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SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED

舜宇光學科技(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 2382.HK)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

RESULTS HIGHLIGHTS

- For the year ended 31 December 2020, the Group's revenue was approximately RMB38,001.8 million, representing a slight increase of approximately 0.4% compared to that of last year. The slight increase in revenue was mainly attributable to the fact that in 2020, the shipment volume of the Group's three main products (namely handset lens sets, vehicle lens sets and handset camera modules) increased compared to that of 2019, and the market share increased further. However, affected by the global pandemic, the average selling price of handset lens sets and handset camera modules decreased year-on-year due to the downgraded specification and configuration across the handset camera industry, which partially offset the revenue growth brought by the increased shipment volume.
- The gross profit of the Group for the year ended 31 December 2020 was approximately RMB8,697.9 million, representing an increase of approximately 12.2% compared to that of last year. The gross profit margin was approximately 22.9% (2019: approximately 20.5%), which was approximately 2.4 percentage points higher compared to that of last year. The increase in gross profit margin was mainly attributable to the improvement in gross profit margin of handset camera modules under Optoelectronic Products business segment which contributed approximately 75.0% of the Group's total revenue, from 9.3% in 2019 to 12.6% in 2020.
- The net profit for the year ended 31 December 2020 was approximately RMB4,940.3 million, representing an increase of approximately 22.9% compared to that of last year. The net profit margin was approximately 13.0% (2019: approximately 10.6%).
- The profit for the year attributable to owners of the Company for the year ended 31 December 2020 was approximately RMB4,871.8 million, representing an increase of approximately 22.1% compared to that of last year.
- Basic earnings per share for the year ended 31 December 2020 was approximately RMB445.78 cents, representing an increase of approximately 22.2% compared to that of last year.
- The Board of Directors has proposed a final dividend of approximately RMB0.888 (equivalent to HK\$1.057) per share for the year ended 31 December 2020.

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors", each a "Director") of Sunny Optical Technology (Group) Company Limited (the "Company") is pleased to present the consolidated results of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2020, together with the comparative figures for the year of 2019 as follows:

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2020

	NOTES	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue	3, 4	38,001,765	37,848,704
Cost of sales		(29,303,890)	(30,098,050)
Gross profit		8,697,875	7,750,654
Other income	5(A)	510,390	405,502
Other gains and losses	5(B)	187,257	(200,615)
Impairment losses under expected credit loss (“ECL”) model, net of reversal		12,218	(10,899)
Selling and distribution expenses		(313,478)	(278,616)
Research and development expenditure		(2,499,090)	(2,209,337)
Administrative expenses		(718,568)	(650,410)
Share of results of associates		20	(5,501)
Finance costs	6	(233,740)	(250,438)
Profit before tax		5,642,884	4,550,340
Income tax expense	7	(702,630)	(530,965)
Profit for the year	8	4,940,254	4,019,375
Other comprehensive income (expense)			
<i>Item that will not be reclassified to profit or loss:</i>			
Fair value gain on investments in equity instruments at fair value through other comprehensive income (“FVTOCI”)		18,977	–
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation from foreign operations		(41,606)	(1,512)
Other comprehensive expense for the year		(22,629)	(1,512)
Total comprehensive income for the year		4,917,625	4,017,863
Profit for the year attributable to:			
Owners of the Company		4,871,793	3,991,298
Non-controlling interests		68,461	28,077
		4,940,254	4,019,375
Total comprehensive income attributable to:			
Owners of the Company		4,849,009	3,989,331
Non-controlling interests		68,616	28,532
		4,917,625	4,017,863
Earnings per share – Basic (RMB cents)	10	445.78	364.81
– Diluted (RMB cents)	10	445.14	364.19

Consolidated Statement of Financial Position
At 31 December 2020

	NOTES	31/12/2020	31/12/2019
		<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment	11	7,513,193	6,566,745
Right-of-use assets		480,005	402,743
Investment properties		40,907	45,298
Intangible assets		363,137	419,163
Interests in associates		1,953	683
Deferred tax assets	12	207,332	131,178
Deposits paid for acquisition of property, plant and equipment		359,086	315,395
Deposits paid for acquisition of land use right		–	24,831
Equity instruments at FVTOCI	13	134,609	112,183
Debt instruments at amortised cost	14	–	27,962
Financial assets at fair value through profit or loss (“FVTPL”)	15	206,236	185,147
Derivative financial assets	16	–	13,654
Time deposits	17	500,000	–
Goodwill		2,119	2,119
		9,808,577	8,247,101
CURRENT ASSETS			
Inventories	18	5,783,071	5,145,962
Trade and other receivables and prepayment	19	8,212,025	9,629,684
Derivative financial assets	16	21,307	13,415
Financial assets at FVTPL	15	8,480,186	5,662,808
Debt instruments at amortised cost	14	52,823	55,749
Pledged bank deposits	17	3,438	6,113
Short term fixed deposits	17	234,917	15,000
Bank balances and cash	17	2,841,771	1,917,239
		25,629,538	22,445,970
CURRENT LIABILITIES			
Trade and other payables	20	10,733,364	11,321,586
Amounts due to related parties		6,996	7,498
Derivative financial liabilities	16	101,888	1,430
Lease liabilities – current portion		43,580	38,140
Tax payable		314,804	49,881
Bank borrowings	21	2,070,611	1,118,572
Contract liabilities		131,191	83,202
Deferred income – current portion		8,695	10,106
		13,411,129	12,630,415
NET CURRENT ASSETS		12,218,409	9,815,555
TOTAL ASSETS LESS CURRENT LIABILITIES		22,026,986	18,062,656

	<u>NOTES</u>	<u>31/12/2020</u> <i>RMB'000</i>	<u>31/12/2019</u> <i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	12	888,809	684,836
Derivative financial liabilities	16	4,782	–
Lease liabilities – non-current portion		96,899	122,466
Long term payables		245,636	299,209
Deferred income – non-current portion		68,855	73,894
Bonds payable	22	3,895,888	4,156,074
		5,200,869	5,336,479
NET ASSETS		16,826,117	12,726,177
CAPITAL AND RESERVES			
Share capital	23	105,163	105,163
Reserves		16,492,061	12,447,724
Equity attributable to owners of the Company		16,597,224	12,552,887
Non-controlling interests		228,893	173,290
TOTAL EQUITY		16,826,117	12,726,177

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

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

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

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the amendments to HKFRSs in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effect

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

HKFRS 17	<i>Insurance Contracts and the related Amendments¹</i>
Amendment to HKFRS 16	<i>Covid-19 – Related Rent Concessions⁴</i>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework²</i>
Amendments to HKFRS 9 HKAS 39, HKFRS 7 HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform – Phase 2⁵</i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)¹</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment – Proceeds before Intended Use²</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract²</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018-2020²</i>

(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. The credit term granted to customer is average 90 days.

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

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

4. OPERATING SEGMENTS

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

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

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

Segment revenues and results

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

For the year ended 31 December 2020

	<u>Optical Components</u>	<u>Optoelectronic Products</u>	<u>Optical Instruments</u>	<u>Segment Total</u>	<u>Eliminations</u>	<u>Total</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE						
External sales	9,181,097	28,494,260	326,408	38,001,765	–	38,001,765
Inter-segment sales	2,324,546	23,202	115,272	2,463,020	(2,463,020)	–
Total	<u>11,505,643</u>	<u>28,517,462</u>	<u>441,680</u>	<u>40,464,785</u>	<u>(2,463,020)</u>	<u>38,001,765</u>
Segment profit	<u>3,086,783</u>	<u>2,598,882</u>	<u>65,856</u>	<u>5,751,521</u>	<u>–</u>	5,751,521
Share of results of associates						20
Unallocated income						29,772
Unallocated expenses						(138,429)
Profit before tax						<u>5,642,884</u>

For the year ended 31 December 2019

	Optical Components	Optoelectronic Products	Optical Instruments	Segment Total	Eliminations	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE						
External sales	8,815,380	28,748,410	284,914	37,848,704	–	37,848,704
Inter-segment sales	<u>2,078,213</u>	<u>21,338</u>	<u>115,654</u>	<u>2,215,205</u>	<u>(2,215,205)</u>	<u>–</u>
Total	<u><u>10,893,593</u></u>	<u><u>28,769,748</u></u>	<u><u>400,568</u></u>	<u><u>40,063,909</u></u>	<u><u>(2,215,205)</u></u>	<u><u>37,848,704</u></u>
Segment profit	<u><u>3,454,535</u></u>	<u><u>1,316,318</u></u>	<u><u>41,762</u></u>	<u><u>4,812,615</u></u>	<u><u>–</u></u>	<u><u>4,812,615</u></u>
Share of results of associates						(5,501)
Unallocated income						22,211
Unallocated expenses						<u>(278,985)</u>
Profit before tax						<u><u>4,550,340</u></u>

Inter-segment sales are charged at prevailing market rates.

