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 2018

RESULT HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2018 was approximately RMB25,931.9 million, representing an increase of approximately 15.9% compared to that of last year. The increase in revenue was mainly benefited from the Group's better development in the industry of smartphone related businesses and vehicle imaging field.
- The gross profit for the year ended 31 December 2018 was approximately RMB4,913.1 million, representing an increase of approximately 2.3% compared to that of last year. The gross profit margin was approximately 18.9%.
- Profit for the year attributable to owners of the Company for the year ended 31 December 2018 decreased by approximately 14.2% to approximately RMB2,490.9 million compared to that of last year.
- Basic earnings per share for the year ended 31 December 2018 decreased by approximately 14.6% to approximately RMB227.92 cents compared to that of last year.
- The Board of Directors has proposed a final dividend of approximately RMB0.568 (equivalent to HK$0.662) per share for the year ended 31 December 2018.

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 2018, together with the comparative figures for the year of 2017 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the year ended 31 December 2018

	NOTES	**2018**	2017
		RMB'000	*RMB'000*
Revenue	*3,4*	**25,931,852**	22,366,252
Cost of sales		**(21,018,737)**	(17,563,489)
Gross profit		**4,913,115**	4,802,763
Other income	*5(A)*	**467,024**	206,387
Other gains and losses	*5(B)*	**(292,979)**	93,296
Impairment losses, net of reversal		**(3,851)**	42,901
Selling and distribution expenses		**(209,872)**	(205,052)
Research and development expenditure		**(1,362,345)**	(1,168,157)
Administrative expenses		**(433,894)**	(388,922)
Share of results of associates		**(23,787)**	(16,096)
Finance costs	*6*	**(202,137)**	(48,801)
Profit before tax		**2,851,274**	3,318,319
Income tax expense	*7*	**(338,595)**	(404,205)
Profit for the year	*8*	**2,512,679**	2,914,114
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Fair value loss on investments in equity instruments at fair value through other comprehensive income		**(54,065)**	–
Item that may be reclassified subsequent to profit or loss:			
Exchange differences arising on translation from foreign operations		**2,137**	(2,199)
Other comprehensive expense for the year		**(51,928)**	(2,199)
Total comprehensive income for the year		**2,460,751**	2,911,915
Profit for the year attributable to:			
Owners of the Company		**2,490,872**	2,901,554
Non-controlling interests		**21,807**	12,560
		2,512,679	2,914,114
Total comprehensive income attributed to:			
Owners of the Company		**2,438,083**	2,899,926
Non-controlling interests		**22,668**	11,989
		2,460,751	2,911,915
Earnings per share – Basic (RMB cents)	*10*	**227.92**	266.76
– Diluted (RMB cents)	*10*	**227.25**	265.61

Consolidated Statement of Financial Position
At 31 December 2018

	NOTES	**31/12/2018**	31/12/2017
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*11*	**4,522,741**	2,585,922
Prepaid lease payments		**213,823**	162,928
Investment properties		**49,689**	54,080
Intangible assets		**348,821**	392,424
Interests in associates		**100,808**	124,595
Deferred tax assets	*12*	**42,599**	40,435
Deposits paid for acquisition of property, plant and equipment		**401,342**	594,992
Available-for-sale investments	*13*	**–**	129,373
Equity instruments at fair value through other comprehensive income ("**FVTOCI**")	*14*	**106,583**	–
Debt instruments at amortised cost	*15*	**54,479**	–
Financial assets at fair value through profit or loss ("**FVTPL**")	*16*	**235,085**	–
Deposits paid for acquisition of land use rights		**–**	3,823
Derivative financial assets	*17*	**7,799**	2,283
		6,083,769	4,090,855
CURRENT ASSETS			
Inventories		**3,073,922**	2,621,844
Trade and other receivables and prepayment	*18*	**6,231,486**	5,665,689
Prepaid lease payments		**5,581**	4,515
Tax recoverable		**111,863**	–
Derivative financial assets	*17*	**38,986**	1,092
Financial assets at fair value through profit or loss	*16*	**4,759,582**	1,952,340
Debt instruments at amortised cost	*15*	**54,915**	–
Amounts due from a related party		**3,032**	2,810
Pledged bank deposits		**214,708**	140,288
Short term fixed deposits		**20,000**	20,000
Bank balances and cash		**2,254,299**	1,226,877
		16,768,374	11,635,455
CURRENT LIABILITIES			
Trade and other payables	*19*	**7,063,861**	6,182,802
Amounts due to related parties		**8,978**	4,087
Derivative financial liabilities	*17*	**741**	30,438
Tax payable		**–**	101,494
Bank borrowings		**1,482,405**	1,347,881
Contract liabilities		**110,281**	–
Deferred income – current portion		**11,175**	38,788
		8,677,441	7,705,490
NET CURRENT ASSETS		**8,090,933**	3,929,965
TOTAL ASSETS LESS CURRENT LIABILITIES		**14,174,702**	8,020,820

	NOTES	31/12/2018	31/12/2017
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	12	**403,328**	106,895
Derivative financial liabilities	17	**2,682**	2,597
Long term payables		**330,452**	347,294
Deferred income – non-current portion		**70,113**	44,825
Bonds payable	20	**4,079,983**	–
		4,886,558	501,611
NET ASSETS		**9,288,144**	7,519,209
CAPITAL AND RESERVES			
Share capital	21	**105,163**	105,177
Reserves		**9,128,934**	7,383,342
Equity attributable to owners of the Company		**9,234,097**	7,488,519
Non-controlling interests		**54,047**	30,690
TOTAL EQUITY		**9,288,144**	7,519,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

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**") are principally engaged in the business of designing, researching and developing, manufacturing and selling of optical and optical related products and scientific instruments.

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

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

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

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

HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers and the related Amendments*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
Amendments to HKAS 28	*As part of the Annual Improvements to HKFRSs 2014-2016 Cycle*
Amendments to HKAS 40	*Transfers of Investment Property*

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line item affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (Audited)	HKFRS 15	HKFRS 9	1 January 2018 (Restated)
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Non-current Assets				
Available-for-sale investments	129,373	–	(129,373)	–
Financial assets at FVTPL	–	–	36,750	36,750
Equity instruments at FVTOCI	–	–	134,056	134,056
Current Assets				
Trade and other receivables and prepayment	5,665,689	–	(1,966)	5,663,723
Current liabilities				
Trade and other payables	6,182,802	(76,050)	–	6,106,752
Contract liabilities	–	76,050	–	76,050
Non-current liabilities				
Deferred tax liabilities	106,895	–	6,215	113,110
Capital and Reserves				
Reserves	7,383,342	–	33,252	7,416,594

Note: the net effects arising from the initial application of HKFRS 15 and HKFRS 9 on the carrying amount of interests in associates on the opening consolidated financial statements was insignificant in the opinion of the Directors of the Company.

Except as described above, the application of amendments to HKFRSs in the current year has had no material effect on the amounts reported and/or disclosures set out in these consolidated financial statements.

