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)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

RESULT HIGHLIGHTS

- The Group's revenue for the year ended 31 December 2012 was approximately RMB3,984.3 million, representing an increase of approximately 59.5% as compared with the corresponding period of the last year. This was mainly attributable to the fact that the Group has capitalised on the favourable opportunities arising from rapid development of smartphones, by rapidly upgrading its products of optoelectronic products business segment which resulted in increases in both sales volume and average selling price, have realising substantial growth in relevant business.

- The gross profit for the financial year 2012 was approximately RMB741.2 million, representing an increase of approximately 41.8% as compared with the corresponding period of the last year. The gross margin was approximately 18.6%.

- Profit for the year attributable to owners of the Company increased by approximately 60.8% to approximately RMB346.3 million as compared with the corresponding period of the last year.

- Basic earnings per share increased by approximately 61.3% to approximately RMB0.3597 when compared with the corresponding period of the last year.

- The Board of Directors has proposed a final dividend of approximately RMB0.105 (equivalent to HK$0.129) per share.

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 2012, together with the comparative figures for the corresponding period in the year 2011 as follows:

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	3	**3,984,296**	2,498,500
Cost of sales		**(3,243,115)**	(1,975,740)
Gross profit		**741,181**	522,760
Other income	4(a)	**45,531**	68,430
Other gains and losses	4(b)	**223**	(5,180)
Selling and distribution expenses		**(64,378)**	(58,813)
Research and development expenditure		**(163,372)**	(131,114)
Administrative expenses		**(150,121)**	(122,859)
Impairment loss on interest in an associate		**(9,997)**	–
Reversal of (impairment loss) recognised on intangible assets		**5,391**	(14,531)
Loss on disposal of a subsidiary		**(64)**	–
Impairment loss recognised on goodwill		**–**	(4,071)
Write-off of intangible assets		**–**	(3,761)
Impairment losses recognised on property, plant and equipment		**–**	(3,939)
Share of results of associates		**(4,045)**	(4,357)
Finance costs	5	**(3,141)**	(2,982)
Profit before tax		**397,208**	239,583
Income tax expense	6	**(58,304)**	(37,838)
Profit for the year	7	**338,904**	201,745
Other comprehensive expense			
Exchange differences arising on translation		**(214)**	(744)
Total comprehensive income for the year		**338,690**	201,001
Profit for the year attributable to:			
Owners of the Company		**346,274**	215,308
Non-controlling interests		**(7,370)**	(13,563)
		338,904	201,745
Total comprehensive income attributed to:			
Owners of the Company		**346,336**	215,156
Non-controlling interests		**(7,646)**	(14,155)
		338,690	201,001
Earnings per share – Basic *(RMB cents)*	9	**35.97**	22.30
– Diluted *(RMB cents)*	9	**35.39**	22.10

Consolidated Statement of Financial Position
At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**646,060**	489,290
Prepaid lease payments		**23,450**	18,256
Intangible assets	10	**39**	35
Interests in associates		**982**	13,682
Deferred tax assets		**1,679**	1,137
Deposit for acquisition of prepaid lease payment		**–**	3,577
Deposits for acquisition of property, plant and equipment		**50,056**	27,075
Other receivable	11	**13,000**	–
		735,266	553,052
CURRENT ASSETS			
Inventories		**747,673**	472,339
Trade and other receivables and prepayment	11	**900,931**	627,226
Entrusted loan receivables	12	**90,000**	295,000
Prepaid lease payments		**642**	502
Tax recoverable		**–**	167
Financial assets designated as at fair value through profit or loss	13	**280,773**	84,080
Amounts due from related parties		**194**	367
Amount due from an associate		**3,087**	1,832
Pledged bank deposits		**240**	50,020
Bank balances and cash		**243,442**	251,677
		2,266,982	1,783,210
Asset classified as held for sale		**–**	39,215
		2,266,982	1,822,425
CURRENT LIABILITIES			
Trade and other payables	14	**938,527**	598,670
Amounts due to related parties		**2,893**	4,665
Amount due to a non-controlling interest of a subsidiary		**147**	507
Tax payable		**8,128**	4,267
Borrowings		**102,642**	62,416
		1,052,337	670,525
NET CURRENT ASSETS		**1,214,645**	1,151,900
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,949,911**	1,704,952
NON-CURRENT LIABILITIES			
Borrowings		**–**	17,218
Deferred tax liabilities		**5,595**	5,595
Deferred income		**12,469**	1,035
		18,064	23,848
		1,931,847	1,681,104
CAPITAL AND RESERVES			
Share capital	15	**97,520**	97,520
Reserves		**1,824,136**	1,563,852
Equity attributable to owners of the Company		**1,921,656**	1,661,372
Non-controlling interests		**10,191**	19,732
		1,931,847	1,681,104

Notes to the Consolidated Financial Statements
For the year ended 31 December 2012

Notes:

1. CORPORATE INFORMATION AND SIGNIFICANT ACCOUNT POLICIES

The Company was incorporated in the Cayman Islands on 21 September 2006 and its shares have been listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 15 June 2007.

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial measurements that are measured at fair values.

2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009 – 2011 Cycle issued in 2012;
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

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

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009 – 2011 Cycle, except for the amendments HKAS 1[1]
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes requirements for classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 required all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future may have an impact on the amounts reported in respect of the Group's financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. HK (SIC)-Int 12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK (SIC) – Int 13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

Based on the existing group structure, the application of these five standards is not expected to have a significant impact on the amounts reported in the consolidated financial statement.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors of the Company anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have no material effect on the results and financial position of the Group.

3. REVENUE AND SEGMENT INFORMATION

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

Information reported to the Board of Directors of the Company, 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 segment.