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs including Directors' salaries, other income, other gains and 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.

Segment assets and liabilities

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

As at 31 December 2020

	Optical Components	Optoelectronic Products	Optical Instruments	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets				
Trade receivables	2,367,013	4,368,886	56,344	6,792,243
Bill receivables	658,226	88,041	10,263	756,530
Inventories	1,559,605	4,155,765	67,701	5,783,071
Total segment assets	<u>4,584,844</u>	<u>8,612,692</u>	<u>134,308</u>	13,331,844
Unallocated assets				<u>22,106,271</u>
Consolidated assets				<u>35,438,115</u>
Liabilities				
Trade payables	2,318,329	4,752,353	88,693	7,159,375
Note payables	135,048	1,177,220	23,708	1,335,976
Total segment liabilities	<u>2,453,377</u>	<u>5,929,573</u>	<u>112,401</u>	8,495,351
Unallocated liabilities				<u>10,116,647</u>
Consolidated liabilities				<u>18,611,998</u>

As at 31 December 2019

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

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 2020

	<u>Optical Components</u> <i>RMB'000</i>	<u>Optoelectronic Products</u> <i>RMB'000</i>	<u>Optical Instruments</u> <i>RMB'000</i>	<u>Unallocated</u> <i>RMB'000</i>	<u>Consolidated total</u> <i>RMB'000</i>
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	792,709	812,377	20,682	2,517	1,628,285
Impairment losses on trade receivables reversed in profit or loss	(6,320)	(4,658)	(1,240)	-	(12,218)
Loss (gain) on disposal of property, plant and equipment and land use right	2,408	8,755	(7)	-	11,156
Share award scheme expense	77,369	54,874	14,747	4,821	151,811
Interest income from bank and financial instruments	(19,672)	(233,447)	(5,876)	(12,612)	(271,607)
Allowance for inventories	22,657	218,367	4,650	-	245,674
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to property, plant and equipment	<u>1,597,434</u>	<u>930,988</u>	<u>9,229</u>	<u>64</u>	<u>2,537,715</u>

For the year ended 31 December 2019

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

Revenue from major products

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

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Mobile phone related products	32,119,027	32,773,687
Other lens sets	2,709,419	2,314,477
Digital camera related products	592,186	744,788
Optical instruments	204,974	192,682
Other spherical lens and plane products	164,946	182,883
Digital video lens	29,423	98,846
Other products	2,181,790	1,541,341
	<u>38,001,765</u>	<u>37,848,704</u>

Geographical information

The Group's operations are mainly located in the People's Republic of China (the "PRC"), Vietnam, Korea, Japan, India and the United States.

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

	<u>Revenue from</u>		<u>Non-current assets</u>	
	<u>external customers</u>		<u>31/12/2020</u>	<u>31/12/2019</u>
	<u>2020</u>	2019	<u>RMB'000</u>	<u>RMB'000</u>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
China	31,578,180	31,129,983	8,516,376	7,696,674
Asia (except China)	4,695,491	4,956,307	238,324	77,251
Europe	966,094	926,597	179	227
North America	713,142	763,056	1,449	23
Others	48,858	72,761	-	-
	<u>38,001,765</u>	<u>37,848,704</u>	<u>8,756,328</u>	<u>7,774,175</u>

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

Information about major customers

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

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Customer A, revenue mainly from Optoelectronic and related Products	10,064,270	14,647,914
Customer B, revenue mainly from Optoelectronic and related Products	8,881,539	4,243,617

5(A). OTHER INCOME

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Government grants	141,810	113,148
Interest income from time deposits, short term fixed deposits, pledged bank deposits and bank balances	47,230	28,516
Interest income from debt instruments	9,335	10,138
Investment income from unlisted financial products at FVTPL	215,042	189,831
Interest income from small loan services	7,049	6,575
Income from sales of moulds	24,148	11,211
Income from sales of scrap materials	24,344	16,462
Rental income	15,665	10,131
Others	25,767	19,490
Total	<u>510,390</u>	<u>405,502</u>

5(B). OTHER GAINS AND LOSSES

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Loss on disposal of property, plant and equipment	(11,156)	(44,972)
Loss on deemed disposal of interest in an associate	–	(5,691)
Loss on disposal of a subsidiary	(1,673)	–
Net foreign exchange gain (loss)	225,506	(118,707)
Loss on changes in fair value of derivative financial instruments, net	(111,002)	(17,723)
Gain on changes in fair value of equity instruments at FVTPL	32,773	6,949
Gain on changes in fair value of debt instruments and fund investments at FVTPL	53,470	41,552
Impairment loss of interest in an associate	–	(62,866)
Others	(661)	843
Total	<u>187,257</u>	<u>(200,615)</u>

6. FINANCE COSTS

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Interests on bank borrowings	54,737	71,451
Interests on bonds payable	164,282	163,938
Interest on long term payables related to intangible assets	7,158	8,095
Interest on lease liabilities	7,563	6,954
Total	<u>233,740</u>	<u>250,438</u>

7. INCOME TAX EXPENSE

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current tax:		
PRC Enterprise Income Tax	540,600	328,747
Withholding tax expense	24,000	41,695
Other jurisdictions	18,075	5,393
	582,675	375,835
Over provision in prior years:		
PRC Enterprises Income Tax	(4,515)	(24,135)
Deferred tax (Note 12):		
Current year	124,470	179,265
	702,630	530,965

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

- (i) Ningbo Sunny Infrared Technologies Co., Ltd. and Yuyao Sunny Optical Intelligence Technology Co., Ltd., domestic limited liability companies, were approved as Hi-Tech Enterprise and entitled to a preferential tax rate of 15% with the expiry date on 31 December 2021.
- (ii) Ningbo Sunny Opotech Co., Ltd., Ningbo Sunny Automotive Optech Co., Ltd., Sunny Optics (Zhongshan) Co., Ltd., Ningbo Sunny Instruments Co., Ltd., Sunny Optical (Zhejiang) Research Institute Co., Ltd. and Zhejiang Sunny SmartLead Technologies Co., Ltd., 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 2022.
- (iii) Zhejiang Sunny Optics Co., Ltd. and Xinyang Sunny Optics Co., Ltd., 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., 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.

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 profit or loss and other comprehensive income as follows:

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Profit before tax	<u>5,642,884</u>	<u>4,550,340</u>
Tax at the PRC EIT tax rate of 25%	1,410,721	1,137,585
Tax effect of share of results of associates	(5)	1,375
Tax effect of expenses not deductible for tax purpose	5,793	17,825
Tax effect of allowance granted under share award scheme in the PRC	(14,437)	(24,447)
Tax effect of preferential tax rates for certain subsidiaries (Note a)	(372,942)	(308,517)
Tax effect of additional tax deduction of research and development expenses (Note b)	(385,378)	(333,245)
Tax effect of tax losses not recognised	28,315	34,781
Utilisation of tax losses not previously recognised	(8,991)	(52,867)
Deferred tax provided for withholding tax on income derived in the PRC	49,205	81,368
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	(5,136)	1,242
Over provision in prior years	(4,515)	(24,135)
Income tax expense for the year	<u>702,630</u>	<u>530,965</u>

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

Notes:

- (a) For the PRC subsidiaries which were approved as Hi-Tech Enterprises or Software Enterprise, they are entitled to a preferential tax rate of 15% or preferential policies of exemption from or half reduction of enterprise income tax.
- (b) In August 2018, a new notice with the name of Caishui [2018] No. 99 “Notice on Increasing the Pre-tax Deduction Ratio of Research and Development Expenses” was released, according to which certain PRC subsidiaries are entitled to an additional 75% tax deduction on eligible research and development expenses incurred by them for the both years ended 31 December 2020 and 2019.

8. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Directors' emoluments	16,169	14,508
Other staff's salaries and allowances	1,963,313	1,583,196
Other staff's discretionary bonuses	474,763	455,846
Other staff's contribution to retirement benefit scheme	219,448	191,075
Other staff's share award scheme expense	142,279	115,608
	<u>2,815,972</u>	<u>2,360,233</u>
Cost of inventories recognised as an expense	24,741,675	25,816,826
Auditor's remuneration	4,209	3,542
Depreciation of property, plant and equipment	1,513,407	1,171,430
Depreciation of investment properties	4,391	4,391
Depreciation of right-of-use assets	54,285	46,499
Amortisation of intangible assets	56,202	55,558
Allowance for inventories (included in cost of sales)	245,674	155,488

9. DIVIDENDS

	<u>2020</u>	<u>2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Dividends for ordinary shareholders of the Company recognised as distribution during the year:		
2019 final dividends – RMB72.80 cents (2019: 2018 final dividends – RMB56.80 cents) per share	<u>798,507</u>	<u>623,011</u>

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2020 of approximately RMB88.80 cents per share, equivalent to Hong Kong Dollar (“**HK\$**” or “**HKD**”) 105.70 cents per share, amounting to a total of approximately RMB974,003,000 (2019: approximately RMB72.80 cents per share, equivalent to HK\$81.00 cents per share, amounting to a total of approximately RMB798,507,000) has been proposed by the Directors of the Company and is subject to approval by the shareholders in the forthcoming annual general meeting (the “**AGM**”). The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

10. EARNINGS PER SHARE

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

	<u>2020</u>	<u>2019</u>
	<i>RMB '000</i>	<i>RMB '000</i>
<u>Earnings</u>		
Earnings for the purpose of basic and diluted earnings per share	<u>4,871,793</u>	<u>3,991,298</u>
	<u>2020</u>	<u>2019</u>
	<i>'000</i>	<i>'000</i>
<u>Number of shares</u>		
Weighted average number of ordinary shares for the purpose of basic earnings per share (Note)	1,092,870	1,094,079
Effect of dilutive potential ordinary shares:		
Restricted Shares	<u>1,578</u>	<u>1,873</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,094,448</u>	<u>1,095,952</u>

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

11. PROPERTY, PLANT AND EQUIPMENT

	Owned properties	Machinery and production equipment	Motor vehicles	Fixtures and office equipment	Construction in progress	Total
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
COST						
At 1 January 2019	556,071	5,031,358	18,754	629,100	784,858	7,020,141
Additions	67,483	2,453,292	692	328,172	392,263	3,241,902
Transfer	292,511	102,251	–	68,112	(462,874)	–
Disposals	(2,167)	(179,125)	(383)	(5,966)	(56)	(187,697)
Acquired on acquisition of a subsidiary	–	26,942	163	1,581	28	28,714
Exchange realignment	–	57	25	51	–	133
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2019 and 1 January 2020	913,898	7,434,775	19,251	1,021,050	714,219	10,103,193
Additions	52,042	1,562,262	394	199,759	723,258	2,537,715
Transfer	345,576	204,541	–	34,353	(584,470)	–
Disposals	(11,056)	(249,505)	–	(10,309)	–	(270,870)
Derecognised on disposal of a subsidiary	–	(849)	–	(303)	–	(1,152)
Exchange realignment	–	(2,786)	(110)	(1,892)	–	(4,788)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2020	1,300,460	8,948,438	19,535	1,242,658	853,007	12,364,098
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 1 January 2019	130,360	2,087,377	12,413	267,250	–	2,497,400
Charge for the year	26,459	1,051,824	2,158	90,989	–	1,171,430
Eliminated on disposals	(123)	(126,888)	(240)	(5,216)	–	(132,467)
Exchange realignment	–	25	14	46	–	85
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2019 and 1 January 2020	156,696	3,012,338	14,345	353,069	–	3,536,448
Charge for the year	45,504	1,287,297	1,810	178,796	–	1,513,407
Eliminated on disposals	(9,504)	(179,036)	–	(9,066)	–	(197,606)
Derecognised on disposal of a subsidiary	–	(835)	–	(286)	–	(1,121)
Exchange realignment	–	(63)	(105)	(55)	–	(223)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2020	192,696	4,119,701	16,050	522,458	–	4,850,905
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
CARRYING VALUES						
At 31 December 2020	<u>1,107,764</u>	<u>4,828,737</u>	<u>3,485</u>	<u>720,200</u>	<u>853,007</u>	<u>7,513,193</u>
At 31 December 2019	<u>757,202</u>	<u>4,422,437</u>	<u>4,906</u>	<u>667,981</u>	<u>714,219</u>	<u>6,566,745</u>

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:

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

The carrying value of owned properties shown above comprises:

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Owning properties outside Hong Kong	<u>1,107,764</u>	<u>757,202</u>

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:

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Deferred tax assets	(207,332)	(131,178)
Deferred tax liabilities	<u>888,809</u>	<u>684,836</u>
	<u>681,477</u>	<u>553,658</u>

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

	Withholding tax on distributed profit from the PRC	Allowance for inventories and ECL provision	Deferred subsidy income	Accelerated depreciation	Accrued bonus	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2019	80,859	(32,456)	(9,288)	314,493	(7,248)	14,369	360,729
Charge (Credit) to profit or loss (Note 7)	39,673	(24,929)	(577)	227,129	(48,864)	(13,167)	179,265
Acquired on acquisition of a subsidiary	-	-	-	-	-	13,664	13,664
At 31 December 2019	120,532	(57,385)	(9,865)	541,622	(56,112)	14,866	553,658
Charge (Credit) to profit or loss (Note 7)	25,205	(33,971)	1,544	170,504	(41,407)	2,595	124,470
Charge to other comprehensive income	-	-	-	-	-	3,349	3,349
At 31 December 2020	<u>145,737</u>	<u>(91,356)</u>	<u>(8,321)</u>	<u>712,126</u>	<u>(97,519)</u>	<u>20,810</u>	<u>681,477</u>

As at 31 December 2020, the deferred tax liability amounting to RMB145,737,000 (31 December 2019: RMB120,532,000) was provided in respect of the temporary differences attributed to the PRC undistributed profits to the extent exceeding the investment plan which the directors of the Company decided to distribute. The Group has determined that the remaining portion of the profits derived from those PRC operating subsidiaries will be retained by those subsidiaries and not distributed in the foreseeable future, since the Group is in a position to control the timing of the reversal of the temporary differences, and it is probable that such differences will not reverse nor be subject to withholding tax in the foreseeable future.

At the end of the reporting period, the Group had unused tax losses of approximately RMB885,339,000 (2019: RMB808,044,000) available for offset against future profits. The tax losses arising from the PRC non high-tech subsidiaries of RMB78,984,000 (2019: RMB110,718,000) can be carried forward for maximum of five years and will expire during 2021 to 2025 (2019: 2020 to 2024) while the tax losses arising from the PRC high-tech subsidiaries of RMB764,624,000 (2019: RMB653,462,000) can be carried forward for maximum of ten years and will expire during 2021 to 2030 (2019: 2020 to 2029) according to Caishui [2018] No. 76. which has extended the expiration period from five years to ten years. Other tax losses may be carried forward indefinitely.

13. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Unlisted equity investments	<u>134,609</u>	<u>112,183</u>

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

During the current year, the Group made a new equity investment measured as equity instruments at FVTOCI amounting to RMB100,000 (2019: RMB5,600,000) and the fair value gain in the amount of RMB22,326,000 was recognised in FVTOCI reserve.

14. DEBT INSTRUMENTS AT AMORTISED COST

During the current year, two debt instruments amounting to RMB54,200,000 reached maturity and was redeemed accordingly.

The Group purchased another debt instrument amounting to RMB29,262,000 carrying coupon rate of 6.40% with the same business model to collect contractual cash flows that are solely payments of principle amount outstanding semi-annually according to the contract terms, the debt instrument was classified and subsequently measured at amortised cost.

As at 31 December 2020, the total carrying amount of the debt instruments is RMB52,823,000 (31 December 2019: RMB83,711,000) and all of the debt instruments will mature within one year (31 December 2019: RMB55,749,000).

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Current assets		
Fund investments (Note a)	282,711	373,638
Unlisted financial products (Note b)	<u>8,197,475</u>	<u>5,289,170</u>
	<u>8,480,186</u>	<u>5,662,808</u>
Non-current assets		
Debt investments (Note c)	72,884	84,568
Equity investments (Note d)	<u>133,352</u>	<u>100,579</u>
	<u>206,236</u>	<u>185,147</u>

Notes:

(a) Fund investments

The Group entered into several contracts to purchase fund units (the “Fund”) with a financial institution since 2018, which were accounted for as financial assets as FVTPL on initial recognition. As at 31 December 2020, the fair value of the Fund is United State Dollar (“US\$” or “USD”) 43,328,000 (31 December 2019: USD53,559,000) per the investment statement of the financial institution, equivalent to RMB282,711,000 (31 December 2019: RMB373,638,000). The fair value gain in the amount of USD3,328,000, equivalent to RMB22,199,000 (2019: RMB40,734,000) was recognised in profit or loss in the current year.

