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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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2017

RESULT HIGHLIGHTS

The Group's unaudited consolidated revenue for the six months ended 30 June 2017 was approximately RMB10,031.7 million, representing an increase of approximately 69.8% as compared with the corresponding period of last year. The increase in revenue was mainly benefited from the Group's development in the smartphone related business and vehicle imaging field.

The gross profit for the six months ended 30 June 2017 was approximately RMB2,069.7 million, representing an increase of approximately 109.5% as compared with the corresponding period of last year. The gross profit margin for the six months ended 30 June 2017 was approximately 20.6%.

The net profit for the six months ended 30 June 2017 increased by approximately 149.7% to approximately RMB1,161.0 million as compared with the corresponding period of last year. The increase in net profit was mainly due to the increased gross profit and the effective control over operating expenses. The net profit margin for the six months ended 30 June 2017 was approximately 11.6%.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sunny Optical Technology (Group) Company Limited (the "**Company**") presents the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2017, together with the comparative figures for the corresponding period in the year 2016 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**10,031,683**	5,909,615
Cost of sales		**(7,961,965)**	(4,921,633)
Gross profit		**2,069,718**	987,982
Other income	*4*	**65,250**	43,577
Other gains and losses	*5*	**112,069**	24,078
Selling and distribution expenses		**(104,686)**	(63,612)
Research and development expenditure		**(535,015)**	(273,567)
Administrative expenses		**(182,397)**	(147,419)
Share of results of associates		**(4,762)**	(9,945)
Finance costs		**(22,146)**	(8,609)
Profit before tax		**1,398,031**	552,485
Income tax expense	*6*	**(237,035)**	(87,497)
Profit for the period	*7*	**1,160,996**	464,988
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**599**	7,964
Total comprehensive income for the period		**1,161,595**	472,952
Profit for the period attributable to:			
Owners of the Company		**1,159,246**	465,274
Non-controlling interests		**1,750**	(286)
		1,160,996	464,988
Total comprehensive income attributable to:			
Owners of the Company		**1,159,499**	469,347
Non-controlling interests		**2,096**	3,605
		1,161,595	472,952
Earnings per share – Basic *(RMB cents)*	*8*	**107.37**	43.21
– Diluted *(RMB cents)*	*8*	**106.68**	42.82

Condensed Consolidated Statement of Financial Position
At 30 June 2017

	NOTES	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10(a)	**1,947,784**	1,793,510
Prepaid lease payments	10(c)	**165,183**	164,025
Investment properties	10(b)	**14,578**	14,997
Intangible assets	11	**414,225**	1
Interests in associates	14	**38,566**	99,781
Deferred tax assets		**51,028**	27,884
Deposits paid for acquisition of property, plant and equipment	12	**573,996**	152,384
Available-for-sale investments	13	**112,934**	62,267
Deposits paid for acquisition of a land use right		**3,823**	3,823
Derivative financial assets	17	**11,269**	–
		3,333,386	2,318,672
CURRENT ASSETS			
Inventories	15	**2,277,236**	2,828,362
Trade and other receivables and prepayment	16	**4,019,676**	3,715,939
Prepaid lease payments	10(c)	**4,521**	4,452
Derivative financial assets	17	**2,400**	13,795
Financial assets designated as at fair value through profit or loss	18	**1,640,001**	2,027,497
Amounts due from related parties	26(c)	**560**	682
Pledged bank deposits	19	**276,331**	100,967
Short term fixed deposits	19	**74,352**	159,245
Bank balances and cash	19	**665,326**	466,928
		8,960,403	9,317,867
CURRENT LIABILITIES			
Trade and other payables	20	**4,388,017**	5,572,542
Amounts due to related parties	26(c)	**3,799**	5,205
Derivative financial liabilities	17	**6,945**	93,251
Tax payable		**109,787**	53,009
Bank borrowings	21	**1,456,595**	904,348
Deferred income – current portion	27	**29,463**	29,973
		5,994,606	6,658,328
NET CURRENT ASSETS		**2,965,797**	2,659,539
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,299,183**	4,978,211