For the year ended 31 December 2012

	Optical components RMB'000	Optoelectronic products RMB'000	Optical instruments RMB'000	Segments' total RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	**1,308,890**	**2,490,564**	**184,842**	**3,984,296**	**–**	**3,984,296**
Inter-segment sales	**116,665**	**8,961**	**1,349**	**126,975**	**(126,975)**	**–**
Total	**1,425,555**	**2,499,525**	**186,191**	**4,111,271**	**(126,975)**	**3,984,296**
Segment profit	**172,652**	**236,111**	**24,607**	**433,370**	**–**	**433,370**
Share of results of associates						**(4,045)**
Unallocated expenses						**(32,117)**
Profit before tax						**397,208**

For the year ended 31 December 2011

	Optical components RMB'000	Optoelectronic products RMB'000	Optical instruments RMB'000	Segments' total RMB'000	Eliminations RMB'000	Total RMB'000
REVENUE						
External sales	1,127,697	1,192,995	177,808	2,498,500	–	2,498,500
Inter-segment sales	144,391	4,427	383	149,201	(149,201)	–
Total	1,272,088	1,197,422	178,191	2,647,701	(149,201)	2,498,500
Segment profit	164,341	80,964	32,218	277,523	–	277,523
Share of result of an associate						(4,357)
Unallocated expenses						(33,583)
Profit before tax						239,583

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, directors' salaries, certain non-recurring items, share of results of associates, loss on disposal of a subsidiary and finance costs. There were asymmetrical allocations to operating segments because the Group allocates interest income, depreciation and amortisation and loss on disposal of property, plant and equipment to each segment without allocating the related bank balances, depreciable assets and the relevant financial instruments to those segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

Segment assets and liabilities

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

As at 31 December 2012

	Optical components *RMB'000*	**Optoelectronic products** *RMB'000*	**Optical instruments** *RMB'000*	**Total** *RMB'000*
Assets				
Trade receivables	**180,933**	**476,115**	**23,318**	**680,366**
Inventories	**158,346**	**559,218**	**30,109**	**747,673**
Total segment assets	**339,279**	**1,035,333**	**53,427**	**1,428,039**
Unallocated assets				**1,574,209**
Consolidated assets				**3,002,248**
Liabilities				
Total segment liability – trade payables	**198,476**	**543,109**	**32,757**	**774,342**
Unallocated liabilities				**296,059**
Consolidated liabilities				**1,070,401**

As at 31 December 2011

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Total *RMB'000*
Assets				
Trade receivables	176,652	232,909	20,867	430,428
Inventories	154,992	286,119	31,228	472,339
Total segment assets	331,644	519,028	52,095	902,767
Unallocated assets				1,472,710
Consolidated assets				2,375,477
Liabilities				
Total segment liability – trade payables	187,240	251,384	32,271	470,895
Unallocated liabilities				223,478
Consolidated liabilities				694,373

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

- trade receivables and inventories are allocated to the respective operating segments. All other assets are unallocated assets, which are not regularly reported to the chief operating decision maker.
- trade payables are allocated to the respective operating segments. All other liabilities are unallocated liabilities, which are not regularly reported to the chief operating decision maker.

Other segment information

For the year ended 31 December 2012

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Unallocated *RMB'000*	Consolidated total *RMB'000*
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	**71,382**	**32,999**	**4,763**	**–**	**109,144**
(Reversal of) allowance for bad and doubtful debts					
– trade receivables	**(953)**	**22**	**282**	**–**	**(649)**
– other receivables	**(789)**	**–**	**–**	**–**	**(789)**
– amount due from an associate	**–**	**3,619**	**–**	**–**	**3,619**
Loss (gain) on disposal of property, plant and equipment	**1,142**	**(10)**	**40**	**–**	**1,172**
Loss on disposal of a subsidiary	**–**	**64**	**–**	**–**	**64**
Reversal of impairment losses in intangible assets	**–**	**(5,391)**	**–**	**–**	**(5,391)**
Share award scheme expense	**12,378**	**3,772**	**3,096**	**497**	**19,743**
Bank interest income	**(5,727)**	**(2,358)**	**(1,712)**	**–**	**(9,797)**
Interest income from entrusted loan	**(6,183)**	**(606)**	**(8,958)**	**–**	**(15,747)**
(Reversal of) allowance for inventories	**(1,152)**	**(1,157)**	**865**	**–**	**(1,444)**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to non-current assets *(Note)*	**165,142**	**102,944**	**3,364**	**–**	**271,450**

For the year ended 31 December 2011

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Unallocated *RMB'000*	Consolidated total *RMB'000*
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	71,700	15,101	4,857	–	91,658
Allowance for (reversal of allowance for) bad and doubtful debts	903	(2,930)	(146)	–	(2,173)
Loss (gain) on disposal of property, plant and equipment	1,768	(32)	5	–	1,741
Impairment loss on property, plant and equipment	3,939	–	–	–	3,939
Impairment losses on intangible assets	9,140	5,391	–	–	14,531
Written off on intangible assets	3,761	–	–	–	3,761
Impairment loss on goodwill	–	–	4,071	–	4,071
Share award scheme expense	9,609	2,416	2,613	342	14,980
Bank interest income	(4,920)	(458)	(3,601)	–	(8,979)
Interest income from entrusted loan	(21,389)	(5,677)	(8,169)	–	(35,235)
Allowance for (reversal of) inventories	3,848	(273)	203	–	3,778
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to non-current assets *(Note)*	127,543	46,897	3,260	–	177,700

Note: Non-current assets excluded deposits for acquisition of property, plant and equipment and deferred tax assets.

Revenue from major products and services

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

	2012 *RMB'000*	2011 *RMB'000*
Mobile phone related products	**2,426,687**	1,174,923
Digital camera related products	**705,544**	647,721
Optical instruments	**157,847**	152,468
Digital video lens	**32,308**	44,737
Other lens sets	**251,452**	165,150
Other spherical lens and plane products	**37,506**	49,609
Industrial endoscopes	**6,935**	16,340
Other products	**366,017**	247,552
	3,984,296	2,498,500

Geographical information

The Group's operations are located in the PRC, Korea, Japan and Singapore.

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

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC (excluding Hong Kong) (country of domicile)	**2,804,467**	1,737,402	**723,879**	534,311
Japan	**486,200**	279,310	**4**	7
Hong Kong	**332,969**	193,146	**–**	–
Others	**360,660**	288,642	**8,722**	3,915
	3,984,296	2,498,500	**732,605**	538,233

Note: Non-current assets excluded deferred tax assets and interests in associates.

Information about major customer

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

	2012	2011
	RMB'000	*RMB'000*
Customer A, revenue from optoelectronic products	**581,348**	261,767

4(a). OTHER INCOME

	2012	2011
	RMB'000	*RMB'000*
Bank interest income	**9,797**	8,979
Government grants *(Note)*	**10,764**	9,786
Income from sales of moulds	**1,355**	5,827
Income from sales of scrap materials	**1,898**	762
Interest income from entrusted loans	**15,747**	35,235
Rental income	**416**	2,072
Others	**5,554**	5,769
Total	**45,531**	68,430

Note: This relates to government grants received from the local government unconditionally in recognition of the eminence of development of new products and export business of the Group.