(b) Unlisted financial products

During the current year, the Group entered into several contracts of unlisted financial products with banks. The unlisted financial products are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for financial assets at FVTPL on initial recognition of which the return of the unlisted financial products was determined by reference to the performance of the underlying government debt instruments and treasury notes and as at 31 December 2020 the expected return rate stated in the contracts ranges from 2.15% to 3.95% (31 December 2019: 2.10% to 4.75%) 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 disposed three debt investments at the proceed of RMB81,668,000 (2019: RMB75,719,000) and the Group purchased another three debt instruments at FVTPL amounting to RMB77,617,000 with coupon rates ranging from 4.45% to 5.00%.

The gain on the fair value change of the remaining debt investments amounting to RMB47,000 (2019: RMB1,674,000) was recognised in the profit or loss in the current year.

(d) Equity investments

The Group's equity investments of 餘姚市陽明智行投資中心(有限合夥) (“V Fund”) and another partnership enterprise in total amount of RMB72,500,000 (31 December 2019: RMB72,500,000) were classified as financial assets at FVTPL. As at 31 December 2020, the fair value of all equity investments amounted to RMB133,352,000 (31 December 2019: RMB100,579,000) with a fair value gain of RMB32,773,000 (2019: RMB6,949,000) recognised in the profit or loss during the current year.

16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	31/12/2020	31/12/2019	31/12/2020	31/12/2019
	RMB'000	RMB'000	RMB'000	RMB'000
Foreign currency forward contracts	17,657	22,462	9,865	–
Foreign currency options contracts	3,650	4,607	96,805	1,430
Total	21,307	27,069	106,670	1,430
Less: current portion				
Foreign currency forward contracts	17,657	8,808	5,083	–
Foreign currency options contracts	3,650	4,607	96,805	1,430
	21,307	13,415	101,888	1,430
Non-current portion	–	13,654	4,782	–

As at 31 December 2020, the Group had entered into the following foreign currency forward contracts and foreign currency options contracts:

Foreign currency forward contracts

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

	<u>Receiving currency</u>	<u>Selling currency</u>	<u>Maturity date</u>	<u>Weighted average forward exchange rate</u>
Contract Series W	USD56,250,000	RMB384,157,125	Semi-annually till 18 January 2023	USD:RMB from 6.68 to 6.99
Contract Series X	RMB771,800,000	USD115,700,000	Semi-annually till 15 March 2021	USD:RMB from 6.58 to 6.73
Contract Series Y	USD119,000,000	RMB786,547,000	Quarterly till 25 March 2021	USD:RMB from 6.57 to 6.64
Contract Series Z	USD10,000,000	RMB67,216,000	Quarterly till 25 January 2021	USD:RMB 6.72

Foreign currency options contracts

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

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

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

Extracts of details of foreign currency options contracts from the respective contracts outstanding as at 31 December 2020 are as follow:

	Notional amount	Strike/barrier rates	Ending settlement date
	<i>USD'000</i>		
Contract A	30,000	USD:RMB at 1:6.4000	26 April 2021
Contract B	40,000	USD:RMB at 1:7.1883	15 June 2021
Contract C	40,000	USD:RMB at 1:7.1882	15 June 2021
Contract D	75,000	USD:RMB at 1:7.1901	15 June 2021
Contract E	75,000	USD:RMB at 1:7.1900	15 June 2021

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

17. TIME DEPOSITS/PLEDGED BANK DEPOSITS/SHORT TERM FIXED DEPOSITS/BANK BALANCES AND CASH

During the current year, the Group deposited RMB500,000,000 time deposits with several banks in the PRC. These time deposits carry fixed interest rates ranging from 3.85% to 4.18% (31 December 2019: nil) per annum. The maturity period of these time deposits is three years and are therefore classified as non-current assets.

The Group pledged certain of its bank deposits to banks as security for note payables and the pledged bank deposits carry fixed interests of 1.35% (31 December 2019: 1.35%) per annum.

Short term fixed deposits carry fixed interest rates ranging from 1.92% to 3.15% (31 December 2019: 2.10% to 3.15%) per annum. Short term fixed deposits have original maturity dates less than one year and therefore classified as current assets.

Bank balances, which represent saving accounts and deposits, carry interest at market saving rates at 0.30% (31 December 2019: 0.35%) per annum.

18. INVENTORIES

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	1,126,857	796,909
Work in progress	193,666	154,988
Finished goods	4,462,548	4,194,065
	<u>5,783,071</u>	<u>5,145,962</u>

19. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current assets		
Trade receivables	6,888,146	8,470,788
Less: allowance for ECL	(95,903)	(112,485)
	<u>6,792,243</u>	<u>8,358,303</u>
Bill receivables	756,530	758,311
Loan receivables (Note)	164,998	116,184
Other receivables and prepayment		
Value added tax and other tax receivables	92,948	72,670
Advance to suppliers	77,578	96,771
Interest receivables	54,277	30,693
Prepaid expenses	119,584	95,261
Utilities deposits and prepayment	75,561	30,714
Advances to employees	68,701	34,349
Others	9,605	36,428
	<u>498,254</u>	<u>396,886</u>
Total trade and other receivables and prepayment	<u>8,212,025</u>	<u>9,629,684</u>

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

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	6,599,719	8,146,567
91 to 180 days	191,585	208,686
Over 180 days	939	3,050
	<u>6,792,243</u>	<u>8,358,303</u>

The credit period of bill receivable is 90 to 180 days. Aging of bill receivables based on the issue date at the end of the reporting period is as follows:

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Within 90 days	647,049	713,304
91 to 180 days	109,481	45,007
	<u>756,530</u>	<u>758,311</u>

All bills received by the Group are with a maturity period of less than one year.

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB31,818,000 (31 December 2019: RMB59,643,000) which are past due as at the reporting date. Nil (31 December 2019: Nil) of the past due has been past due 90 days or more.

20. TRADE AND OTHER PAYABLES

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Current liabilities		
Trade payables		
Within 90 days	5,525,012	7,062,167
91 to 180 days	829,036	963,569
Over 180 days	495	3,509
Accrued purchases	804,832	475,271
	<hr/>	<hr/>
Total trade payables and accrued purchases	7,159,375	8,504,516
	<hr/>	<hr/>
Note payables		
Within 90 days	1,022,991	1,021,415
91 to 180 days	312,985	100,621
	<hr/>	<hr/>
	1,335,976	1,122,036
	<hr/>	<hr/>
Payables for purchase of property, plant and equipment	182,910	278,461
Staff salaries and welfare payables	1,222,684	807,252
Labor outsourcing payables	168,504	201,405
Payables for acquisition of patents	45,651	42,068
Value added tax payables and other tax payables	341,112	151,177
Commission payables	32,471	33,386
Interest payables	65,878	69,744
Rental and utilities payables	50,808	31,500
Others	127,995	80,041
	<hr/>	<hr/>
	2,238,013	1,695,034
	<hr/>	<hr/>
	10,733,364	11,321,586
	<hr/> <hr/>	<hr/> <hr/>
Non-current liabilities		
Long term payables		
Payables for acquisition of patents	245,636	299,209
	<hr/> <hr/>	<hr/> <hr/>

The credit period on purchases of goods is up to 180 days (2019: 180 days) and the credit period for note payables is 90 days to 180 days (2019: 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.

21. BANK BORROWINGS

Unsecured	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Guaranteed	1,381,243	700,000
Unguaranteed	<u>689,368</u>	<u>418,572</u>
	<u>2,070,611</u>	<u>1,118,572</u>

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
Fixed-rate borrowings	1,124,500	418,572
Variable-rate borrowings	<u>946,111</u>	<u>700,000</u>
	<u>2,070,611</u>	<u>1,118,572</u>

The above bank borrowings are repayable within one year.

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
Fixed-rate borrowings	2.96%	2.77%
Variable-rate borrowings	0.85%-1.14%	3.26%-3.29%

The variable-rate borrowings as at 31 December 2020 are denominated in USD which carry the floating-rates at London Inter-bank offer ("LIBOR") plus a premium. As at 31 December 2019, the variable-rate borrowings are denominated in RMB which carry the floating-rates at Loan Prime Rate ("LPR") minus basis points.