3. REVENUE

A. For the year ended 31 December 2018

(i) Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018		
	Optical Components	Optoelectronic Products	Optical Instruments
	RMB'000	*RMB'000*	*RMB'000*
Types of goods or service			
Sales of optical and related components	**6,022,754**	**19,609,171**	**299,927**
Total	**6,022,754**	**19,609,171**	**299,927**
Geographical markets			
Mainland China	**3,034,629**	**18,500,513**	**175,582**
Korea	**1,058,185**	**2,445**	**3,469**
Japan	**396,428**	**242,994**	**17,358**
United States	**447,780**	**39,499**	**56,494**
Hong Kong	**37,395**	**441,608**	**1,613**
Others	**1,048,337**	**382,112**	**45,411**
Total	**6,022,754**	**19,609,171**	**299,927**
Timing of revenue recognition			
At a point of time	**6,022,754**	**19,609,171**	**299,927**

(ii) Performance obligations for contracts with customers

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

B. For the year ended 31 December 2017

An analysis of the Group's revenue for the year from continuing operations is as follows:

	Year ended 31/12/2017
	RMB'000
Sales of optical components	4,301,727
Sales of optoelectronic products	17,771,025
Sales of optical instruments	293,500
	22,366,252

4. OPERATING SEGMENTS

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

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

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

Segment revenues and results

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

<u>For the year ended 31 December 2018</u>

	Optical Components	Optoelectronic Products	Optical Instruments	Segment Total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
REVENUE						
External sales	6,022,754	19,609,171	299,927	25,931,852	–	25,931,852
Inter-segment sales	1,536,494	13,523	30,995	1,581,012	(1,581,012)	–
Total	7,559,248	19,622,694	330,922	27,512,864	(1,581,012)	25,931,852
Segment profit	2,428,098	636,041	19,059	3,083,198	–	3,083,198
Share of results of associates						(23,787)
Unallocated income						111,083
Unallocated expenses						(319,220)
Profit before tax						2,851,274

For the year ended 31 December 2017

	Optical Components	Optoelectronic Products	Optical Instruments	Segment Total	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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

Segment assets and liabilities

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

Inter-segment sales are charged at prevailing market rates.

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

As at 31 December 2018

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

As at 31 December 2017

	Optical Components	Optoelectronic Products	Optical Instruments	Total
	RMB'000	*RMB'000*	*RMB'000*	*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

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

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

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

Other segment information

For the year ended 31 December 2018

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

For the year ended 31 December 2017

	Optical Components	Optoelectronic Products	Optical Instruments	Unallocated	Consolidated total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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
Impairment losses on trade receivables (reversed) recognised in profit or loss	(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

Revenue from major products

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

	2018	2017
	RMB'000	*RMB'000*
Mobile phone related products	**21,803,100**	19,085,564
Digital camera related products	**921,560**	800,660
Optical instruments	**202,448**	220,038
Other lens sets	**1,769,948**	1,386,944
Digital video lens	**89,188**	66,699
Other spherical lens and plane products	**134,276**	111,323
Other products	**1,011,332**	695,024
	25,931,852	22,366,252

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	
	2018	2017	31/12/2018	31/12/2017
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
The PRC (excluding Hong Kong) (country of domicile)	**21,710,724**	18,922,274	**5,533,519**	3,792,558
Korea	**1,064,099**	856,048	**943**	1,098
Japan	**656,780**	563,618	**216**	90
United States	**543,773**	613,608	**18**	36
Hong Kong	**480,616**	554,431	**–**	–
Others	**1,475,860**	856,273	**1,720**	387
	25,931,852	22,366,252	**5,536,416**	3,794,169

Note: Non-current assets excluded interests in associates, deferred tax assets, financial assets at fair value through profit or loss, equity instruments at fair value through other comprehensive income, debt instruments at amortised cost, 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:

	2018	2017
	RMB'000	*RMB'000*
Customer A, revenue from Optoelectronic Products	**5,674,142**	4,819,140
Customer B, revenue from Optoelectronic Products	**4,230,075**	4,113,135
Customer C, revenue from Optoelectronic Products	**3,764,092**	3,808,411

5(A). OTHER INCOME

	2018	2017
	RMB'000	*RMB'000*
Interest income from short term fixed deposits and bank balances	**15,104**	4,209
Interest income from pledged bank deposits	**2,305**	1,770
Interest income from debt instruments	**10,503**	–
Investment income from unlisted financial products	**181,271**	68,957
Interest income from small loan services	**9,180**	6,144
Government grants	**198,599**	80,595
Income from sales of moulds	**6,522**	8,052
Income from sales of scrap materials	**11,396**	6,160
Income from customised specialised device services	**4,273**	13,438
Rental income	**9,223**	4,774
Others	**18,648**	12,288
Total	**467,024**	206,387

5(B). OTHER GAINS AND LOSSES

	2018	2017
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(1,914)**	(639)
Gain on disposal of land use right	**1,798**	–
Gain on acquisition of a subsidiary	**–**	1,308
Gain on disposal of subsidiaries	**857**	–
Net foreign exchange (losses) gains	**(377,484)**	42,758
Gain on changes in fair value of derivative financial instruments, net	**73,022**	49,796
Gain on changes in fair value of equity instruments at FVTPL	**21,130**	–
Loss on changes in fair value of debt instruments and fund investments at FVTPL	**(17,675)**	–
Others	**7,287**	73
Total	**(292,979)**	93,296

6. FINANCE COSTS

	2018	2017
	RMB'000	*RMB'000*
Interests on bank borrowings	**45,350**	38,903
Interests on bonds payable	**147,779**	–
Interest on long term payables related to intangible assets	**9,008**	9,898
Total	**202,137**	48,801

7. INCOME TAX EXPENSE

	2018	2017
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax	**49,520**	329,493
Other jurisdictions	**6,442**	13,621
	55,962	343,114
(Over) under provision in prior years:		
PRC Enterprises Income Tax	**(6,829)**	611
Deferred tax *(Note 12)*:		
Current year	**289,462**	60,480
	338,595	404,205

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

(i) Ningbo Sunny Infrared Technologies 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 2018.

(ii) Ningbo Sunny Opotech Co., Ltd. ("**Sunny Opotech**"), Ningbo Sunny Automotive Optech Co., Ltd. ("**Sunny Automotive Optech**"), Sunny Optics (Zhongshan) Co., Ltd. ("**Sunny Zhongshan Optics**") and Ningbo Sunny Instruments Co., Ltd. ("**Sunny Instruments**"), domestic limited liability companies, were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2019.

(iii) Zhejiang Sunny Optics Co., Ltd. ("**Sunny Zhejiang Optics**") and Xinyang Sunny Optics Co., Ltd. ("**Sunny Xinyang Optics**"), domestic limited liability companies, were approved as Hi-Tech Enterprise and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2020.

(iv) Zhejiang Sunny Optical Intelligence Technology Co., Ltd. ("**Sunny Optical Intelligence**"), a domestic limited liability company, was recognised as Software Enterprise and entitled preferential policies of exemption from enterprise income taxation for the first two years till 31 December 2018 and reduction half for the subsequent three years till 31 December 2021.