4(b). OTHER GAINS AND LOSSES

	2012	2011
	RMB'000	*RMB'000*
Loss on disposal of property, plant and equipment	**(1,172)**	(1,741)
Net foreign exchange gain (loss)	**3,463**	(5,600)
Reversal of (allowance for) bad and doubtful debts		
– trade receivables	**649**	2,173
– other receivables	**789**	–
– amount due from an associate	**(3,619)**	–
Others	**113**	(12)
Total	**223**	(5,180)

5. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**3,132**	2,972
Amount due to a non-controlling interest of a subsidiary	**9**	10
	3,141	2,982

6. INCOME TAX EXPENSE

	2012	2011
	RMB'000	*RMB'000*
Current tax:		
PRC Enterprise Income Tax	**59,067**	39,726
Other jurisdictions	**14**	15
	59,081	39,741
Overprovision in prior years:		
PRC Enterprises Income Tax	**(235)**	(326)
Deferred tax:		
Current year	**(542)**	(1,577)
	58,304	37,838

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.

Zhejiang Sunny Optics Co., Ltd. ("Sunny Optics") and Ningbo Sunny Instruments Co., Ltd. ("Ningbo Instruments") were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% for three years with the expiry date on 31 December 2012. The extension of the preferential tax of 15% for a further three years was approved with effect from 1 January 2013.

Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech"), Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping") and Ningbo Sunny Automative Opotech Co., Ltd. ("Sunny Automative), domestic limited liability companies, were approved as Hi-Tech Enterprises with a preferential tax rate of 15% for three years commencing on 1 January 2011.

Sunny Optics (Zhongshan) Co., Ltd. ("Sunny Zhongshan") was approved to be exempted from EIT for two years starting from its first profit making year, followed by a 50% tax relief for the next three years ("Tax Holidays"). Sunny Zhongshan was under the 50% relief for year ended 31 December 2011. Sunny Zhongshan was approved as a Hi-Tech Enterprise and entitled to a preferential tax rate of 15% for three years commencing on 1 January 2012.

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.

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

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**397,208**	239,583
Tax at PRC EIT tax rate of 25%	**99,302**	59,896
Tax effect of share of results of associates	**1,039**	1,255
Tax effect of expenses not deductible for tax purpose	**8,338**	10,050
Tax effect of income not taxable for tax purposes	**(1,762)**	(166)
Tax effect of concessionary tax rates under Tax Holidays	**–**	(1,486)
Tax effect of preferential tax rates for certain subsidiaries	**(53,439)**	(39,172)
Tax effect of tax losses not recognised	**6,977**	4,659
Utilisation of tax losses not previously recognised	**(2,001)**	(649)
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	**85**	3,777
Overprovision in prior years	**(235)**	(326)
Income tax expense for the year	**58,304**	37,838

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2012	2011
	RMB'000	*RMB'000*
Directors' emoluments	**8,082**	6,017
Other staff's salaries and allowances	**447,552**	335,349
Other staff's discretionary bonuses	**54,985**	43,529
Other staff's contribution to retirement benefit scheme	**25,774**	23,032
Other staff's share award scheme expense	**18,270**	13,699
Total staff costs	**554,663**	421,626
Auditor's remuneration	**2,444**	2,389
Depreciation of property, plant and equipment	**108,644**	88,454
Release of prepaid lease payments	**631**	502
Amortisation of intangible assets (included in research and development expenditure)	**500**	3,204
Release of deferred income	**(3,169)**	(434)
(Reversal of) allowance for inventories (included in cost of sales) *(Note)*	**(1,444)**	3,778

Note: Reversal of allowance for inventories was recognised because of subsequent usage.

8. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2011 final dividend – RMB0.071		
(2011: 2010 final dividends – RMB0.0435) per share	**71,000**	43,500

Subsequent to the end of reporting period, a final dividend of HK$0.129 per share, equivalent to approximately RMB0.105 per share, amounting to a total of RMB105,000,000 (2011: HK$0.087 per share, equivalent to approximately RMB0.071 per share, amounting to a total of RMB71,000,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

9. EARNINGS PER SHARE

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

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**346,274**	215,308

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**962,552**	965,377
Effect of dilutive potential ordinary shares:		
Restricted shares	**15,918**	8,946
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**978,470**	974,323

The calculation of diluted earnings per share for both years have included the effect of certain unvested awarded shares under the Company's share award scheme since their vesting would result in a decrease in earnings per share.

10. INTANGIBLE ASSETS

	Development costs *RMB'000*	Patents *RMB'000*	Total *RMB'000*
COST			
At 1 January 2011	10,686	15,941	26,627
Addition	2,985	–	2,985
Written off	(3,761)	–	(3,761)
Exchange realignment	(770)	–	(770)
At 31 December 2011 and 1 January 2012	9,140	15,941	25,081
Disposal of a subsidiary	–	(7,040)	(7,040)
Exchange realignment	–	6	6
At 31 December 2012	9,140	8,907	18,047
AMORTISATION AND IMPAIRMENT			
At 1 January 2011	–	7,314	7,314
Charge for the year	–	3,204	3,204
Impairment loss recognised	9,140	5,391	14,531
Exchange realignment	–	(3)	(3)
At 31 December 2011 and 1 January 2012	9,140	15,906	25,046
Charge for the year	–	500	500
Reversal of impairment loss	–	(5,391)	(5,391)
Disposal of a subsidiary	–	(2,149)	(2,149)
Exchange realignment	–	2	2
At 31 December 2012	9,140	8,868	18,008
CARRYING VALUES			
At 31 December 2012	–	39	39
At 31 December 2011	–	35	35

Development costs are internally generated and the patents are purchased as part of business combinations.

Development costs will commence amortisation over its useful lives once the development costs are available for use in production while the patents have finite useful lives and are amortised on a straight-line basis over 3 to 8 years.