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

	<u>31/12/2020</u>	<u>31/12/2019</u>
	<i>RMB'000</i>	<i>RMB'000</i>
USD	<u>946,111</u>	<u>418,572</u>

22. BONDS PAYABLE

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

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

During the current year, interest expense of approximately RMB164,282,000 (2019: RMB163,938,000) was recognised in consolidated statement of profit or loss and other comprehensive income.

23. SHARE CAPITAL

	<u>Number of shares</u>	<u>Amount</u> <i>HK\$'000</i>	<u>Equivalent to</u> <i>RMB'000</i>
Authorised:			
Ordinary shares of HK\$0.10 each at 31 December 2019 and 31 December 2020	<u>100,000,000,000</u>	<u>10,000,000</u>	
Issued & fully paid:			
Ordinary shares of HK\$0.10 each at 31 December 2019 and 31 December 2020	<u>1,096,849,700</u>	<u>109,685</u>	<u>105,163</u>

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 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

The Group is principally engaged in the design, research and development (the “**R&D**”), manufacture and sale of optical and optical-related products. Such products include optical components (such as glass spherical and aspherical lenses, plane products, handset lens sets, vehicle lens sets, security surveillance lens sets and other various lens sets) (the “**Optical Components**”), optoelectronic products (such as handset camera modules, three dimensional (the “**3D**”) optoelectronic products, vehicle modules and other optoelectronic modules) (the “**Optoelectronic Products**”) and optical instruments (such as microscopes and intelligent equipment for inspection) (the “**Optical Instruments**”). The Group focuses on the application fields of optoelectronic-related products, such as handsets, digital cameras, vehicle imaging and sensing systems, security surveillance systems and virtual reality (“**VR**”)/augmented reality (“**AR**”), which are combined with optical, electronic, software and mechanical technologies.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2020, the Group’s revenue was approximately RMB38,001.8 million, representing a slight increase of approximately 0.4% compared to that of last year. The slight increase in revenue was mainly attributable to the fact that in 2020, the shipment volume of the Group’s three main products (namely handset lens sets, vehicle lens sets and handset camera modules) increased compared to that of 2019, and the market share increased further. However, affected by the global pandemic, the average selling price of handset lens sets and handset camera modules decreased year-on-year due to the downgraded specification and configuration across the handset camera industry, which partially offset the revenue growth brought by the increased shipment volume.

Revenue generated from the Optical Components business segment was approximately RMB9,181.1 million, representing a slight increase of approximately 4.1% compared to that of last year. The slight increase in revenue was mainly attributable to the increase in the shipment volume of handset lens sets and vehicle lens sets, while the average selling price of handset lens sets decreased year-on-year due to the downgraded specification and configuration across the handset camera industry, which partially offset the revenue growth resulting from the increased shipment volume. Meanwhile, the infrared lens sets performed well.

Revenue generated from the Optoelectronic Products business segment was approximately RMB28,494.3 million, representing a slight decrease of approximately 0.9% compared to that of last year. The slight decrease in revenue was mainly attributable to the increase in the shipment volume of handset camera modules, while the average selling price of handset camera modules decreased year-on-year due to the downgraded specification and configuration across the handset camera industry, which offset the revenue growth resulting from the increased shipment volume.

Revenue generated from the Optical Instruments business segment was approximately RMB326.4 million, representing an increase of approximately 14.6% compared to that of last year. The increase in revenue was mainly attributable to the increased market demand for optical instruments for application in domestic industrial sector.

Gross Profit and Margin

The gross profit of the Group for the year ended 31 December 2020 was approximately RMB8,697.9 million, representing an increase of approximately 12.2% compared to that of last year. The gross profit margin was approximately 22.9% (2019: approximately 20.5%), which was approximately 2.4 percentage points higher compared to that of last year. The increase in gross profit margin was mainly attributable to the improvement in gross profit margin of handset camera modules under Optoelectronic Products business segment which contributed approximately 75.0% of the Group's total revenue, from 9.3% in 2019 to 12.6% in 2020.

The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 42.8%, 12.6% and 39.2%, respectively (2019: approximately 45.2%, 9.3% and 41.3% respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the year ended 31 December 2020 increased by approximately RMB34.9 million compared to that of last year to approximately RMB313.5 million. It accounted for approximately 0.8% of the Group's revenue during the year, compared to approximately 0.7% of last year. The increase in absolute amount was primarily attributable to the increase in the headcount and remuneration of sales staff.

R&D Expenditure

The R&D expenditure of the Group for the year ended 31 December 2020 increased by approximately RMB289.8 million compared to that of last year to approximately RMB2,499.1 million. It accounted for approximately 6.6% of the Group's revenue during the year, compared to approximately 5.9% of last year. The increase in overall R&D expenditure was attributable to the Group's continuous investments in the upgrade of existing products and the R&D of products related to the emerging businesses.

Administrative Expenses

The administrative expenses of the Group for the year ended 31 December 2020 increased by approximately RMB68.2 million compared to that of last year to approximately RMB718.6 million. It accounted for approximately 1.9% of the Group's revenue during the year, compared to approximately 1.7% of last year. The increase in absolute amount was primarily attributable to the increase in the headcount and remuneration of administrative staff, the grant of restricted shares and the construction of informatisation.

Income Tax Expense

The income tax expense of the Group for the year ended 31 December 2020 increased by approximately RMB171.7 million compared to that of last year to approximately RMB702.6 million. The increase in absolute amount was mainly attributable to the increase in profit before tax. The Group's effective tax rate was approximately 12.5% during the year, compared to approximately 11.7% of last year.

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

Name of subsidiaries	Type of subsidiaries	2019	2020	2021 (Expected)	2022 (Expected)
**Zhejiang Sunny Optics Co., Ltd. (“Sunny Zhejiang Optics”)	Limited liability company (Taiwan, Hong Kong or Macau joint venture)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Instruments Co., Ltd. (“Sunny Instruments”)	Limited liability company (Taiwan, Hong Kong or Macau joint venture)	15.0%	15.0%	15.0%	15.0%
**Sunny Optics (Zhongshan) Co., Ltd. (“Sunny Zhongshan Optics”)	Limited liability company (Taiwan, Hong Kong or Macau and domestic joint venture)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Opotech Co., Ltd. (“Sunny Opotech”)	Limited liability company (Taiwan, Hong Kong or Macau and domestic joint venture)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Infrared Technologies Co., Ltd. (“Sunny Infrared Optics”)	Limited liability company (investment by foreign investment company)	15.0%	15.0%	15.0%	15.0%
**Ningbo Sunny Automotive Optech Co., Ltd. (“Sunny Automotive Optech”)	Limited liability company (legal person sole investment by foreign investment company)	15.0%	15.0%	15.0%	15.0%
**Xinyang Sunny Optics Co., Ltd. (“Sunny Xinyang Optics”)	Limited liability company (investment by foreign investment company)	15.0%	15.0%	15.0%	15.0%
**Yuyao Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence (Yuyao)”)	Limited liability company (legal person sole investment)	15.0%	15.0%	15.0%	15.0%
Shanghai Sunny Yangming Precision Optics Co., Ltd. (“Sunny Shanghai Optics”)	Limited liability company (legal person sole investment by foreign investment company)	25.0%	25.0%	25.0%	25.0%
Ningbo Sunny Intelligent Technology Co., Ltd. (“Sunny Intelligent Technology”)	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
Sunny Group Company Limited (“Sunny Group”)	Limited liability company (legal person sole investment by foreign investment company)	25.0%	25.0%	25.0%	25.0%
Zhejiang Sunny Optical Intelligence Technology Co., Ltd. (“Sunny Optical Intelligence”)	Limited liability company	12.5%	12.5%	12.5%	25.0%

Name of subsidiaries	Type of subsidiaries	2019	2020	2021 (Expected)	2022 (Expected)
**Sunny Optical (Zhejiang) Research Institute Co., Ltd. ("Sunny Research Institute")	Limited liability company (legal person sole investment)	25.0%	15.0%	15.0%	15.0%
!Ningbo Mei Shan Bao Shui Gang Qu Sunxin Investment Partnership (Limited Partnership) ("Ningbo Sunxin Investment")	Limited partnership company	N/A	N/A	N/A	N/A
Ningbo Mei Shan Bao Shui Gang Qu Sunyi Investment Co., Ltd. ("Ningbo Sunyi Investment")	Limited liability company	25.0%	25.0%	25.0%	25.0%
Yuyao City Sunny Huitong Microcredit Co., Ltd. ("Sunny Huitong")	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
Ningbo Sunny OmniLight Technology Co., Ltd. ("Sunny OmniLight Technology")	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
Sunny Mobility Technologies (Ningbo) Co., Ltd. ("Sunny Mobility")	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
**@Zhejiang Sunny SmartLead Technologies Co., Ltd. ("Sunny SmartLead")	Limited liability company (legal person sole investment)	25.0%	15.0%	15.0%	15.0%
Shanghai Wissen Automotive Sensing Technology Co., Ltd. ("Shanghai Wissen")	Limited liability company (legal person sole investment)	25.0%	25.0%	25.0%	25.0%
#Ningbo Yuanheng Supply Chain Management Co., Ltd. ("Ningbo Yuanheng")	Limited liability company (legal person sole investment)	N/A	25.0%	25.0%	25.0%

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

+ The companies have obtained Hi-Tech Enterprise Certification with the expiry dates on 31 December 2020, 31 December 2021 or 31 December 2022.