	NOTES	30 June 2017 RMB'000 (unaudited)	31 December 2016 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**79,595**	33,864
Derivative financial liabilities	*17*	**23,890**	–
Long term payables	*20*	**434,832**	2,817
Deferred income – non-current portion	*27*	**26,789**	28,188
		565,106	64,869
NET ASSETS		**5,734,077**	4,913,342
CAPITAL AND RESERVES			
Share capital	*22*	**105,177**	105,177
Reserves		**5,608,717**	4,790,078
Equity attributable to owners of the Company		**5,713,894**	4,895,255
Non-controlling interests		**20,183**	18,087
TOTAL EQUITY		**5,734,077**	4,913,342

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

Application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS	Annual Improvements to HKFRSs 2014-2016 Cycle except for amendments to HKFRS 12

The Directors of the Company anticipate that the application of the above new amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

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; and
3. Optical Instruments.

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

For the six months ended 30 June 2017

	Optical Components *RMB'000* (unaudited)	Optoelectronic Products *RMB'000* (unaudited)	Optical Instruments *RMB'000* (unaudited)	Segments' total *RMB'000* (unaudited)	Eliminations *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Revenue						
External sales	1,895,548	8,013,640	122,495	10,031,683	–	10,031,683
Inter-segment sales	391,524	5,170	6,152	402,846	(402,846)	–
Total	2,287,072	8,018,810	128,647	10,434,529	(402,846)	10,031,683
Segment profit (loss)	656,844	712,006	(15,347)	1,353,503	–	1,353,503
Share of results of associates						(4,762)
Unallocated income						83,717
Unallocated expenses						(34,427)
Profit before tax						1,398,031

As at 30 June 2017

	Optical Components *RMB'000* (unaudited)	Optoelectronic Products *RMB'000* (unaudited)	Optical Instruments *RMB'000* (unaudited)	Segments' total *RMB'000* (unaudited)	Unallocated *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Total assets	1,380,630	4,450,205	82,533	5,913,368	6,380,421	12,293,789
Total liabilities	(774,842)	(2,886,771)	(58,325)	(3,719,938)	(2,839,774)	(6,559,712)

For the six months ended 30 June 2016

	Optical Components *RMB'000* (unaudited)	Optoelectronic Products *RMB'000* (unaudited)	Optical Instruments *RMB'000* (unaudited)	Segments' total *RMB'000* (unaudited)	Eliminations *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Revenue						
External sales	1,291,014	4,505,468	113,133	5,909,615	–	5,909,615
Inter-segment sales	152,669	1,855	947	155,471	(155,471)	–
Total	1,443,683	4,507,323	114,080	6,065,086	(155,471)	5,909,615
Segment profit (loss)	361,688	200,398	(4,885)	557,201	–	557,201
Share of results of associates						(9,945)
Unallocated income						37,711
Unallocated expenses						(32,482)
Profit before tax						552,485

As at 31 December 2016

	Optical Components *RMB'000* (audited)	Optoelectronic Products *RMB'000* (audited)	Optical Instruments *RMB'000* (audited)	Segments' total *RMB'000* (audited)	Unallocated *RMB'000* (audited)	Total *RMB'000* (audited)
Total assets	1,243,652	4,906,734	72,922	6,223,308	5,413,231	11,636,539
Total liabilities	(659,518)	(4,320,919)	(47,370)	(5,027,807)	(1,695,390)	(6,723,197)

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs including Directors' salaries, other income, other gains or losses, share of results of associates, and finance costs. There were asymmetrical allocations to operating segments because the Group allocates interest income, depreciation and amortisation and gain on disposal of property, plant and equipment to each segment without allocating the related bank balances, depreciable assets and the relevant financial instruments to those segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