The development costs are attributable to the three projects regarding the development of new products carried out by a subsidiary, Power Optics Co., Ltd. ("Power Optics"). One of the projects has been completed during 2011. However, the potential buyer terminated the provisional sales contract of the relevant products with Power Optics in November 2011 and no new buyer could be identified by Power Optics subsequently. Therefore, the management assessed that no future economic benefit would be generated from this project and the development cost of the project was fully written off by RMB3,761,000. At 31 December 2011, the management conducted a feasibility study for the remaining projects. The study showed that the future economic benefits to be generated from these projects were uncertain. Therefore, an impairment loss of RMB9,140,000 was made on the remaining development costs.

In 2011, the Group recognised a full impairment loss of RMB5,391,000 in relation to a patent owned by a subsidiary, Jiangsu Sunny Medical Equipments Co., Ltd. The main factor contributing to the impairment of the patent was that the sales of products related to the patent did not get satisfactory response from market and was below management's expectation.

In 2011, the recoverable amount of the cash generating unit containing the intangible asset had been determined based on a value in use calculation. That calculation uses cash flow projection based on financial budgets approved by management covering the period up to the useful life of the patent, and discount rate of 15.1%. Other key assumptions for the value in use calculations relate to the estimation were based on the unit's past performance and management's expectations for the market development.

During the current year, the Group reversed the impairment loss of approximately RMB5,391,000 in relation to the corresponding patent before the disposal of Jiangsu Medial as the Group considered the value of the patent is recoverable through the disposal of shares in Jiangsu Medical. No impairment loss on patents was considered necessary by the management of the Group for the year ended 31 December 2012.

11. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	2012	2011
	RMB'000	*RMB'000*
Current assets		
Trade receivables	**682,080**	432,791
Less: allowance for doubtful debts	**(1,714)**	(2,363)
	680,366	430,428
Bills receivables	**158,985**	139,744
Other receivables and prepayment		
Value added tax and import tax receivables	**42,766**	18,725
Advance to suppliers	**7,335**	23,393
Interest receivables	**758**	2,448
Others	**10,721**	12,488
	61,580	57,054
Total trade and other receivables and prepayment	**900,931**	627,226
Non-current asset		
Other receivable		
Advance to Yuyao City Government *(Note)*	**13,000**	–

Note: During the year ended 31 December 2012, Ningbo Sunny Opotech Co., Ltd ("Sunny Opotech"), a subsidiary of the Group, advanced funds of RMB13 million to the Yuyao City Government for land development expenditure cost to be incurred for the demolition and resettlement work. The advance of approximately RMB13 million (2011: Nil) is unsecured, non-interest bearing and repayable when the piece of land was put into public auction and the Group does not secure the purchase of the land during the auction, or if the land development is not completed by 31 December 2013. It would be netted off against the consideration of acquisition of the piece of land if the Group is successful in acquiring the land. The directors expect this acquisition to occur in 2013.

The Group allows a credit period from 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	2012	2011
	RMB'000	*RMB'000*
Within 90 days	**673,662**	418,385
91 to 180 days	**6,588**	9,873
Over 180 days	**116**	2,170
	680,366	430,428

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

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	**156,353**	136,720
91 to 180 days	**2,632**	3,024
	158,985	139,744

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits for the customer. Limits attributed to customers are reviewed once a year. 99% (2011: 97%) of the trade receivables that are neither past due nor impaired have the best credit attributes assessed by the Group.

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

After assessment of impairment on individual balances, included in the Group's trade receivables are debtors with an aggregate carrying amount of RMB6,704,000 (2011: RMB12,043,000) which are past due at the end of the reporting period but not considered impaired. The Group does not hold any collateral over these balances. The average age of these receivables is as follow.

Ageing of trade receivables which are past due but not impaired

	2012	2011
	RMB'000	*RMB'000*
91 to 180 days	**6,588**	9,873
Over 180 days	**116**	2,170
Total	**6,704**	12,043

Movement in the allowance for doubtful debts

	2012 *RMB'000*	2011 *RMB'000*
Balance at beginning of the reporting period	**2,363**	4,580
Impairment losses recognised on receivables	**3,245**	1,192
Amounts written off as uncollectible	**–**	(44)
Impairment losses reversed	**(3,894)**	(3,365)
Balance at end of the reporting period	**1,714**	2,363

Included in the allowance for doubtful debts made for the year are individually impaired trade receivables with a balance of RMB1,714,000 (2011: RMB2,363,000) which might be in financial difficulties. The Group does not hold any collateral over these balances.

12. ENTRUSTED LOAN RECEIVABLES

During the year, the Group entered into entrusted loan arrangements with banks, in which the subsidiaries acted as the entrusting parties to provide funding to specified corporate borrowers, unrelated to the Group. All of the entrusted loans are current and due within one year, bearing fixed interest rates ranging from 6.3% to 11.3% (2011: 5.5% to 12.0%) per annum.

At 31 December 2012 and 2011, no entrusted loan receivables have been past due or impaired. In the opinion of the directors, the entrusted loan borrowers have good credit quality and are fully guaranteed by the bank accordingly, no impairment is made.

An entrusted loan receivable of RMB45,000,000 (2011: RMB150,000,000) is secured by pledge of land of the borrower, and the receivable of RMB45,000,000 (2011: RMB95,000,000) is covered by guarantees made by the related companies of the borrower. The remaining receivable of RMB50,000,000 as at 31 December 2011 (2012: nil) was secured by bills receivables which had been endorsed by the borrowers to the Group. At the date the consolidated financial statements are authorised for issue, nil (2011: nil) has been repaid.

13. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

During the year ended 31 December 2012, the Group entered into several contracts of structured deposits with banks. The structured deposits contain embedded derivatives which were not closely related to the host contract. The entire combined contracts have been designated as at financial assets at FVTPL on initial recognition. The return and principal were not guaranteed by the relevant banks and the return was determined by reference to the performance of certain government debt instruments and treasury notes. The expected return rate stated in the contracts ranges from 2.3% to 5.0% (2011: 2.3% to 5.1%) per annum.

In the opinion of the directors, the fair value of the structured deposits at 31 December 2012 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. At the date the consolidated financial statements are authorised for issue, structured deposits amounting to approximately RMB250,773,000 (2011: RMB84,080,000) have been matured after the reporting period ended 31 December 2012 at their principal amounts together with returns which approximated the expected return. The remaining principal amounts together with the expected returns will be received by the Group when the structured deposits mature during the year ended 31 December 2013.