- The company was recognised as a Software Company prior to the balance sheet date, and is entitled to the preferential policies of full exemption from enterprise income tax for the first two years and 50% reduction for the subsequent three years.

! The partners of the company shall be liable for the income tax on their own as it is a limited partnership company.

@ The company's registered name has been changed from Ningbo Wissen Intelligent Sensing Technology Co., Ltd. to Zhejiang Sunny SmartLead Technologies Co., Ltd. during the year.

The company was established or acquired during the year.

Profit for the Year and Net Profit Margin

The profit for the year of the Group for the year ended 31 December 2020 was approximately RMB4,940.3 million, representing an increase of approximately 22.9% compared to that of last year. The increase in profit for the year was mainly attributable to the increase in gross profit. The net profit margin was approximately 13.0% (2019: approximately 10.6%).

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

The profit for the year attributable to owners of the Company for the year ended 31 December 2020 was approximately RMB4,871.8 million, representing an increase of approximately 22.1% compared to that of last year. The basic earnings per share for the year ended 31 December 2020 was approximately RMB445.78 cents, representing an increase of approximately 22.2% compared to that of last year.

FINAL DIVIDENDS

For the year ended 31 December 2020, the Board proposed a dividend of approximately RMB0.888 (equivalent to HK\$1.057) per share, with payout ratio of approximately 20.0% of the profit for the year attributable to owners of the Company. The final dividends payable on 24 June 2021 is subject to the approval of the shareholders of the Company at the forthcoming AGM to be held on 25 May 2021.

Details of final dividends for the year ended 31 December 2020 are set out in Note 9 of this announcement.

BUSINESS REVIEW

During the year under review, facing the drastic industrial changes, the impact of the normalised pandemic and the continuing trade frictions, the Group maintained a leading position in the industry through the following aspects: 1. continued to make breakthroughs in key technologies, improved the construction of the R&D system and enhanced the technological value added to the products; 2. optimised the manufacturing management process and organisation structure continuously, innovated the technological skills persistently, accelerated to propel the processes of automatic inspection, and elevated the value added to the production; and 3. optimised suppliers and supply channels persistently, standardised the management procedures, improved the management efficiency and accuracy, and reduced the operating costs.

In order to prevent operating risks effectively in intellectual property rights, the Group has established a professional intellectual property rights management team and has been proactively formulating overall planning in relation to patent layout. As at 31 December 2020, the Group had 2,096 granted patents, including 623 invention patents, 1,421 utility model patents and 52 exterior design patents. In addition, another 3,212 patent applications are pending approval.

OPTICAL COMPONENTS

For the year ended 31 December 2020, the revenue from the Optical Components business segment was approximately RMB9,181.1 million, representing an increase of approximately 4.1% compared to that of last year. This segment accounted for approximately 24.2% of the Group's total revenue, compared to approximately 23.3% of last year.

During the year under review, the shipment volume of handset lens sets of the Group amounted to 1,529,757,000 units, representing an increase of approximately 13.9% compared to that of last year, achieving a record high, with 6P and above products accounting for approximately 24.7% of the shipment volume. Other than the increased shipment volume, the Group also paid great attention to "quality improvement". Therefore, by continuously strengthening R&D and engineering capabilities, the Group has successfully developed a number of high-specification products during the year under review, mainly including continuous zoom handset lens sets, 8P high-resolution handset lens sets, freeform handset lens sets and millimeter-scale ultra-macro shooting handset lens sets. At the same time, the Group's 100-mega pixel large image size handset lens sets and super-small distortion wide-angle (115°) handset lens sets have commenced mass production. In addition, with extensive experience and leading technological advantages in the optical field, the Group actively developed emerging optical markets and engaged in the development of lens sets and other optical components applied in VR/AR, 3D sensing, smart home, drones and motion tracking, etc. During the year, the sales of the Group's VR lens sets and lenses and 3D interactive lens sets achieved further breakthroughs and generated considerable economic benefits.

In terms of the vehicle lens sets business, affected by the global pandemic in the first half of the year, the Group's shipment to overseas customers was delayed; while overseas customers gradually resumed work in the second half of the year, the Group's shipment of vehicle lens sets rebounded rapidly. During the year under review, the shipment volume of vehicle lens sets of the Group amounted to 56,174,000 units, representing an increase of approximately 12.1% compared to that of last year. Meanwhile, the Group achieved breakthroughs in the innovation of vehicle lens sets technology continuously. The Group completed the R&D of 2-mega pixel hybrid front-view vehicle lens sets which can overcome the technological barrier of temperature stability of lens sets containing plastic lenses. In addition, the pure glass 8-mega pixel front-view vehicle lens sets with glass aspherical lenses commenced mass production and delivery.

In addition, the Group speeded up product development and market layout in the emerging vehicle optical components business and actively developed new business growth points. During the year under review, the Group completed the R&D of megapixel smart headlight lens sets of vehicle which can help to seize the opportunities in the industry.

OPTOELECTRONIC PRODUCTS

For the year ended 31 December 2020, the revenue from the Optoelectronic Products business segment was approximately RMB28,494.3 million, representing a slight decrease of approximately 0.9% compared to that of last year. This segment accounted for approximately 75.0% of the Group's total revenue, compared to approximately 76.0% of last year.

During the year under review, the shipment volume of handset camera modules of the Group amounted to 592,878,000 units, representing an increase of approximately 9.7% compared to that of last year, with the periscope modules and large image size (image size is 1/1.7" and above) modules accounting for approximately 10.3% of the shipment volume. During the year, due to the global outbreak of the pandemic, end-customer demand was weak and the shipment volume of smartphone continued to decline, and the camera industry experienced downgrade in specification and configuration. However, the Group firmly believed that the specification of smartphone camera will continue to upgrade in the future. Therefore, the Group actively invested in R&D and strengthened the researches on core technology. Meanwhile, in line with customer demand and the latest development trends of the industry, the Group has completed the R&D of continuous zoom handset camera modules and sensor-shift handset camera modules. In addition, gimbal stabilisation handset camera modules and handset camera modules with the second-generation of molding on board and second-generation of molding on chip packaging technique have commenced mass production.

In order to further improve product yield rate, enhance production efficiency and strengthen competitiveness, the Group has further optimised the production line process of handset camera modules during the year. The Optical Reflection System-Active Alignment independently developed by the Group has been put into use. Such equipment can provide high-precision assembly solutions for a variety of high-end periscopic products.

In terms of the vehicle modules business, the Group continued to plan systematically for product roadmap focusing on market and customer demand, and increased the added value of products with unique technological innovations, achieving breakthroughs in business progress. During the year, the Group has completed the R&D of front-view, side-view and rear-view vehicle modules which are all 8-mega pixel.

In addition, the Group continued to build a robotic vision platform, deploying the two product lines of robotic recognition and positioning. In terms of the recognition business, the face live detection solution based on structured light and time of flight ("ToF") has obtained the Bank Card Test Center enhanced-level certification, thereby allowed to enter the supply chain of UnionPay system customers; the face scan payment solution based on ToF technology has obtained the WeChat testing certification, thereby allowed to enter the supply chain of WeChat pay equipment manufacturer customers; and the Group completed the development of structured light system applied to smart door locks, and conducted strategic cooperation with customers. In terms of the positioning business, the Group completed the R&D of the ToF-related algorithm of the sweeping robot and the development of the binocular solution, and completed the project delivery with key customers.