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

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

As at 31 December 2018, the deferred tax liability amounting to RMB80,859,000 (31 December 2017: RMB49,329,000) (Note 12) was provided in respect of the temporary differences attributed to the PRC undistributed profits to the extent exceeding the investment plan which the Directors of the Company decided to distribute.

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

	2018	2017
	RMB'000	*RMB'000*
Profit before tax	**2,851,274**	3,318,319
Tax at the PRC EIT tax rate of 25%	**712,819**	829,580
Tax effect of share of results of associates	**5,947**	4,024
Tax effect of expenses not deductible for tax purpose	**19,904**	35,609
Tax effect of allowance granted under share award scheme in the PRC	**(106,055)**	(133,200)
Tax effect of preferential tax rates for certain subsidiaries *(Note 1)*	**(198,384)**	(217,435)
Tax effect of additional tax deduction of research & development expenses *(Note 2)*	**(197,514)**	(125,842)
Tax effect of tax losses not recognised	**108,860**	21,369
Utilisation of tax losses not previously recognised	**(2,019)**	(2,595)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**1,866**	(7,916)
(Over) under provision in prior years	**(6,829)**	611
Income tax expense for the year	**338,595**	404,205

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

Note 1: For the 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)", 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 in August 2018, a new notice with the name of Caishui [2018] No.99 "Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses" was released, according to which certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research & development expenses incurred by them for the year ended 31 December 2018.

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2018	2017
	RMB'000	*RMB'000*
Directors' emoluments	**8,274**	8,299
Other staff's salaries and allowances	**1,212,285**	1,477,510
Other staff's discretionary bonuses	**264,042**	268,677
Other staff's contribution to retirement benefit scheme	**148,216**	109,643
Other staff's share award scheme expense	**88,932**	84,719
	1,721,749	1,948,848
Cost of inventories recognised as an expense	**21,018,737**	17,563,489
Auditor's remuneration	**3,649**	3,251
Depreciation of property, plant and equipment	**771,411**	489,202
Depreciation of investment properties	**4,391**	2,023
Release of prepaid lease payments	**4,842**	4,498
Amortisation of intangible assets	**43,603**	43,603
Allowance for inventories (included in cost of sales)	**60,034**	29,019

9. DIVIDENDS

	2018	2017
	RMB'000	*RMB'000*
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2017 final dividends – RMB66.10 cents (2017: 2016 final dividends – RMB29.00 cents) per share	**725,117**	318,130

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2018 of approximately RMB56.80 cents per share, equivalent to Hong Kong Dollar ("HK$" or "HKD") 66.20 cents per share, amounting to a total of approximately RMB623,011,000 (2017: approximately RMB66.10 cents per share, equivalent to HK$81.20 cents per share, amounting to a total of approximately RMB725,117,000) has been proposed by the Directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting. The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

10. EARNINGS PER SHARE

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

	2018	2017
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**2,490,872**	2,901,554

	2018	2017
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share *(Note)*	**1,092,863**	1,087,701
Effect of dilutive potential ordinary shares:		
Restricted Shares	**3,247**	4,715
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,096,110**	1,092,416

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

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Machinery and production equipment	Motor vehicles	Fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 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 and 1 January 2018	390,521	3,314,464	18,328	381,327	270,300	4,374,940
Additions	1,584	1,679,663	2,659	112,752	946,818	2,743,476
Transfer	186,244	82,839	–	163,177	(432,260)	–
Disposals	(22,278)	(38,698)	(1,982)	(26,929)	–	(89,887)
Derecognised on disposal of subsidiaries	–	(7,168)	(328)	(1,295)	–	(8,791)
Exchange realignment	–	258	77	68	–	403
At 31 December 2018	556,071	5,031,358	18,754	629,100	784,858	7,020,141
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 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 and 1 January 2018	113,008	1,435,299	12,089	228,622	–	1,789,018
Charge for the year	18,907	685,920	2,416	64,168	–	771,411
Eliminated on disposals	(1,555)	(30,115)	(1,864)	(24,660)	–	(58,194)
Derecognised on disposal of subsidiaries	–	(3,917)	(292)	(933)	–	(5,142)
Exchange realignment	–	190	64	53	–	307
At 31 December 2018	130,360	2,087,377	12,413	267,250	–	2,497,400
CARRYING VALUES						
At 31 December 2018	425,711	2,943,981	6,341	361,850	784,858	4,522,741
At 31 December 2017	277,513	1,879,165	6,239	152,705	270,300	2,585,922

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

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:

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Buildings on leasehold land outside Hong Kong	**425,711**	277,513

12. DEFERRED TAXATION

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Deferred tax assets	**(42,599)**	(40,435)
Deferred tax liabilities	**403,328**	106,895
	360,729	66,460

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

	Withholding tax on distributed profit from the PRC	**Allowance for inventories and ECL provision**	**Deferred subsidy income**	**Accelerated depreciation**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2017	5,595	(24,534)	(1,267)	28,269	(2,083)	5,980
Charge (Credit) to profit or loss *(Note 7)*	43,734	1,811	(5,758)	29,297	(8,604)	60,480
At 31 December 2017	49,329	(22,723)	(7,025)	57,566	(10,687)	66,460
Effect arising from initial application of HKFRS 9	–	–	–	–	6,215	6,215
At 1 January 2018 (restated)	**49,329**	**(22,723)**	**(7,025)**	**57,566**	**(4,472)**	**72,675**
Charge (Credit) to profit or loss *(Note 7)*	**31,530**	**(9,733)**	**(2,263)**	**256,927**	**13,001**	**289,462**
Credit to other comprehensive income	**–**	**–**	**–**	**–**	**(1,408)**	**(1,408)**
At 31 December 2018	**80,859**	**(32,456)**	**(9,288)**	**314,493**	**7,121**	**360,729**

At the end of the reporting period, the Group had unused tax losses of approximately RMB978,348,000 (2017: RMB204,551,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses for both years of 2018 and 2017 due to the unpredictability of future profit streams. The tax losses arising from the PRC non high-tech subsidiaries of RMB96,388,000 (2017: RMB160,206,000) can be carried forward for maximum of five years and will expire during 2019 to 2023 while the tax losses arising from the PRC high-tech subsidiaries of RMB835,768,000 (2017: Nil) can be carried forward for maximum of ten years and will expire during 2019 to 2028 according to Caishui [2018] No.76. which has extended the expiration period from five years to ten years. Other tax losses may be carried forward indefinitely.

13. AVAILABLE-FOR-SALE INVESTMENTS

	31/12/2017
	RMB'000
Unlisted equity securities, at cost	129,373

As at 31 December 2017, the carrying amount of the available-for-sale investments was RMB129,373,000 which measured at cost less impairment since these investments do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

According to the transition provisions set out in HKFRS 9, the Group applied the classification and measurement requirements retrospectively to financial instruments that have not been derecognised as at 1 January 2018. At the date of initial application of HKFRS 9, the Group irrevocably elected to present the equity instruments amounting to RMB92,623,000 with the subsequent changes in fair value of equity investments in other comprehensive income ("**OCI**") and a fair value gain of RMB35,218,000 (net off with the related deferred tax liabilities of RMB6,215,000) was recognised in the FVTOCI reserve as at 1 January 2018.