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

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

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

4. OTHER INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(Note 27)*	**13,699**	9,069
Bank interest income	**1,051**	1,293
Interest income from short term fixed deposits	**797**	590
Interest income from pledged deposits	**1,315**	596
Interest income from financial assets designated at FVTPL	**27,421**	25,866
Interest income from small loan services	**1,348**	–
Income from sales of moulds	**1,338**	307
Income from sales of scrap materials	**1,716**	1,032
Income from customised specialised equipment services	**9,684**	–
Gross rental income	**1,349**	2,238
Handling service charges	**1,965**	1,174
Fund management income	**1,226**	–
Others	**2,341**	1,412
	65,250	43,577

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net foreign exchange gain (loss)	**1,550**	(10,903)
Gain on acquisition of a subsidiary *(Note 24)*	**1,308**	–
(Loss) gain on disposal of property, plant and equipment	**(420)**	317
Reversal of allowance (allowance for) for bad and doubtful debts on trade receivables	**47,269**	(3,047)
Gain on changes in fair value of derivative financial instruments, net	**62,290**	37,711
Others	**72**	–
	112,069	24,078

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
– The People's Republic of China (the "**PRC**") Enterprise Income Tax calculated at the prevailing tax rates ranged from 15% to 25%	**200,410**	84,034
Deferred tax:		
– Current period	**36,625**	3,463
	237,035	87,497

No provision for Hong Kong profits tax has been made in the condensed consolidated statement of profit or loss and other comprehensive income as the Group had no assessable profits arising in Hong Kong for both periods.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Auditor's remuneration	**1,161**	1,149
Depreciation of property, plant and equipment	**222,839**	140,472
Depreciation of investment properties	**419**	435
Release of prepaid lease payments	**2,237**	1,610
Amortisation of intangible assets	**21,802**	3
Allowance for inventories	**33,912**	11,074

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,159,246**	465,274
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,079,711**	1,076,711
Effect of dilutive potential ordinary shares – restricted shares	**6,955**	9,852
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,086,666**	1,086,563

9. DIVIDENDS

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period:		
Final dividend paid in 2017 for 2016 of HK$32.30 cents per share, approximately RMB29.00 cents per share (2016: HK$24.90 cents per share for 2015, approximately RMB20.80 cents per share)	**318,130**	228,176

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2017 (corresponding period of 2016: Nil).

10. MOVEMENTS IN INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

(a) Property, plant and equipment

During the current interim period, the Group acquired manufacturing equipment and incurred construction costs for manufacturing plants of approximately RMB373,654,000 (the corresponding period of 2016: RMB281,554,000) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed certain of its plants and equipment with a carrying amount of approximately RMB4,998,000 (the corresponding period of 2016: RMB6,585,000) which resulted in a loss of approximately RMB420,000 (the corresponding period of 2016: a gain of RMB317,000).

As at 30 June 2017, certain buildings of the Group with aggregated net book value of approximately RMB79,814,000 were pledged to secure bank borrowings granted (Note 21).

(b) Investment properties

During the year ended 31 December 2015, the Group had reclassified certain properties from property, plant and equipment to investment properties and the carrying value of the investment properties was amounted to RMB14,997,000 as at 31 December 2016. During the current interim period, a depreciation charge of RMB419,000 (the corresponding period of 2016: RMB435,000) was recognised in profit or loss and the carrying value of investment properties was amounted to RMB14,578,000 as at 30 June 2017.

(c) Prepaid lease payments

	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Analysed for reporting purpose as:		
Current assets	**4,521**	4,452
Non-current assets	**165,183**	164,025
	169,704	168,477

During the current interim period, the Group acquired a piece of leasehold land located in the PRC amounting to RMB3,464,000 (the corresponding period of 2016: RMB30,897,000).

As at 30 June 2017, certain lands of the Group with aggregated net book value of approximately RMB101,511,000 were pledged to secure bank borrowings granted (Note 21).