14. TRADE AND OTHER PAYABLES

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

	2012 *RMB'000*	2011 *RMB'000*
Trade payables		
Within 90 days	**603,920**	309,825
91 to 180 days	**26,689**	22,636
Over 180 days	**1,127**	597
Accrued purchases	**142,606**	137,837
Total trade payables	**774,342**	470,895
Payable for purchase of property, plant and equipment	**4,003**	2,515
Staff salaries and welfare payables	**105,454**	73,408
Advance from customers	**15,846**	13,061
Value added tax payables and other tax payables	**8,080**	12,675
Technology grant payables *(Note)*	**8,099**	–
Commission payables	**8,688**	5,215
Others	**14,015**	20,901
	164,185	127,775
	938,527	598,670

Note: Sunny Hengping, a subsidiary of the Company, cooperated with several business parties to perform development and research projects on hi-tech products. The technology grant payables represent the government grants received on behalf of other business parties.

The average credit period on purchases of goods is 90 days (2011: 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

15. SHARE CAPITAL

	Number of shares	**Amount** *HK$'000*	**Equivalent to** *RMB'000*
Authorised:			
Ordinary shares of HK$0.1 each at 1 January 2011, 31 December 2011 and 31 December 2012	100,000,000,000	10,000,000	
Issued & fully paid:			
Ordinary shares of HK$0.1 each at 1 January 2011, 31 December 2011 and 31 December 2012	1,000,000,000	100,000	97,520

16. EVENT AFTER THE REPORTING PERIOD

After the end of reporting period, the directors proposed a final dividend. Further details are disclosed in Note 8.

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in the 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

Influenced by the bleak economies worldwide and the macroeconomic control enforced by the PRC government in 2012, China witnessed a noticeable slowdown in its economic growth and businesses across all fields were entangled with unprecedented challenges. However, consumer electronics market worldwide was boosted by the growing popularity of smartphones. Being the largest camera module producer for smartphones in China, the Group has benefited from such promising trend. During the last year, handset camera module experienced a considerable growth in sales volume and increase in average selling price, which cast significant influence over the Group's overall revenue. This further consolidated the foundation for sustainable growth and the Group is more determined to achieve a stable development in the future by implementing the Group's development strategies of "Dedicating to and Focusing on Existing Industries" and "Speeding up the Implementation of Transformation and Upgrade". As a leading integrated producer of optical components and optoelectronic products in China, the Company will embrace the year 2013 with greater enthusiasm to ride on the buoyant smartphone market.

During 2012, the Group further strode forward on R&D, production and sales and has therefore attained remarkable achievements. During the year under review, the Group officially established a subsidiary in Silicon Valley, California, the United States ("U.S.") and deployed marketing and sales personnel there to provide technical support, marketing and new customer exploration in North America, with a view to promoting the Group's internationalisation. Currently, the said company is running well. It is now vigorously seeking cooperation with large international companies and proactively participating in design and technical support of numerous new optoelectronic application modules required in certain mobile devices. Additional technicians were also deployed by the Group in Korea to provide local customers with more premium and timely services.

During the year under review, our three major business segments, namely Optical Components, Optoelectronic Products and Optical Instruments, accounted for approximately 32.9%, 62.5% and 4.6% of our revenue respectively. Through incessant transformation and upgrade, industrial restructuring, and product portfolio optimisation, these three segments improved a lot in various aspects including "production", "profit" and "operation" in the last year. During the year under review, the Group's "automation-based revolution" project attained several significant breakthroughs and achievements. In coming years, the Group will further propel this project to improve its production efficiency and realise a better cost structure. Through enhancing upgrade and innovation in products of the relevant business segments, the Group will be able to maintain its leading position for these high-end products.

During the year under review, relying on the efforts of our staff and reinforcing appropriate development strategies, the Group attained outstanding achievements. Our new but experienced management team, together with our staff, responded proactively to different market conditions, implemented our strategy of "Transformation and Upgrade", and improved our customer base and product portfolio, which can ensure the competitiveness of each business segment and enhance the Group's leading position in the market. Besides, as many of the Group's new products reached the mature stage, the Group's overall business maintained a stable development, which matches our anticipated growth of results.

The Group's revenues increased by approximately 59.5% during the financial year 2012 to approximately RMB3,984.3 million. Profit for the year attributable to owners of the Company increased by approximately 60.8% to approximately RMB346.3 million, while basic earnings per share increased by approximately 61.3% to approximately RMB35.97 cents. The Board has proposed a final dividend of approximately RMB0.105 (equivalent to HK$0.129) per share.

In 2012, the Group not only focused on the implementation of transformation and upgrade, but also increased investment in new technologies and thereby received numerous accreditations on products, services and corporate governance. This truly reflected that the Group's product quality, delivery date and services were highly recognised in the industries and by our customers. In respect of the Optical Components business segment, Sunny Optics (Tianjin) Co., Ltd. was granted the title of "2011 Grade A Suppliers" and the award of "Second Prize in 2011 EHS Excellent Suppliers" by Samsung Electronics. In addition, Zhejiang Sunny Optics Co., Ltd. was granted the "2011 Special Contribution Award" from Wuxi Sony at Sony East China Supplier Conference held in Shanghai. Sunny Optics (Zhongshan) Co., Ltd. was granted the title "Excellent Supplier" at the "2012 The First Hikvision's Global Suppliers Conference" held in Hangzhou. In respect of Optoelectronic Products business segment, Ningbo Sunny Opotech Co., Ltd., after receipt of "Win-win Cooperation Award" at the 2012 Lenovo's Global Suppliers Conference, was granted the "Huawei Gold Award for Core Supplier for 2012 (華為2012年度核心供應商金獎)" and "Yulong Coolpad Core Supplier Award (宇龍酷派核心供應商獎)". On the other hand, the Company was awarded the "Most Influential Enterprise (最具影響力企業)" in electronic industry of Ningbo City. In respect of the Optical Instruments business segment, Shanghai Sunny Hengping Scientific Instrument Co., Ltd. was awarded the "Top 10 Most Influential Domestic Equipment Manufacturers 2011" at the 2012 Annual Conference of China Scientific Instruments. Furthermore, Ningbo Sunny Instruments Co., Ltd. was granted the first "Ningbo City Quality Exporter Award" which was the highest quality award in the field of export in Ningbo. The Group was also named "Ningbo Top 100 Enterprises in Foreign Trade" in 2011, "Ningbo Top 100 Enterprises" in 2012 and "Ningbo Top 100 Leading Enterprises in the Industry". On the other hand, the Group was recognised as the "Base for Building Standard Evaluation System on Enterprise's Skilled Workers in Zhejiang Province (浙江省企業技能人才評價標準化體系建設基地)" and was granted the title of "Advanced Unit for Respecting Knowledgeable Talents (尊知重才先進單位)" in Yuyao City. The above awards embodied the Group's capability in technological innovation and gave the Group extra confidence in propelling the strategy of "Speeding Up the Implementation of Transformation and Upgrade".