The remaining equity investments with the carrying amount of RMB36,750,000 were reclassified as FVTPL and the fair value change of these equity investments were insignificant upon the initial application of HKFRS 9 at 1 January 2018.

14. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31/12/2018
	RMB'000
Unlisted equity investments	**106,583**

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

As at 31 December 2018, the fair value of one private equity investment decreased significantly due to the unqualified project result failed to achieve the critical milestone at the year end. In the opinion of the Directors of the Company, it is more than likely that the investment could not be recovered due to the pessimistic prospects of the investee's future development. Therefore, the carrying amount of RMB55,473,000 was impaired and a fair value loss of RMB54,065,000 (net off with the reversal of related deferred tax liabilities of RMB1,408,000) was recognised in FVTOCI reserve.

15. DEBT INSTRUMENTS AT AMORTISED COST

In April 2018, the Group purchased debt instruments amounting to RMB101,079,000 which carries coupon rates ranging from 3.50% to 4.75% with the business model to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding semi-annually according to the contract terms. Accordingly, these debt instruments were classified and subsequently measured at amortised cost, the carrying amount of the instruments is RMB109,394,000 as at 31 December 2018, among which RMB54,915,000 will mature within one year and the remaining amount of RMB54,479,000 will mature after one year.

16. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Current assets		
Fund investments *(Note a)*	**327,512**	–
Unlisted financial products *(Note b)*	**4,432,070**	1,952,340
	4,759,582	1,952,340
Non-current assets		
Debt investments *(Note c)*	**157,205**	–
Equity investments *(Note d)*	**77,880**	–
	235,085	–

(a) Fund investments

During the current year, the Group entered into several contracts to purchase fund units (the "**Fund**") with a financial institution. The entire contracts have been accounted for financial assets at FVTPL on initial recognition. As at 31 December 2018, the fair value of the Fund is United State Dollar ("**US$**" or "**USD**") 47,720,000 per the investment statement of the financial institution, equivalent to RMB327,512,000.

(b) Unlisted financial products

During the current year, the Group entered into several contracts of unlisted financial products with banks. The unlisted financial products are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for financial assets at FVTPL on initial recognition in which that the return of the unlisted financial products 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 1.80% to 5.30% (31 December 2017: 2.20% to 5.30%) per annum.

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

(c) Debt investments

During the current year, the Group entered into several contracts to purchase the debt investments with carrying coupon rates ranging from 4.65% to 7.25% with certain features which could not pass the testing of solely payments of principal and interest on the principal amount outstanding and accounted for financial assets at FVTPL.

(d) Equity investments

Upon the initial application of HKFRS 9, the Group's equity investments of 餘姚市陽明智行投資中心（有限合夥）("**V Fund**") in the amount of RMB36,750,000 were reclassified from available-for-sale investments to financial assets at FVTPL as at 1 January 2018. During the current year, the Group has also made another equity investment in the amount of RMB20,000,000 into a newly set up partnership enterprise which was established with the independent third parties, the equity interest accounted for only 1.46% and this equity investment was also measured at FVTPL. As at 31 December 2018, the fair value of those equity investments is RMB77,880,000 with the subsequent changes in fair value gain of RMB21,130,000 recognised in other gains or losses during the current year.

17. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	31/12/2018	31/12/2017	**31/12/2018**	31/12/2017
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Foreign currency forward contracts	**46,388**	–	**2,682**	28,788
Foreign currency options contracts	**397**	3,375	**741**	4,247
Total	**46,785**	3,375	**3,423**	33,035
Less: current portion				
Foreign currency forward contracts	**38,589**	–	**–**	–
Foreign currency options contracts	**397**	1,092	**741**	30,438
	38,986	1,092	**741**	30,438
Non-current portion	**7,799**	2,283	**2,682**	2,597

As at 31 December 2018 and 2017, 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.

	Receiving currency	**Selling currency**	**Maturity date**	**Weighted average forward exchange rate**
Contract T	USD37,000,000	RMB244,396,000	14 June 2019	USD:RMB at 1:6.61
Contract U	USD40,000,000	RMB263,240,000	14 March 2019	USD:RMB at 1:6.58
Contract V	USD37,000,000	RMB244,400,000	14 March 2019	USD:RMB at 1:6.61
Contract series W	USD101,250,000	RMB678,054,000	Semi-annually Till 18 January 2023	USD:RMB from 6.45 to 6.99

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	**Strike/barrier/ forward rates**	**Ending Settlement Date** *(Note 1)*	
	USD'000		**2018**	**2017**
Contract K *(Note 2)*	60,000	USD:RMB at 1:7.156	N/A	27 March 2018
Contract L *(Note 2)*	60,000	USD:RMB at 1:7.15	N/A	27 March 2018
Contract M *(Note 3)*	120,000	USD:RMB at 1:7.22	N/A	26 September 2018
Contract N *(Note 3)*	120,000	USD:RMB at 1:7.20	N/A	26 September 2018
Contract O	125,000	USD:RMB at 1:7.30	7 May 2019	7 May 2019
Contract P	125,000	USD:RMB at 1:7.28	7 May 2019	7 May 2019

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

Note 2: Both contract K and contract L were settled as a result of occurrence of trigger event on 27 March 2018.

Note 3: Both contract M and contract N were settled as a result of occurrence of trigger event on 26 September 2018.

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.

18. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Current assets		
Trade receivables	**5,186,714**	4,546,193
Less: allowance for expected credit losses	**(101,586)**	(96,850)
	5,085,128	4,449,343
Bill receivables	**710,363**	796,945
Loan receivables *(Note)*	**107,731**	138,059
Other receivables and prepayment		
Value added tax and other tax receivables	**88,061**	42,807
Individual income tax receivable from employees	**–**	45,890
Advance to suppliers	**83,848**	35,357
Interest receivables	**38,349**	10,714
Prepaid expenses	**63,892**	76,469
Rental and utilities deposits	**19,206**	55,133
Other receivables from employees	**14,283**	3,586
Others	**20,625**	11,386
	328,264	281,342
Total trade and other receivables and prepayment	**6,231,486**	5,665,689

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 90 days	**4,967,107**	4,404,611
91 to 180 days	**117,752**	43,102
Over 180 days	**269**	1,630
	5,085,128	4,449,343

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

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Within 90 days	**645,037**	682,520
91 to 180 days	**65,326**	114,425
	710,363	796,945

As at 31 December 2018, total bills received amounting to RMB710,363,000 (31 December 2017: RMB796,945,000) are held by the Group for future settlement of trade receivables. All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB77,019,000 which are past due as at the reporting date. Out of the past due balances, RMB40,000 has been past due 90 days or more and is not considered as in default as the amount will be repaid by the customer based on the customer's promise and historical experience. The Group does not hold any collateral over these balances.

As at December 2017, 99% of the trade receivables that are neither past due nor impaired have high credit scoring attributable under the internal credit scoring system used by the Group.

