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 2017 increased by approximately RMB1,630.8 million as compared with the corresponding period of last year to approximately RMB2,901.6 million.

Final Dividends

For the year ended 31 December 2017, the dividends proposed by the Board was approximately RMB0.661 (equivalent to HK$0.812) per share, with payout ratio of approximately 25.0% of the profit attributable to owners of the Company for the year.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2017 and 31 December 2016:

	For the year ended 31 December	
	2017	2016
	RMB million	*RMB million*
Net cash from operating activities	**2,436.3**	1,615.5
Net cash used in investing activities	**(1,686.3)**	(1,259.9)
Net cash from (used in) financing activities	**12.2**	(81.2)

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 and bank borrowings in the short run to meet the demand of working capital and other capital expenditure requirements. In the long run, the Group will be funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the year ended 31 December 2017.

The Group's balance of cash and cash equivalents was approximately RMB1,226.9 million as at 31 December 2017, representing an increase of approximately RMB760.0 million as compared with the balance 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 RMB2,436.3 million for the financial year of 2017 and net cash generated from operating activities was approximately RMB1,615.5 million for the financial year of 2016. The increase in the net cash generated from operating activities was mainly attributable to the increase in profit before tax, the increase in trade and other payables and the decrease in inventories which were partly off-set by the increase in trade and other receivables.

The trade receivable turnover days (balance of trade receivables/revenue × 365 days) slightly increased from approximately 72 days for the financial year of 2016 to approximately 73 days for the financial year of 2017. There was no significant difference in trade receivable turnover days in these two financial years.

The trade payable turnover days (balance of trade payables including accrued purchases/cost of sales × 365 days) decreased from approximately 141 days for the financial year of 2016 to approximately 94 days for the financial year of 2017. The credit term on purchases of goods granted by suppliers is up to 180 days. The decrease in the trade payable turnover days was mainly due to the strategic stocking of some key raw materials by the end of 2016. Thus, the turnover day for the financial year of 2016 was higher.

The inventory turnover days (balance of inventories/cost of sales × 365 days) decreased from approximately 87 days for the financial year of 2016 to approximately 54 days for the financial year of 2017. The decrease in the inventory turnover days was mainly because the Group has imposed stricter control on inventories, to enhance the efficiency of inventory turnover and lower the average inventory level. Besides these, the strategic stocking of some key raw materials by the end of 2016 also resulted in higher turnover days for the financial year of 2016.

Investing Activities

The Group recorded a net cash used in investing activities of approximately RMB1,686.3 million for the financial year of 2017, which was mainly attributable to purchases and release of financial assets designated as at fair value through profit or loss of approximately RMB33,428.5 million and approximately RMB33,503.7 million during the year respectively, and the Group's capital expenditure amounting to approximately RMB1,765.5 million during the year.

Financing Activities

The Group recorded a net cash from financing activities of approximately RMB12.2 million for the financial year of 2017. The inflow mainly came from new bank borrowings raised of approximately RMB1,805.4 million. Major outflows were the repayment of bank borrowings of approximately RMB1,361.9 million, purchases of shares as unvested shares under the restricted share award scheme ("**Restricted Share Award Scheme**") of approximately RMB80.5 million and dividends paid to shareholders of approximately RMB318.1 million declared last year.

Capital Expenditure

For the year ended 31 December 2017, the Group's capital expenditure amounted to approximately RMB1,765.5 million, which was mainly used for the purchases of property, plant and equipment, purchases of intangible assets, acquisition of land use right and 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 2017 amounted to approximately RMB1,347.9 million (2016: approximately RMB904.3 million). No pledged buildings and land was arranged by the Group as at 31 December 2017 (2016: approximately RMB186.1 million).

As at 31 December 2017, all bank borrowings were denominated mainly in U.S. Dollars and RMB. The gearing ratio of the Group by reference to the total debt to total book capitalisation ratio (total book capitalisation means the sum of total liabilities and shareholders' equity) was approximately 8.6%, reflecting that the Group's financial position was at a sound level.

Bank Facilities

As at 31 December 2017, the Group had bank facilities of RMB1,225.0 million with Yuyao Branch of Agricultural Bank of China Limited, RMB500.0 million with Yuyao Branch of Bank of Ningbo Co., Ltd., USD44.0 million with BNP Paribas Hong Kong Branch, USD60.0 million with BNP Paribas (China) Limited, USD30.0 million with The Hongkong and Shanghai Banking Corporation Limited, USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd., RMB200.0 million with Yuyao Branch of Bank of Communication Co., Ltd., RMB893.0 million with Yuyao Branch of Bank of China Limited, RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd. and RMB700.0 million with Ningbo Branch of The Export-Import Bank of China.

Debt Securities

As at 31 December 2017, the Group did not have any debt securities.

On 16 January 2018, the Group issued the USD bonds. For details, please refer to Note 15(b) of this announcement.