OUTLOOK AND FUTURE STRATEGIES

In 2013, there may still be many uncertainties in macro-economic environment. Even though the smartphone market is likely to maintain a sound growth, over-optimism must be avoided. The Group will strengthen its rapid decision-making capability, continue management innovation and adhere to the development strategy of "Transformation and Upgrade", so as to overcome various challenges and realise its long-term sustainable development.

Based on our years of experience accumulated in optical and optoelectronic applications, the Group will continue to innovate and to capture the opportunities arising from image digitalisation at mobile devices in the future. We will continue to regard the optical applications as our core and our "Mingpeijiao" ("名配角") strategy as the mainline, to formulate practical corporate development plans and seize existing and future development opportunities with our innovative and pragmatic thoughts. The Group will, as always, continue its endless exploration and pursuit of the optical field, give full play to its advantages and expand emerging application fields in an in-depth manner, with a view to ultimately achieving the corporate vision of a "Hundred Years Old Brand".

The new generation of the Group's leaders strived to guide the Group riding the waves and growing strongly, successfully fulfilling their commitments. During the year under review, sound development of the Group's businesses was achieved. The Group stays basically positive about its operation in 2013 in spite of some uncertainties in the global economy. As for the Group, the year of 2013 means challenges and opportunities. The management of the Group will remain clear-minded to integrate its internal and external resources to leverage on its competitive advantages, and strive for achieving expected growth in the new year.

1. Make in-depth exploration and focus on existing businesses

   The Group will continue to put resources effectively to improve the international market position of the advantageous businesses. We aim to continue improving our product mix to achieve significant breakthrough in quality, while maintaining enhancement in quantity. The Group will also continue to increase proportion of sales of high-end handset lens sets and handset camera modules, and to increase the market share of these products as well as vehicle lens sets and microscopes. Meanwhile, we will enhance our marketing function and exploration capabilities of new markets through our subsidiary in the U.S.. The Group will also deepen "Lean Production", in order to improve its production process, and play a positive role in maintaining stable gross profit margin. Moreover, we will also continue to boost the industrial transfer to ensure stable production of the new production base in Xinyang, and to facilitate the medium- and long-term strategic layout of the Group.

2. Breakthrough emerging businesses and realise a balanced development

   Balanced development of various businesses will remain the key concern of the Group in the future. The Group will achieve increasing sales of relevant products through further expansion and optimisation of its sales channels of existing emerging businesses. Breakthroughs in security surveillance lens sets and new optical instruments are expected in 2013. At the same time, the Group will continue to explore new optical applications, especially innovative optical applications on mobile devices. We will also continue to define new key businesses to realise the sustainable medium- and long-term development of the Group.

3. Enhance management performance and facilitate management innovation

   The Group will intensify its managerial function, improve its performance evaluation system, enhance its financial management capability, further promote technology innovation by focusing on automation, and innovate its corporate culture and management mode. These will help with the comprehensive adjustment and leverage of resources, as well as flexible and thorough management innovation of the Group.

In conclusion, the Group will stick to the guidelines, i.e. "to build a high-tech optoelectronic products manufacturing base with brand advantage, system advantage and value advantage, through insisting on the "Mingpeijiao" ("名配角") strategy, fostering the brand advantage, adhering to three major objectives of high tech, high efficiency, high value, as well as emphasising the implementation of transformation and upgrade of its production mode, profit mode and operation mode" in the Three-Year Plan to achieve stable growth in 2013.

FINANCIAL REVIEW

Revenue

Revenue generated from the Optical Components business segment increased by approximately 16.1% to approximately RMB1,308.9 million as compared with the corresponding period of the last year. The increase was mainly attributable to the sound development of handset lens sets and vehicle lens sets businesses. Revenue generated from the Optoelectronic Products business segment increased by approximately 108.8% to approximately RMB2,490.6 million as compared with the last year. The increase was mainly attributable to the improvement in product mix and the rise in shipment volume, as well as the commencement of mass production of the video modules for smart televisions. Revenue generated from the Optical Instruments business segment slightly increased by approximately 4.0% to approximately RMB184.8 million as compared with the last year. The increase was mainly attributable to the growth in market demand for scientific instruments.

The Group's revenue for the year ended 31 December 2012 was approximately RMB3,984.3 million, representing an increase of approximately 59.5% or approximately RMB1,485.8 million as compared with the last year.

Gross Profit and Margin

The gross profit for the financial year of 2012 was approximately RMB741.2 million, which was approximately 41.8% higher than that of the last year, and the gross margin was approximately 18.6% (2011: approximately 20.9%). The decrease in gross margin was mainly attributable to the dilution arising from the rapid growth in sales of Optoelectronic Products business segment which has a lower gross margin as compared with the general gross margin of the Group. The gross margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 22.8%, 14.1% and 34.1% respectively (2011: approximately 22.4%, 14.7% and 34.5% respectively).

Selling and Distribution Expenses

For the year ended 31 December 2012, selling and distribution expenses increased by approximately 9.5% or approximately RMB5.6 million to approximately RMB64.4 million during the year under review, accounting for approximately 1.6% of the Group's revenue, as compared with approximately 2.4% in the last year. The increase in such expenses was primarily attributable to the increase in costs of selling, marketing and distribution personnel resulting from the growth in sales activities.