As at December 2017, included in the Group's trade receivables are debtors with an aggregate carrying amount of RMB44,732,000 which are past due at the end of the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired

	31/12/2017
	RMB'000
91 to 180 days	43,102
Over 180 days	1,630
Total	44,732

Movement in the allowance for doubtful debts

	31/12/2017
	RMB'000
1 January	141,827
Impairment losses recognised	18,735
Impairment losses reversed	(61,636)
Write-offs	(2,076)
Balance at end of the reporting period	96,850

As at December 2017, included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB82,797,000.

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

19. 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.

	31/12/2018	31/12/2017
	RMB'000	*RMB'000*
Current liabilities		
Trade payables		
Within 90 days	**3,991,794**	3,802,811
91 to 180 days	**651,096**	384,235
Over 180 days	**3,362**	2,402
Accrued purchases	**428,089**	350,351
Total trade payables and accrued purchases	**5,074,341**	4,539,799
Note payables		
Within 90 days	**948,474**	614,156
91 to 180 days	**21,468**	34,371
	969,942	648,527
Payables for purchase of property, plant and equipment	**195,588**	133,647
Payable for acquisition of assets	**–**	3,520
Staff salaries and welfare payables	**387,020**	461,953
Labor outsourcing payables	**129,430**	–
Advance from customers	**–**	76,050
Payable for acquisition of patents	**41,134**	40,224
Value added tax payables and other tax payables	**150,001**	171,324
Technology grant payables	**450**	25,832
Commission payables	**11,262**	11,078
Interest payable	**70,062**	3,314
Rental and utilities payable	**8,264**	15,017
Accrued research and development expenses	**7,248**	1,272
Others	**19,119**	51,245
	1,019,578	994,476
	7,063,861	6,182,802
Non-current liabilities		
Long term payables		
Payable for acquisition of patents	**330,452**	347,294

The credit period on purchases of goods is up to 180 days (2017: 180 days) and the credit period for note payables is 90 days to 180 days (2017: 90 days to 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

20. BONDS PAYABLE

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

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

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

21. SHARE CAPITAL

	Number of shares	Amount	Equivalent to
		HK$'000	*RMB'000*
Authorised:			
Ordinary shares of HK$0.10 each at 1 January 2017, 31 December 2017 and 31 December 2018	100,000,000,000	10,000,000	
Issued & fully paid:			
Ordinary shares of HK$0.10 each at 31 December 2017	1,097,000,000	109,700	105,177
Shares repurchased and cancelled	(150,300)	(15)	(14)
At 31 December 2018	1,096,849,700	109,685	105,163

22. EVENT AFTER THE REPORTING PERIOD

(a) On 10 January 2019, the Company, through its wholly-owned subsidiaries, Ningbo Sunny Opotech Company Limited and Summit Optical Investment Limited, jointly established a new subsidiary in Indian named Sunny Opotech India Private Limited to meet the customer's demand in the Indian market.

(b) On 21 January 2019, the Company, through its wholly-owned subsidiary, Sunny Zhejiang Optics Company Limited, acquired certain equity interests in a Japanese company which is mainly engaged in the research and development of advanced nanotechnology and established another new subsidiary named Sunny OmniLight Technology Company Limited to implement the strategic layout in Micro-nano optics industry.

(c) On 31 January 2019, the Company, through its wholly-owned subsidiary, Sunny Group Company Limited, entered into an equity transfer agreement with several equity investors of Wuxi Wissen Intelligent Sensing Technology Co., Ltd ("**Wissen**") to acquire an additional 13.96% equity interests of Wissen at a cash consideration of RMB17,071,000 (the "**Acquisition**"). Immediately after the Acquisition, the Group's total equity interests in Wissen increased from 46.11% to 60.07%, it will account for from an associate to a subsidiary of the Group which will be consolidated by the Company thereafter.

Wissen was established in the PRC and it is a professional enterprise on automotive safety sensing system and automotive camera modules. The Directors of the Company considered that the Acquisition was beneficial to the Group by strengthening the Group's business layout of advanced driving assistant system in automobile industry.

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 2018 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 2018, global economic growth has slowed down with the escalation of Sino-US trade frictions, leading to pessimistic domestic and foreign demand condition. Facing these internal and external conditions, the economic growth in China slowed down continuously with downward pressure. The domestic smartphone market gradually revealed a multi-polar development trend while the demand was further weakened with the industry experiencing tremendous changes. The Chinese handset brands developed rapidly. Moreover, affected by the unstable macro environment, the global vehicle sales volume in 2018 was slightly decreased than that of last year. However, due to the implementation of global regulations and the introduction of new requirements, as well as the market demand for enhancing driving safety and intellectualization, the adoption rate and specification requirements of vehicle lens sets have been increasing.

According to the report issued by International Data Corporation ("**IDC**"), the global shipment volume of smartphones in 2018 decreased by approximately 4.1% from that in 2017 to approximately 1,400.0 million units. Among which, the shipment volume of Chinese smartphone brands reached approximately 360.0 million units in total, contributing to approximately 25.7% of the market share. The weak consumer market and the lack of innovation in mobile phone functions have led to a weakening of consumers' demand for replacement, further slowing down the Chinese smartphone market. Under this circumstance, industrial consolidation and market concentration is increasingly prevalent. The top four mobile phone manufacturers in China occupied the major market share firmly by virtue of their technology accumulation, capital advantage and channel advantage, leaving niche brands with smaller room for survival. At the same time, the competition among handset brands was intense and the upgrade of camera specifications was still the key to gain market share. High-end and complex specifications such as large-aperture, wide-angle, microminiaturization, multi-camera and 3D application have been applied to the smartphone brands in China. The Group took the market-driven technological innovation and the R&D investment as the driving force, and formulated plan in advance to seize the first opportunity in the market. Furthermore, the Group will undergo in-depth cooperation with many companies with core key technologies to further consolidate its leading advantages in the optical related industries.

Driven by the development of intellectualised driving and the regulations in the United States, the European Union, Japan and China, the demand for vehicle lens sets continues to show a steadily soaring trend. Since 2016, the United States, the European Union, Japan and other countries and regions listed forward collision warning ("**FCW**") system, lane departure warning ("**LDW**") system, automatic emergency braking ("**AEB**") system and blind spot detection ("**BSD**") system into the mandatory loading in regulations or New Car Assessment Programme ("**NCAP**"). Among them, China NCAP initially included the evaluation indicators of active safety requirements in its "Management Regulation" in 2018 version. Other countries in Asia, such as Japan and India, have been formulating certain regulations to require the use of some special ADAS technologies. The development of artificial intelligence, communication and sensing technologies has made progress to the realization of automatic driving. Both high-tech giants and traditional car manufacturers have allocated a lot of R&D resources to promote the development of automatic driving. Before such realization, the increase in consumers' demand for active safety will take the lead to drive the market demand for ADAS and a large number of sensors. Meanwhile, camera is the basis for implementing many early warning and recognition functions in ADAS. Over 80% of the ADAS technology functions have applied to the cameras, or even some technologies have taken the camera as major solution. In addition, the development of the self-driving car market is gradually deepening and the demand for the application of LIDAR and infrared related products will continue to emerge. Taking advantage of the leading technological innovation abilities and the first-mover advantages in establishing market presence as well as the excellent resource integration abilities, the Group will be comprehensively benefited from the continuous and rapid growth in the vehicle lens sets industry.