OPTICAL INSTRUMENTS

For the year ended 31 December 2020, the revenue from the Optical Instruments business segment was approximately RMB326.4 million, representing an increase of approximately 14.6% compared to that of last year. This segment accounted for approximately 0.8% of the Group's total revenue, compared to approximately 0.7% of last year.

In terms of the microscopes business, the Group completed the R&D of the first ultra-wide field of view (30mm) high magnification objective (20X and 60X) in China and commenced mass production. The objective can observe high-resolution images with a large field of view, which is 44.0% higher than that of the conventional apochromatic objective. In addition, the Group completed the R&D of a high-precision and high-speed switchable laser scanning confocal microscope. The microscope has the functions of high-precision scanning for fixed sections and high-speed scanning for living cells, and its scanning field of view and speed performance are at the domestic leading level.

In terms of the intelligent equipment business, the Group continued to place strong emphasis on medical and industrial fields. In the medical field, the Group completed the R&D of immunofluorescence screening equipment for peripheral blood and commenced mass production and sales. The equipment adopts multi-band fluorescence imaging, precision scanning and image analysis technology, which can be applied to the field of immunological testing for rheumatic disease. At the same time, in order to address the issue of shortage of expert medical resources in county hospitals in remote areas, based on the existing pathology scanner products, the Group developed a digital pathology remote consultation platform, which further improved the medical industry ecosystem and promoted the sales of scanners. In addition, in the industrial field, the Group continued to develop online inspection equipment for defects in precision components, constantly improved core capabilities such as artificial intelligence ("AI") algorithms, ultra-depth-of-field vision technology and high-precision laser focusing module technology, and commenced mass sales of testing equipment in key market areas.

OUTLOOK AND FUTURE STRATEGIES

Looking forward to 2021, the global economic environment is still complex and severe, and companies are still under heavy pressure. However, the smartphone and vehicle industries will regain growth, and cutting-edge technologies such as machine vision and AI will flourish. As such, the Directors are of the view that 2021 will continue to be a year of challenges and opportunities. The management of the Group will closely monitor the changes in development of the industry and market, to seize opportunities brought by technological innovations. Leveraging on the transformation and upgrade of the business, the Group aims to continue to take its advantages of scale, technology, resources as well as talents, and implement all formulated development strategies thoroughly, in order to achieve the continuous and stable growth of the Group.

1. Further enhance the market competitiveness, strengthen and expand the existing advantageous businesses

- Devote in the R&D and usage of new technologies and new materials, speed up the iteration in development of new products and new specifications, challenge and take over the “vantage point” of the industry;
- Commit to enhancing technological skills and their applications in manufacturing process; improving the first pass yield and product quality, realise speedy delivery with high quality; and
- Strive for lowering the product costs continuously, pay attention to the composition of cost and cost control in every step from product design to delivery.

2. Enhance refined management and continue to improve the quality of operation

Refined management is required to organise activities such as development and design, engineering technology, manufacturing, material procurement and delivery. Through enhancing refined management, the Company can realise distinct division of duties and clear workflow under a common goal, and will eventually achieve high operating efficiency, cost-effective products and continuous improvement of operating quality.

3. Strengthen R&D investment and accelerate the cultivation and growth of new businesses

The development of digitalised and intelligentised industry has brought unprecedented market opportunities to the optoelectronic sensing industry. Sunny Research Institute will coordinate with each subsidiary for determination of possible future market goals, application scenarios, integration of internal and external resources, enhancement of R&D investment, development of new technology and new products layouts, new points of growth creation of the Company. Meanwhile, the Group will further deepen the cultivation mechanism for new businesses and encourage strivers with entrepreneurship and the ability to devote themselves to new business development in order to accomplish their goals.

4. Enhance the internal incentive mechanism and further practise the core value of “Create Together”

The core value of the Group is “Create Together”. Since its founding, the Group has been practising this core value in its system and practice. With the changes of the times, the incentive mechanism will also keep pace with the times, and will be continuously reformed and enhanced. The Group will continue to strengthen the competitive edges of the internal incentive mechanism, attract more outstanding talents to join the Company, and provide key incentives to innovators and strivers who have made great and significant contributions. Therefore, the participants in “Create Together” can share the achievements of creation.

In the coming years, leveraging the edge of being industry leaders as an optical professional, the Group will continue to benefit from the bright future prospect of the optoelectronic industry and continue to create greater returns for the shareholders by responding to the market demand, focusing on R&D and innovation, pursuing the quality of products and continuously improving our own comprehensive competitiveness in order to provide more high-quality products and services for world-class high-tech enterprises. It turns out to promote the growth and value enhancement of those enterprises.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the years ended 31 December 2020 and 31 December 2019:

	For the year ended 31 December	
	2020	2019
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	7,160.0	4,661.6
Net cash used in investing activities	(5,976.2)	(3,555.8)
Net cash used in financing activities	(222.3)	(1,441.4)

The Group derives its working capital mainly from cash on hand and net cash from operating activities. The Board expects that the Group will rely on net cash from operating activities, bank borrowings and debt financing to meet the demand of working capital and other capital expenditure requirements in the short run. In the long run, the Group will be mainly funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the year ended 31 December 2020.

As at 31 December 2020, the Group had current assets of approximately RMB25,629.5 million (31 December 2019: approximately RMB22,446.0 million), comprising bank balances and cash of approximately RMB2,841.8 million (31 December 2019: approximately RMB1,917.2 million); and current liabilities of approximately RMB13,411.1 million (31 December 2019: approximately RMB12,630.4 million). The Group's current ratio was 1.9 times (31 December 2019: 1.8 times). The Group's total assets as at 31 December 2020 was approximately RMB35,438.1 million, represented an increase by approximately 15.5% compared to that as at 31 December 2019.

Operating Activities

Cash inflow from operating activities was mainly generated from cash receipt from sales of the Group's products. Cash outflow from operating activities was mainly used for the purchases of raw materials, staff costs, selling and distribution expenses, R&D expenditure and administrative expenses. Net cash from operating activities was approximately RMB7,160.0 million for the year ended 31 December 2020 and net cash from operating activities was approximately RMB4,661.6 million for the year ended 31 December 2019. The increase in the net cash from operating activities was mainly attributable to the increase in profit before tax.

The trade receivables turnover days (average of the opening and closing trade receivables balances/revenue \times 365 days) increased from approximately 65 days for the year ended 31 December 2019 to approximately 73 days for the year ended 31 December 2020. The Group allows a credit period of average 90 days to the trade customers. The increase in trade receivables turnover days was mainly attributable to the revenue from those customers with longer credit terms grew faster during the year.

The trade payables turnover days (average of the opening and closing trade payable balances/cost of sales \times 365 days) increased from approximately 82 days for the year ended 31 December 2019 to approximately 98 days for the year ended 31 December 2020. The increase in the trade payables turnover days was mainly attributable to the continuous strengthening of supply chain managements and strategic stocking by the Group.

The inventory turnover days (average of the opening and closing inventory balances/cost of sales \times 365 days) increased from approximately 50 days for the year ended 31 December 2019 to approximately 68 days for the year ended 31 December 2020. The increase in inventory turnover days was mainly attributable to the strategic stocking by the Group.

Investing Activities

The Group recorded a net cash used in investing activities of approximately RMB5,976.2 million for the year ended 31 December 2020, which was mainly attributable to purchases and release of unlisted financial products of approximately RMB59,212.3 million and approximately RMB56,304.0 million during the year ended 31 December 2020 respectively, and the Group's capital expenditure amounted to approximately RMB2,798.4 million during the year.

Financing Activities

The Group recorded a net cash used in financing activities of approximately RMB222.3 million for the year ended 31 December 2020. The cash inflow mainly came from proceeds from new bank borrowings raised of approximately RMB3,810.4 million. Major outflows were the repayment of bank borrowings of approximately RMB2,793.7 million, dividends paid to shareholders of approximately RMB796.5 million, interest paid of approximately RMB224.4 million and purchase of shares under share award scheme of approximately RMB151.4 million.

Capital Expenditure

For the year ended 31 December 2020, the Group's capital expenditure amounted to approximately RMB2,798.4 million, which was mainly used for the purchases of property, plant and equipment, payments for leasehold lands, payment for intangible assets and purchase of other tangible assets. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 31 December 2020 amounted to approximately RMB2,070.6 million (2019: approximately RMB1,118.6 million). No bank borrowings were secured by certain buildings and land of the Group as at 31 December 2020 and 2019.