R&D Expenditure

R&D expenditure increased by approximately 24.6% or approximately RMB32.3 million from approximately RMB131.1 million for the year ended 31 December 2011 to approximately RMB163.4 million for the year of 2012. It accounted for approximately 4.1% of the Group's revenue during the year under review, as compared with approximately 5.2% in the last year. The increase was attributable to the increase in the headcount and salaries of R&D experts and engineers, and the continuous investment in R&D activities and business development. The R&D expenditure was mainly used in the research and development of high resolution handset lens sets and camera modules, innovative optoelectronic modules for mobile devices, vehicle lens sets, infrared products, security surveillance systems, mid- to high-end optical instruments, and the upgrade of existing product categories.

Administrative Expenses

Administrative expenses, which represented approximately 3.8% of the Group's revenue during the year under review and was approximately 4.9% for the last year, increased from approximately RMB122.9 million for the year ended 31 December 2011 to approximately RMB150.1 million for the year of 2012, representing an increase of approximately 22.2%. The increase in expenses was mainly attributable to the increase in the headcount and remuneration of administrative staff, the grant of certain restricted shares, and the corresponding increase of relevant fringe benefits.

Income Tax Expense

Income tax expense for the year of 2012 increased to approximately RMB58.3 million from approximately RMB37.8 million for the year ended 31 December 2011. Such increase was mainly attributable to the growth in earnings. The Group's actual effective tax rate was approximately 14.7% during the year under review and approximately 15.8% for the last year.

In order to keep the effective tax rate steady in the future, several subsidiaries of the Group have successfully applied for the status of Hi-Tech enterprises. The income tax rate applicable to Hi-Tech enterprises is 15.0% according to the national policy.

Profit for the Year and Margin

Profit for the year increased by approximately 68.0% from approximately RMB201.7 million for the year ended 31 December 2011 to approximately RMB338.9 million for the year of 2012. The increase in net profit was mainly attributable to the increase in gross profit and effective control in operating expenses. The net profit margin was approximately 8.5%.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately RMB346.3 million, representing an increase of approximately RMB131.0 million or approximately 60.8% as compared with approximately RMB215.3 million for the last year.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2012 and 31 December 2011:

	For the year ended 31 December	
	2012	2011
	RMB million	*RMB million*
Net cash from operating activities	**256.8**	72.4
Net cash (used in) from investing activities	**(179.6)**	87.2
Net cash used in financing activities	**(85.7)**	(96.6)

The Group, being a self-sufficient company, derives its working capital mainly from net cash generated from operating activities. The Directors expect that the Group will rely on net cash from operating activities in the short run to meet its working capital and other capital expenditure requirements. In the long run, the Group will be funded by net cash from operating activities and, if necessary, by additional equity financing or bank borrowings.

During the year, there were no material changes in the funding and financial policy of the Group. The Group recorded the net cash and cash equivalents of approximately RMB243.4 million for the year ended 31 December 2012, representing a decrease of approximately RMB8.2 million.

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 arised from 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 RMB72.4 million and RMB256.8 million for the financial years ended 2011 and 2012 respectively. The increase in net cash generated from operating activities was mainly attributable to the increase in profit before tax.

The trade receivable turnover days slightly decreased from approximately 63 days for the financial year of 2011 to approximately 62 days for the financial year of 2012. There was no significant difference in trade receivable turnover days in these two financial years.

The trade payable turnover days for the financial year of 2011 and for the financial year of 2012 were both approximately 87 days. There was no difference in trade payable turnover days in these two financial years.

The inventory turnover days slightly decreased from approximately 87 days for the financial year of 2011 to approximately 84 days for the financial year of 2012. There was no significant difference in inventory turnover days in these two financial years.

Investing Activities

The Group recorded a net cash outflow from investing activities of approximately RMB179.6 million for the financial year of 2012, which mainly attributable to the decrease in entrusted loan receivables that were guaranteed by banks with secured principal of RMB205.0 million, the decrease in pledged bank deposits of approximately RMB49.8 million, purchases of property, plant and equipment of approximately RMB242.9 million and purchases of financial assets designated as at fair value through profit or loss of approximately RMB280.8 million during the year.

Financing Activities

The Group recorded a net cash outflow from financing activities of approximately RMB85.7 million for the financial year of 2012. The inflow mainly came from new bank borrowing raised of approximately RMB264.2 million. Major outflows were the repayment of borrowings of approximately RMB241.2 million, purchases of shares as unvested shares under the share award scheme of approximately RMB34.7 million and dividend paid to shareholders of approximately RMB71.0 million as declared in the last year.

Capital Expenditure

For the year ended 31 December 2012, the Group's capital expenditure amounted to approximately RMB308.3 million, which was mainly used for the purchases of property, plant, equipment and other tangible assets. All of the capital expenditure was financed by internal resources.

CAPITAL STRUCTURE

Indebtedness

Borrowings

Bank loans of the Group as of 31 December 2012 amounted to approximately RMB102.6 million (2011: approximately RMB79.6 million). Pledged bank deposit of the Group amounted to approximately RMB240,000 (2011: RMB50.0 million) in the year under review.

As of 31 December 2012, among all bank loans, approximately RMB2.5 million were denominated in Korean Won, while approximately RMB100.1 million were denominated in U.S. Dollars. The gearing ratio of the Group by reference to the total debt to total book capitalisation ratio (total book capitalisation means the sum of total liabilities and shareholders' equity) was approximately 3.4%, reflecting that the Group's financial position was at a sound level.

Bank facilities

As of 31 December 2012, the Group had bank facilities of RMB275.0 million with Yuyao Branch of Agricultural Bank of China, USD10.0 million with Yuyao Branch of Ningbo Bank and USD15.0 million with BNP Paribas Hong Kong Branch.

Debt securities

As of 31 December 2012, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2012, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as of 31 December 2012, other than pledged bank deposits of approximately RMB240,000.

Commitments

As of 31 December 2012, the future aggregate minimum lease payments under non-cancellable operating leases in respect of premises amounted to approximately RMB23.5 million (2011: approximately RMB8.5 million).

As of 31 December 2012, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to approximately RMB58.2 million (2011: approximately RMB75.9 million). The Group had not had any expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of land use right (2011: approximately RMB2.4 million).

As of 31 December 2012, the Group had no other commitments save as disclosed above.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS

The Group's investing activities mainly include the purchases of property, plant and equipment. For the year ended 31 December 2012, the Group's investments amounted to approximately RMB308.3 million, mainly involving in the purchases of machinery and equipment, as well as the initial production settings of new products and the necessary equipment configurations of new projects. These investments enhanced the capabilities of our R&D and improved production efficiency, thereby enlarging the scale of existing products, strengthening our market competitiveness and penetrating into new markets, and thus expanded the revenue sources.