In spite of the complex and changing external environment, with strong R&D strengths, precise market distribution and persistence on its development strategy of "Improving and Expanding the Existing Advantageous Businesses", the three major business segments of the Group, namely Optical Components, Optoelectronic Products and Optical Instruments, have a solid and stable development, which further consolidated the Group's leading position in the industry as an optical expert. Furthermore, in order to achieve the ambitious goal as soon as possible, the Group laid a solid foundation by means of continuing to base itself in the promising optoelectronic industry, promoting the implementation of new transformation and upgrade and pursuing the construction of new production base.

The Group's revenue for the year ended 31 December 2018 increased by approximately 15.9% to approximately RMB25,931.9 million. Profit for the year attributable to owners of the Company decreased by approximately 14.2% to approximately RMB2,490.9 million. Besides, the basic earnings per share decreased by approximately 14.6% to approximately RMB227.92 cents. The Board has proposed an annual dividend of approximately RMB0.568 (equivalent to HK$0.662) (2017: approximately RMB0.661) per share.

The Group's net current assets as at 31 December 2018 increased by approximately 105.9% to approximately RMB8,090.9 million. The Group's total assets as at 31 December 2018 increased by approximately 45.3% to approximately RMB22,852.1 million.

In 2018, the Group continued to deepen "Two Transformations", enhanced the added value of software and algorithm in products and services, deepened its existing advantageous businesses, increased the investment in new businesses, enhanced the management level, strengthened the supply chain management and constantly improved the operation quality. With the concerted effort of the staff, the Group received numerous honours and awards from its customers, industrial associations and institutions, local governments and the capital market. All these awards indicated that the quality of the products, technical capabilities, services, delivery time and other aspects of the Group have been highly affirmed and recognised by the 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".

OUTLOOK AND FUTURE STRATEGIES

During the year under review, under the multiple pressures of the global economic downturn, intensified market competition and the escalation of Sino-US trade frictions, the leaders of the Group led all employees to work together, face the difficulties and achieve more so that the main businesses of the Group continued to develop steadily. Looking into 2019, the macro-economic condition seems pessimistic with unpredictable market trends, but the Group is confident about its future operations.

In the view of the Directors, 2019 is still 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 achieve a good result in 2019.

1. Increase R&D investment and increase the added value of products and services

In 2019, the Group's research institute will continue to unite every subsidiary to explore new markets, integrate new technologies, develop new products (especially products combining hardware and software) and develop new businesses. At the same time, the institute will further cooperate with its subsidiaries to develop key technical elements. These technical elements are important for the Group to meet customer needs, increase product added value and gain competitive advantage in the industry. In addition, the Group needs not only increase investment in R&D, but also strives to have clear objectives, strict organization, perfect system for remarkable results.

2. **Strengthen manufacturing capabilities and increase manufacturing added value**

The Group is currently in the process of transition from the focus of manufacturing to R&D, and the added value generated from manufacturing will still be an important protection of the relatively strong growth in results for a long period of time. Even if the transformation is completed, high-end manufacturing is indispensable. Strengthening manufacturing capabilities is an important guarantee for an enterprise to maintain industry competitiveness. Therefore, the Group will continue in 2019:

- Optimize manufacturing management processes and organizational architecture to further advance refined management;
- Innovative process technology to accelerate the implementation of automated manufacturing and automated inspection;
- Integrate Enterprise Resources Plan ("**ERP**") system, Manufacturing Execution System ("**MES**") and manufacturing management processes to control the manufacturing process timely and accurately;

Through continuous efforts in the above aspects, the Group will further enhance the manufacturing yield rate, improve manufacturing efficiency, ensure product quality and enhance manufacturing added value.

3. **Strengthen cost awareness, reduce operating costs, and improve overall competitive strength**

Even for high-tech products, the time for sale at a premium is getting shorter and shorter, and the cost-effective is still the key to determine the final result in the competition. Therefore, low cost is always an important competitive edge for enterprises. Therefore, the cost reduction must be carried out in every aspect of the company's operations, and is mainly reflected in the following aspects:

1) The research and development of new products must consider the cost of the products on the premise of meeting the needs of the market and customers. Otherwise, the added value of the technology will be offset by the high cost, thus losing market competitiveness;

2) The development of new process technologies must be carried out for improving manufacturing efficiency, improving product quality and improving yield rate;

3) The cost of raw materials, the purchase price of materials, auxiliary materials, parts and other materials are directly related to the cost of the product;

Therefore, the Group must further strengthen the supply chain construction by continuing to optimize suppliers and supply channels, enhancing the Company's supply chain advantages. At the same time, the Group must continue to improve the ability of technical marketing and value marketing. Finally, the Group must also further simplify the standard management process, improve the management system and improve management efficiency.

4. **Strengthen team building and cultural construction to provide important protection for future sustainable development**

The Group will continue to enhance the introduction of high-level talents and enhance employment and reserve of fresh graduates to build a talent cultivation system. It will feature a smoother growth, more scientific mechanism and sounder management through the talent cultivation mechanism to consolidate the talent base of the Group continuously. At the same time, every staff member must optimize and update their knowledge constantly, enrich and supplement relevant knowledge through various methods such as learning, training and practice. These will timely supplement and update the knowledge system, effectively enhance their knowledge reserves and work ability. Moreover, all staff will take further opportunity of in-depth study of "Practice and Exploration" to continue promoting the unified understanding of "Prevention of Slackness and Keeping Motivation". 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 rigid and departmental estrangement bred in enterprise development will be effectively prevented and this can ensure the health and vitality of the Group.

In coming years, the Group will continue to enjoy benefit from the broad development prospects of the optical and optoelectronic industry. By actively utilising the Group's leader advantages 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 2018, the Group's revenue was approximately RMB25,931.9 million, representing an increase of approximately 15.9% or approximately RMB3,565.6 million compared to that of last year. The increase in revenue was mainly benefited from the Group's better development in the industry of smartphone related businesses and vehicle imaging field.

Revenue generated from the Optical Components business segment increased by approximately RMB1,721.0 million to approximately RMB6,022.8 million compared to that of last year. The increase in revenue was mainly due to the sound development of handset lens sets and vehicle lens sets businesses.

Revenue generated from the Optoelectronic Products business segment increased by approximately RMB1,838.1 million to approximately RMB19,609.2 million compared to that of last year. The increase in revenue was mainly attributable to the increase in the shipment volume of handset camera modules.

Revenue generated from the Optical Instruments business segment increased by approximately RMB6.4 million to approximately RMB299.9 million compared to that of last year. The increase in revenue was mainly attributable to the increase in demand for optical instruments in the market.