Contingent Liabilities

As at 31 December 2017, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as at 31 December 2017, except for the pledged bank deposits of approximately RMB140.3 million.

Commitments

As at 31 December 2017, the future aggregate minimum lease payments under non-cancellable operating leases in respect of the leased premises amounted to approximately RMB143.7 million (2016: approximately RMB149.2 million).

As at 31 December 2017, 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 RMB789.6 million (2016: approximately RMB220.1 million).

As at 31 December 2017, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2017, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS

The Group's investing activities mainly include the acquisition and repurchase of financial assets designated as at fair value through profit or loss, placement and withdrawal of pledged bank deposits, placement and withdrawal of short term fixed deposits and purchases of property, plant and equipment. For the year ended 31 December 2017, the Group's investments amounted to approximately RMB1,765.5 million, mainly involving in the purchases of machinery and equipment, as well as the initial production settings of new products, acquisition of land use right and the necessary equipment configurations of new projects. These investments enhanced the Group's R&D and technological application capabilities and production efficiency, and thus expanded the revenue sources.

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 did not and has no plan to use any financial instrument for hedging purposes and will continue to fund its future investment from its own financial resources.

Going 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 on its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. Upward fluctuations in interest rates increase the costs of both existing and new debts. For the year ended 31 December 2017, the effective interest rate on fixed-rate bank borrowings was approximately 3.92% per annum, while the effective interest on variable-rate bank borrowings was approximately from 2.26% to 3.92% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a great 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 12(a) to the notes to the consolidated financial statements. 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 designated as at fair value through profit or loss, trade and other receivables, amounts due from related parties and available-for-sale investments, 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, and had insurance policies in place 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 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 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 28,540 dedicated full-time employees as at 31 December 2017, including 6,359 management and administrative staff, 21,543 production workers and 638 operation supporting staff. In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain elite employees, 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 a share option scheme and the Restricted Share Award Scheme, for the purposes of providing incentives and rewards to eligible participants to recognise their contribution to the Group and enhancing their ownership spirits. For the year ended 31 December 2017, no share option was granted or agreed to be granted by the Company under the share option scheme. In addition, during the year ended 31 December 2017, an aggregate of 1,443,211 shares were granted to eligible participants in accordance with the Restricted Share Award Scheme.

DIVIDENDS

The Directors proposed a payment from the distributable reserves of the Company a final dividend of approximately RMB0.661 (equivalent to HK$0.812) per share in respect of the year ended 31 December 2017 to the shareholders whose names appear on the register of members of the Company at the close of business on 4 June 2018. The final dividends, payable on 25 June 2018, are subject to the approval of the shareholders of the Company at the forthcoming annual general meeting ("**AGM**") to be held on 29 May 2018.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the eligibility of shareholders to attend the AGM, which is to be held on 29 May 2018, the register of members of the Company will be closed from 24 May 2018 to 29 May 2018, 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, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 23 May 2018.

In order to determine the eligibility of shareholders to the dividends, the register of members of the Company will be closed from 5 June 2018 to 11 June 2018, 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, Wan Chai, Hong Kong for registration no later than 4:30 p.m. on 4 June 2018.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries, with the exception of the trustees of the Restricted Share Award Scheme of the Company's listed shares during the year ended 31 December 2017.

CORPORATE GOVERNANCE

Corporate Governance Practices

Throughout the year ended 31 December 2017, the Company complied with all of the code provisions and adopted most of the recommended best practices of the Corporate Governance Code (the "**Corporate Governance Code**", applicable to financial reports for the periods subsequent to 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2017.

REVIEW OF FINANCIAL STATEMENTS

The Company has established the audit committee with written terms of reference. The Group's audited final results for the year ended 31 December 2017 were reviewed by all the members of the audit committee of the Board, namely, Mr. Zhang Yuqing, Mr. Feng Hua Jun and Mr. Shao Yang Dong (all are independent non-executive Directors).

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group is committed to create two-way channels of communication between senior management and investors, maintaining close relationships with all its shareholders through a variety of channels and promoting understanding and communication between investors and us. 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). The main communication channels with the shareholders include investors' meetings, annual general meeting, annual reports, interim reports, announcements and circulars, constitutional documents and the Group's website (http://www.sunnyoptical.com).

The Group has a dedicated team to maintain contact with investors and handle shareholders' inquiries. Should investors have any inquiries, please contact the Group investor relationship department (Tel:+86-574-6253 4996; +852-3568 7038; e-mail: 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 2017 will be despatched to shareholders of the Company and will be published on the same websites in due course.

APPRECIATION

The Group would like to express its appreciation to all staff for their outstanding contribution towards the Group's development. The Board wishes to sincerely thank the management for their dedication and diligence, and they are the key factors in the Group's continual success in the future. Also, the Group wishes to extend its gratitude to the continuous support from its shareholders, customers, and business partners. The Group will continue to deliver sustainable business development, so as to meet its business objectives for 2018 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

Hong Kong, 19 March 2018

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.