The Group adopts prudent financial policies, and therefore its investment projects are mostly the ones that will preserve their values and have fixed income, so that we can guarantee stable and healthy financial positions while improving our returns.

During the year, the Group entered into several entrusted loan agreements with banks which are fully guaranteed by banks in order to gain more interest income and better utilisation of cash, in which the subsidiaries acted as the entrusting parties and the banks acted as the lenders to provide funding to specified borrowers amounting to RMB90.0 million.

All of the entrusted loans are secured by pledge of lands of the borrowers and covered by guarantees made by the related companies of the borrowers, current in nature and due within one year, bearing fixed interest rates ranging from approximately 6.3% to approximately 11.3% per annum.

No intention for substantial acquisition and large investment plan is noted for the financial year of 2013.

OFF-BALANCE SHEET TRANSACTIONS AND CONTINGENT LIABILITIES

As of 31 December 2012, the Group did not enter into any material off-balance sheet transactions and contingent liabilities.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

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 our expansion and for other uses. Upward fluctuations in interest rates increase the costs of both existing and new debts. For the year ended 31 December 2012, the effective interest rates on fixed-rate bank loans and variable-rate bank loans were approximately 2.60% and 5.11% per annum respectively. The Group had not entered into any types of interest rate agreements or derivative transactions to hedge against the changes in interest rates.

Foreign Exchange Rate Fluctuation Risk

The Group exports a significant portion of its products to and makes purchases from international markets where transactions are denominated in U.S. dollars or other foreign currencies. To reduce the risk, the Group has entered into certain foreign exchange trading facilities to reduce its currency risk.

Credit Risk

The Group's financial assets are bank balances and cash, pledged bank deposits, entrusted loan receivables, financial assets designated as at fair value through profit or loss, trade and other receivables, amounts due from related parties and amount due from an associate, 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 determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. 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. In this regard, 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 allowances for doubtful receivables, estimated by the management based on prior experience, their assessment of the current economic environment and future discounted cash flows to be received.

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

Cash Flow Interest Rate Risk

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

Liquidity Risk

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

EMPLOYEES AND REMUNERATION POLICY

The Group had a total of 11,693 dedicated full-time employees as of 31 December 2012, including 1,481 management and administrative staff, 9,971 production staff and 241 operation supporting staff. In line with the Group's and individual performance, a competitive remuneration package is offered to retain elite employees, including salaries, medical insurance, discretionary bonuses, other fringe benefits as well as mandatory provident fund scheme for employees in Hong Kong and state-managed retirement benefit scheme for employees in the PRC.

The Group has also adopted a share option scheme and a restricted share award scheme for its employees, for the purpose of providing incentives and rewards to eligible participants with reference to their contribution. For the year ended 31 December 2012, no share option was granted or agreed to be granted by the Company under the share option scheme. In addition, for the year ended 31 December 2012, an aggregate of 54,720,750 restricted shares have been offered to eligible participants in accordance with the restricted share award scheme.

DIVIDEND

The Directors recommended a payment from the distributable reserves of the Company a final dividend of approximately RMB0.105 (equivalent to HK$0.129) per share in respect of the year ended 31 December 2012 to the shareholders whose names appear on the register of members of the Company at the close of business on 15 May 2013. The final dividend, payable on 31 May 2013, is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting ("AGM") to be held on 10 May 2013.

CLOSURE OF REGISTER OF MEMBERS

In order to determine the eligibility of shareholders to attend the AGM, which is to be held on 10 May 2013, the register of members of the Company will be closed from 7 May 2013 to 10 May 2013, both days inclusive, during which period 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 of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 6 May 2013.

In order to determine the eligibility of shareholders to the final dividend, the register of members of the Company will be closed from 16 May 2013 to 22 May 2013, both days inclusive, during which period 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 of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 15 May 2013.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries with the exception of purchases by the trustee of the restricted share award scheme, of the Company's listed shares during the year ended 31 December 2012.

CORPORATE GOVERNANCE

Corporate Governance Practices

The Company complied with all the principles and code provisions and most of the recommended best practices of the Corporate Governance Code contained in Appendix 14 ("CG Code") to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited ("Stock Exchange") which were in effect for the year ended 31 December 2012. Details of the implementation the Group of the CG Code will be set out in the corporate governance report in the annual report for the year ended 31 December 2012.

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 2012.

REVIEW OF FINANCIAL STATEMENTS

The Company has established an Audit Committee with written terms of reference. The Group's audited final results for the year ended 31 December 2012 were reviewed by all the Audit Committee members, namely, Mr. Zhang Yuqing (chairman of the Audit Committee and independent non-executive Director), Mr. Sha Ye (non-executive Director) and Mr. Chu Peng Fei Richard (independent non-executive Director).

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Group is committed to creating two-way channels of communication between senior management and investors, maintaining close relations with all its shareholders through a variety of channels and promoting understanding and exchange between investors and us. The Company has adopted a shareholders' communication policy to formalise and facilitate the effective and healthy communication between the Company and the shareholders and other stakeholders, which is available on the website of the Group (www.sunnyoptical.com). Our main communication channels with the shareholders include investors' meetings, general meetings, annual reports, interim reports, announcements and circulars, constitutional documents and the Group's website.

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 relationship department (Tel: +852-35687038; +86-574-62538091; 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 2012 will be despatched to shareholders of the Company and will be published on the same websites in due course.

APPRECIATION

The Group would like to express its appreciation to all staff for their outstanding contribution towards the Group's development. I, on behalf of the Board, wish to sincerely thank our management for their dedication and diligence, and they are the key factors for the Group to continue its success in future. Also, I wish to extend my gratitude for the continued support from our shareholders, customers and business partners. We will continue to deliver sustainable business development, so as to realise higher values and returns for our shareholders and other stakeholders.

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

Hong Kong, 10 March 2013

As at the date of this announcement, the Board comprises of Mr. Ye Liaoning and Mr. Sun Yang, who are executive directors, and Mr. Wang Wenjian and Mr. Sha Ye, who are non-executive directors, and Dr. Liu Xu, Mr. Zhang Yuqing and Mr. Chu Peng Fei Richard, who are independent non-executive directors.