Gross Profit and Margin

The gross profit of the Group for the year ended 31 December 2018 was approximately RMB4,913.1 million, which was approximately 2.3% higher compared to that of last year. The gross profit margin was approximately 18.9% (2017: approximately 21.5%), which was approximately 2.6 percentage points lower compared to that of last year. The decrease in gross profit margin was mainly attributable to the fact that the gross profit margin of handset camera modules business decreased by approximately 4.7 percentage points compared to that of last year, while the decline in gross profit margin of this business was mainly due to:

(i) the utilisation rate of the new factory which remained in the course of improvement in the year ended 31 December 2018;

(ii) the increased material costs due to the depreciation of Renminbi in the year ended 31 December 2018; and

(iii) the handset camera modules business which was in the process of the production line optimisation and the automation level improvement, which hindered the production efficiency and led to an increase in production costs.

The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 41.5%, 8.4% and 40.5%, respectively (2017: approximately 44.0%, 13.1% and 43.2% respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the year ended 31 December 2018 increased by approximately RMB4.8 million compared to that of last year to approximately RMB209.9 million. It accounted for approximately 0.8% of the Group's revenue during the year under review, compared to approximately 0.9% for last year. The increase in absolute amount was primarily attributable to the increase in the costs of selling, marketing and distribution personnel resulted from the growth in sales activities.

R&D Expenditure

The R&D expenditure of the Group for the year ended 31 December 2018 increased by approximately RMB194.2 million compared to that of last year to approximately RMB1,362.3 million. It accounted for approximately 5.3% of the Group's revenue during the year under review, compared to approximately 5.2% for last year. The increase in overall R&D 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 and automotive camera modules, infrared products, security surveillance systems products, mid- to high-end optical instruments, intelligent equipment for testing and the upgrade of existing product categories.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2018 increased by approximately RMB45.0 million compared to that of last year to approximately RMB433.9 million. It accounted for approximately 1.7% of the Group's revenue during the year under review, which was same compared to that of last year. The increase in absolute amount was mainly attributable to the increase in the headcount and remuneration of administrative staff, the grant of restricted shares and the corresponding increase in relevant fringe benefits.

Income Tax Expense

The income tax expense of the Group for the year ended 31 December 2018 decreased by approximately RMB65.6 million compared to that of last year to approximately RMB338.6 million. The decrease in income tax expense was mainly attributable to the increasing pre-tax deduction rate of R&D expenses. For details of the income tax expense, please refer to Note 7 of this announcement. The Group's actual effective tax rate was approximately 11.9% during the year under review, compared to approximately 12.2% 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	2017	2018	2019 (Expected)	2020 (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%	**N/A**	N/A	N/A
+* 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%	**N/A**	N/A	N/A
+*Xinyang Sunny Optics Co., Ltd. ("**Sunny Xinyang Optics**")	Limited liability company (investment by foreign investment company)	25.0%	**15.0%**	15.0%	15.0%
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%

Name of Subsidiaries	Type of Subsidiaries	2017	2018	2019 (Expected)	2020 (Expected)
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	0%	**0%**	12.5%	12.5%
# Qingdao Sunny Hengping Instrument Co., Ltd. (“**Sunny Hengping Instrument (Qingdao)**”)	Other limited liability company	25.0%	**N/A**	N/A	N/A
Sunny Optics (Zhejiang) Research Institute Co., Ltd. (“**Sunny Research Institute**”)	Limited liability company (legal person sole investment)	25.0%	**25.0%**	25.0%	25.0%
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 2019 or 31 December 2020.

\# These companies were disposed/deregistered during the year.

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

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

Profit for the Year and Net Profit Margin

The profit for the year of the Group for the year ended 31 December 2018 decreased by approximately RMB401.4 million as compared to that of last year to approximately RMB2,512.7 million. The decrease in net profit was mainly attributable to:

1) the depreciation of Renminbi in the year ended 31 December 2018 which caused a net foreign exchange loss amounting to approximately RMB377.5 million, in which an unrealised foreign exchange loss amounting to approximately RMB272.9 million was caused by the USD600.0 million bonds issued by the Company on 23 January 2018 and related accrued interest payable, which was a non-cash item; and

2) the gross profit margin of the Group for the year ended 31 December 2018 was approximately 2.6 percentage points lower compared to that for the year ended 31 December 2017.

The net profit margin was approximately 9.7% as compared to approximately 13.0% 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 2018 decreased by approximately RMB410.7 million as compared to that of last year to approximately RMB2,490.9 million.

Final Dividends

For the year ended 31 December 2018, the dividends proposed by the Board was approximately RMB0.568 (equivalent to HK$0.662) 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 2018 and 31 December 2017:

	For the year ended 31 December	
	2018	2017
	RMB million	*RMB million*
Net cash from operating activities	**3,567.9**	2,436.3
Net cash used in investing activities	**(5,499.3)**	(1,686.3)
Net cash from financing activities	**2,956.8**	12.2

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, bank borrowings and debt financing in the short run to meet the demand of working capital and other capital expenditure requirements. In the long run, the Group will be mainly funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the year ended 31 December 2018.

The Group's balance of cash and cash equivalents was approximately RMB2,254.3 million as at 31 December 2018, representing an increase of approximately RMB1,027.4 million compared to the balance of the end of last year.

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from sales of the Group's products. Cash outflow from operating activities was mainly due to the purchases of raw materials, staff costs, selling and distribution expenses, R&D expenditure and administrative expenses. Net cash generated from operating activities was approximately RMB3,567.9 million for the financial year of 2018 and net cash generated from operating activities was approximately RMB2,436.3 million for the financial year of 2017. The increase in the net cash generated from operating activities was mainly attributable to the increase in trade and other payables and the decrease in trade and other receivables and prepayment compared to those of last year.

The trade receivable turnover days (balance of trade receivables/revenue × 365 days) decreased from approximately 73 days for the financial year of 2017 to approximately 72 days for the financial year of 2018. 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 94 days for the financial year of 2017 to approximately 88 days for the financial year of 2018. The credit terms on purchases of goods granted by suppliers are up to 180 days. The decrease in the trade payable turnover days was mainly due to the Group's improved control on the procurement of raw materials.

The inventory turnover days (balance of inventories/cost of sales × 365 days) decreased from approximately 54 days for the financial year of 2017 to approximately 53 days for the financial year of 2018. There was no significant difference in inventory turnover days in these two financial years.

Investing Activities

The Group recorded a net cash used in investing activities of approximately RMB5,499.3 million for the financial year of 2018, which was mainly attributable to purchases and release of unlisted financial products of approximately RMB46,832.6 million and approximately RMB44,352.8 million during the year respectively, and the Group's capital expenditure amounting to approximately RMB2,617.4 million during the year.

Financing Activities

The Group recorded a net cash from financing activities of approximately RMB2,956.8 million for the financial year of 2018. The cash inflow mainly came from proceeds from bond issuance of approximately RMB3,832.1 million and new bank borrowings raised of approximately RMB1,898.2 million. Major outflows were the repayment of bank borrowings of approximately RMB1,810.4 million and dividends paid to shareholders of approximately RMB725.1 million declared last year.

Capital Expenditure

For the year ended 31 December 2018, the Group's capital expenditure amounted to approximately RMB2,617.4 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, debt financing and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 31 December 2018 amounted to approximately RMB1,482.4 million (2017: approximately RMB1,347.9 million). No borrowings were secured by certain buildings and land of the Group as at 31 December 2018 and 2017.