Bank facilities

As at 31 December 2020, the Group had bank facilities of RMB2,777.0 million with Yuyao Sub-branch of Agricultural Bank of China Limited, RMB1,300.0 million with Ningbo Branch of The Export-Import Bank of China, RMB875.0 million with Yuyao Branch of Bank of China Limited, RMB600.0 million with Yuyao Sub-branch of Ningbo Bank Co., Ltd., RMB380.0 million with Yuyao Sub-branch of Bank of Communications Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd., RMB70.0 million with Xinyang Pingzhong Street Sub-branch of Industrial and Commercial Bank of China Limited, USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas Shanghai Branch, USD60.0 million with The Hongkong and Shanghai Banking Corporation Limited Hong Kong Branch, USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd., USD60.0 million with Crédit Agricole Corporate and Investment Bank Hong Kong Branch, USD20.0 million with Crédit Agricole Corporate and Investment Bank Shanghai Branch, USD75.0 million with Bank of China (Hong Kong) Limited, USD50.0 million with Standard Chartered (Hong Kong) Limited and USD20.0 million with Standard Chartered Bank.

Debt securities

As at 31 December 2020, debt securities of the Group amounted to approximately RMB3,895.9 million (2019: approximately RMB4,156.1 million). For details of bonds payable, please refer to Note 22 of this announcement.

The Group's gearing ratio of approximately 16.8% refers to the ratio of total borrowings to total capital (total capital being the sum of total liabilities and shareholders' equity), reflecting the Group's financial position at a sound level.

Contingent liabilities

As at 31 December 2020, the Group did not have any material contingent liabilities or guarantees.

Financing and fiscal policies and objectives

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

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as at 31 December 2020, except for the pledged bank deposits of approximately RMB3.4 million. For details of pledged bank deposits, please refer to Note 17 of this announcement.

COMMITMENTS

As at 31 December 2020, 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 RMB355.6 million (2019: approximately RMB953.2 million).

As at 31 December 2020, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 31 December 2020, 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 withdrawal of short term fixed deposits and purchases of property, plant and equipment. In particular, the purchase and disposal of financial assets at FVTPL include debt investments, equity investments, fund investments and unlisted financial products. Among them, the fund investments are managed by relevant financial institutions, mainly investing in debt securities linked to the performance of related senior debts; 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.

Significant investments

As at 31 December 2020, the Group maintained a portfolio of unlisted financial products with the total carrying amount of approximately RMB8,197.5 million (31 December 2019: approximately RMB5,289.2 million). As at 31 December 2020, the size of the unlisted financial products subscribed by the Group in aggregate represented approximately 23.1% of the Group's total assets (31 December 2019: approximately 17.2%). The investment costs for the unlisted financial products subscribed as at 31 December 2020 was approximately RMB8,197.5 million (31 December 2019: approximately RMB5,289.2 million). For the year ended 31 December 2020, the amount of investment income from the unlisted financial products was approximately RMB215.0 million (2019: approximately RMB189.8 million).

The following table sets forth a breakdown of the major unlisted financial products subscribed by the Group as at 31 December 2020:

Name of the unlisted financial products	Name of banks	Investment costs <i>RMB'000</i>	Fair value	Percentage of
			of the unlisted financial products as at 30 June 2020 <i>RMB'000</i>	Unlisted financial products relative to the total assets of the Group as at 30 June 2020
"Tian Li Kuai Xian" net-asset-value type wealth management product	Industrial Bank Co., Ltd.	1,200,000	1,200,000	3.4%
"Jin Yao Shi • An Xin Kuai Xian" Tian Tian Li Gun Li Second Phase Open-ended RMB wealth management product	Agricultural Bank of China Limited	858,960	858,960	2.4%
Bank of Ningbo NingXin fixed income close-ended wealth management No. 39	Bank of Ningbo Co., Ltd.	500,000	500,000	1.4%
2020 Close-ended private net-asset-value type No. 263	Bank of Ningbo Co., Ltd.	500,000	500,000	1.4%
2020 Close-ended private net-asset-value type No. 155	Bank of Ningbo Co., Ltd.	500,000	500,000	1.4%
Flexible period wealth management No. 3	Bank of Ningbo Co., Ltd.	480,000	480,000	1.4%
2020 Close-ended private net-asset-value type No. 258	Bank of Ningbo Co., Ltd.	400,000	400,000	1.1%
Others (Note)		3,758,515	3,758,515	10.6%
	Total	<u>8,197,475</u>	<u>8,197,475</u>	<u>23.1%</u>

Note: Other unlisted financial products included 32 unlisted financial products with 5 different banks to lower the concentration risk.

In the opinion of the Directors, the fair value change of the unlisted financial products was insignificant for the year ended 2020.

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

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

For the year ended 31 December 2020, the Group's investments amounted to approximately RMB2,798.4 million, mainly involved in the purchases of property, plant and equipment, the initial production settings for new products, payments for leasehold lands and the necessary equipment configurations for new projects. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

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

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks arising from its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and utilisation for other purposes. The rising of interest rates increases the costs of both existing and new debts. As at 31 December 2020, the effective interest rate on fixed-rate bank borrowings was approximately 2.96% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 0.85% to 1.14% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in USD or other foreign currencies. For details of the Group's foreign currency forward contracts and foreign currency options contracts, please refer to Note 16 of this announcement. Except for certain investments which are in line with the Group's business and are denominated in foreign currencies, the Group does 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, time deposits, financial assets at FVTPL, trade and other receivables, equity instruments that are included in other comprehensive income at fair value and debt instruments measured at amortised cost, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, the management has delegated a team responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that appropriate follow-up actions are taken to recover overdue debts. The Group has also purchased insurances 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, and are estimated by the management based on their previous experience, assessment of the current economic environment and the discounted cash flows to be received in the 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 of the Group are banks with high credit-ratings given by international credit-rating agencies.

Cash Flow Interest Rate Risk

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

Liquidity Risk

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

EMPLOYEE AND REMUNERATION POLICY

The Group had 24,374 full-time employees as at 31 December 2020. In line with the overall operation of the Company and the performance of individual employees, the Group has established a fair and competitive salary and welfare system to recruit new talents and to reward and retain existing talents, in which the salary package including annual basic salary, year-end bonus and the economic-value-added bonus, while the welfare package including social insurance, housing provident fund, employee holidays and emergency relief fund, thereby representing the Group's efforts to achieve the goals of "consistency in responsibilities and interests, abilities and values, risks and returns, performance and income" in remuneration distribution.

The Group has particularly adopted the Restricted Share Award Scheme (“**Restricted Share Award Scheme**”) since 2010, with a view to providing incentives and rewards to eligible participants to recognise their contribution to the Group and to enhance their ownership spirits. For the year ended 31 December 2020, 1,458,591 shares were granted by the Group to eligible participants in accordance with the Restricted Share Award Scheme.

CLOSURE OF REGISTER OF MEMBERS

In order to be eligible for attending the AGM, which is to be held on 25 May 2021, the register of members of the Company will be closed from 20 May 2021 to 25 May 2021, both days inclusive, during which no transfer of shares will be registered. All transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 18 May 2021.

In order to be eligible for receiving the dividends, the register of members of the Company will be closed from 1 June 2021 to 4 June 2021, both days inclusive, during which no transfer of shares will be registered. All transfer of shares accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 31 May 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S SHARES

The Company is empowered by the applicable Cayman Islands Companies Law and the Company’s Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable regulations imposed from time to time by the Hong Kong Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustees of the Restricted Share Award Scheme, of the Company’s listed shares during the year ended 31 December 2020.

CORPORATE GOVERNANCE

Corporate Governance Practices

For the year ended 31 December 2020, the Company complied with all of the code provisions of and adopted most of the recommended best practices of the Corporate Governance Code contained in Appendix 14 to the Listing Rules.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. 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 for the year ended 31 December 2020.

REVIEW OF FINANCIAL STATEMENTS

The Company has established the Audit Committee with written terms of reference. The Group's audited annual results for the year ended 31 December 2020 were reviewed by all the members of the Audit Committee of the Board, namely Mr. Zhang Yuqing (Chairman of the Audit Committee), Mr. Feng Hua Jun and Mr. Shao Yang Dong, who are all independent non-executive Directors.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

Investor Contact and Inquiries

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

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The annual 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 2020 will be despatched to shareholders of the Company and will be published on the above websites in due course.

APPRECIATION

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

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

China, 17 March 2021

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.