Bank facilities

As at 31 December 2018, the Group had bank facilities of RMB2,613.0 million with Yuyao Branch of Agricultural Bank of China Limited, RMB901.0 million with Yuyao Branch of Bank of China Limited, RMB700.0 million with Ningbo Branch of The Export-Import Bank of China, RMB600.0 million with Yuyao Branch of Ningbo Bank Co., Ltd., RMB200.0 million with Yuyao Branch of Bank of Communication Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd., RMB50.0 million with Xinyang Pingzhong Street Branch of Industrial and Commercial Bank of China Limited, RMB20.0 million with Zhongshan Branch of China Construction Bank Co., Ltd., USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas Shanghai Branch, USD60.0 million with Hong Kong and Shanghai Banking Corporation Limited Hong Kong Branch, USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd., and USD50.0 million with Overseas-Chinese Corporation Limited Hong Kong Branch.

Debt securities

As at 31 December 2018, the Group have approximately RMB4,080.0 million of debt securities (2017: Nil).

On 16 January 2018, the Group issued the 600,000,000 USD bonds. For details, please refer to Note 20 of this announcement.

The Group's gearing ratio of approximately 24.3% refers to the ratio of total borrowings to total capital (total capital is the sum of total liabilities and shareholders' equity), reflecting the Group's stable financial position.

Contingent liabilities

As at 31 December 2018, the Group did not have any material contingent liabilities or guarantees.

Financing and fiscal policies and objectives

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

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as at 31 December 2018, except for the pledged bank deposits of approximately RMB214.7 million.

COMMITMENTS

As at 31 December 2018, the commitments for future minimum lease payments under non-cancellable operating leases of the Group in respect of premises amounted to approximately RMB155.2 million (2017: approximately RMB143.7 million).

As at 31 December 2018, 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 RMB880.9 million (2017: approximately RMB789.6 million).

As at 31 December 2018, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2018, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS PLAN

The Group's investing activities primarily include the purchases and release of unlisted financial products, placement and release of pledged bank deposits, placement and withdrawal of short term fixed deposits and purchases of property, plant and equipment. In particular, such financial assets at fair value through profit or loss include: debt investments, equity investments, fund investments and unlisted financial products. Among them, the fund investment is managed by relevant financial institutions, mainly investing in debt securities linked to the performance of related senior debts while unlisted financial products are managed by relevant banks in China, mainly investing in certain financial assets such as bonds, trusts and cash funds, and their investment incomes are determined based on the performance of relevant government debt instruments and treasury bills. During the year under review, such unlisted financial products mainly involved unlisted financial products with Bank of Ningbo Co., Ltd. and Agricultural Bank of China Limited of a maximum of approximately RMB3,600.0 million and approximately RMB2,982.8 million, respectively.

For the year ended 31 December 2018, the Group's investments amounted to approximately RMB2,617.4 million, mainly involving in the purchases of property, plant and equipment, as well as the initial production settings for new products, acquisition of land use right, intangible assets and the necessary equipment configurations for new projects. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

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

Going forward, the Group intends to 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 2018, the effective interest rates for variable-rate bank borrowings ranged approximately from 2.74% to 3.70% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in USD or other foreign currencies. Please refer to the information of the Group's foreign currency forward contracts and foreign currency options contracts at Note 17 of this announcement. Except certain investments which are in line with the Group's business and which are denominated in foreign currencies, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

The Group's financial assets include derivative financial assets, bank balances and cash, pledged bank deposits, short term fixed deposits, financial assets at fair value through profit or loss, trade and other receivables, amounts due from related parties, equity instruments that are included in other comprehensive income at fair value and debt instruments measured at amortised cost 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. The Group also has 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 a majority of the counterparties are banks with high credit-ratings as rated by international credit-rating agencies.

Cash Flow Interest Rate Risk

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

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 16,535 dedicated full-time employees as at 31 December 2018, including 8,583 management and administrative staff, 7,285 production workers and 667 operation supporting staff. The number of full-time employees decreased by approximately 42.06% compared to 28,540 as at 31 December 2017. Such decrease was due to the outsourcing of labour works of certain manufacturing positions, in an effort to enhance management of production staff. Therefore, the number of production workers decreased accordingly. In line with the performance of the Group and individual employees, a competitive remuneration package is offered to retain talents, including salaries, medical insurance, discretionary bonuses, other fringe benefits as well as mandatory provident fund scheme for employees in Hong Kong and state-managed retirement benefit scheme for employees in the PRC.

The Group has also adopted the Restricted Share Award Scheme ("**Restricted Share Award Scheme**"), for the purposes of providing incentives and rewards to eligible participants to recognise their contribution to the Group and to enhance their ownership spirits. During the year ended 31 December 2018, an aggregate of 1,085,215 shares were granted to eligible participants in accordance with the terms of the Restricted Share Award Scheme.

DIVIDENDS

The Directors proposed a payment from the distributable reserves of the Company of a final dividend of approximately RMB0.568 (equivalent to HK$0.662) per share in respect of the year ended 31 December 2018 to the shareholders whose names appear on the register of members of the Company at the close of business on 3 June 2019. The final dividends payable on 24 June 2019 is subject to the approval of the shareholders of the Company at the forthcoming annual general meeting (the "**AGM**") to be held on 28 May 2019.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the eligibility of shareholders to attend the AGM, which is to be held on 28 May 2019, the register of members of the Company will be closed from 23 May 2019 to 28 May 2019, 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 22 May 2019.

In order to determine the eligibility of shareholders to the dividends, the register of members of the Company will be closed from 4 June 2019 to 11 June 2019, 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 3 June 2019.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Cayman Islands Companies Law and the Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable regulations imposed from time to time by the Stock Exchange. The Company repurchased a total of 150,300 shares on the market during the year ended 31 December 2018 and all such repurchased shares were cancelled. The Directors believed that repurchase of share shall enhance the net value of the Group and its assets and/or earnings per share. Details of share repurchases by the Company are set out below:

Month of repurchase	Number of share repurchased	Highest price per share *(HK$)*	Lowest price per share *(HK$)*	Total purchase price *(HK$)*
August 2018	150,300	84.00	83.30	12,576,170
	150,300			12,576,170

Save for the above disclosures, none of the Company or any of its subsidiaries (except purchased by a trustee of the Restricted Share Award Scheme) has purchased, sold, redeemed or cancelled listed shares of the Company.

CORPORATE GOVERNANCE

Corporate Governance Practices

Throughout the year ended 31 December 2018, the Company complied with all of the code provisions of 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**"). Corporate governance structure and practices of the Company are summarised as follows.

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 2018.

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 2018 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's investor relations management 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 2018 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 of its staff for their long-term efforts and to the management for their outstanding contribution. It is the unremitting efforts of each member that enable the Group to make great achievements. Also, the Group wishes to express its sincere gratitude towards its shareholders, customers and business partners for their long-standing support and recognition. The Group will continue to deliver the sustainable development of the business, so as to meet its business objectives for the year of 2019 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 2019

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.