11. INTANGIBLE ASSETS

The newly additions of intangible assets amounting to RMB436,026,000 is the licensing patent acquired from Konica Minolta, Inc. ("**KMI**"), an independent third party of the Group. During the current interim period, the Group had entered into a patent licencing agreement with KMI so as to allow the Group to develop, produce and sell licensed products, benefiting from KMI's strong capabilities and extensive experience in production and manufacturing of the handset lens sets that offers superb image with high resolution, compact and slim design, and high performance in high zoom ratio in order to meet the rapidly growing camera market. According to the agreement, the consideration will be paid in the following 10 years at 10 instalments on yearly basis, which has been recorded in long term payables on the discounted basis at imputed interest rate and the accretion portion will be recognised as interest expense during the amortised period.

12. DEPOSITS FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

The deposits are paid for construction of factory buildings and acquisition of plants and equipment located in the PRC for the expansion of the Group's production plant.

During the current interim period, the Group paid an amount of approximately RMB512,409,000 (the corresponding period of 2016: RMB149,023,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB90,797,000 (the corresponding period of 2016: RMB105,661,000) to property, plant and equipment.

13. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Unlisted equity securities	**112,934**	62,267

On 6 January 2017, the Group entered into a Limited Partnership Agreement with a number of investors to establish 餘姚市陽明智行投資中心（有限合夥）("**V Fund**") with registered capital amounting to RMB320,000,000 in the PRC, in order to invest into companies from optoelectronics, artificial intelligence, advanced manufacturing, industrial intelligence and other relevant industries. As of 30 June 2017, RMB16,809,000 has been subscribed by the Group and the proportion of equity interest owned by the Group is 15.92%. As the Group has no controlling power or significant influence over the management and the operation of V Fund, the investment is classified as available-for-sale investment by the Group.

On 8 April 2017, the Group entered into an agreement to purchase an aggregate volume of 1,035,008 Series A Preferred Shares and 117,150 Ordinary Shares of the MantisVision Ltd., ("**MantisVision**") with a consideration of US$5,645,574 (equivalent to approximately RMB38,858,000). Upon completion, the equity interest of MantisVision held by the Group increased from 1.61% to 9.22% and continues to account for as available-for-sale investment.

14. INTERESTS IN ASSOCIATES

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Cost of investment in unlisted associates	**75,657**	136,587
Share of post-acquisition profit or loss and other comprehensive income or expenses, net of dividends received	**(27,094)**	(26,809)
Impairment loss recognised	**(9,997)**	(9,997)
	38,566	99,781

As at 30 June 2017, the Group held approximately (i) 30.85% (31 December 2016: 30.85%) of ownership interests in Visiondigi (Shanghai) Technology Co., Ltd., (ii) 26.00% (31 December 2016: 26.00%) of ownership interests in Jiangsu Sunny Medical Equipments Co., Ltd., (iii) 80.00% (31 December 2016: 80.00%) of ownership interests in 寧波梅山保稅港區科儀創業投資合夥企業, and (iv) 32.61% (31 December 2016: 32.61%) of ownership interests in Wuxi Wissen Intelligent Sensing Technology Co., Ltd..

During the interim period, the Group acquired the remaining 72.53% equity interest of Yuyao City Sunny Huitong Microcredit Co., Ltd. ("**Sunny Huitong**") from other shareholders, the total consideration was RMB145 million and a gain of RMB1.3 million was recognised as a result of this acquisition. After the acquisition the Sunny Huitong became an indirectly 100%-owned subsidiary of the Group.

15. INVENTORIES

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Raw materials	**265,515**	348,224
Work in progress	**273,227**	140,506
Finished goods	**1,738,494**	2,339,632
	2,277,236	2,828,362

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Current assets		
Trade receivables	**3,190,832**	3,017,982
Less: allowance for doubtful debts	**(93,508)**	(141,827)
	3,097,324	2,876,155
Bill receivables	**538,808**	518,791
Loan receivables	**63,899**	–
Other receivables and prepayment:		
Value added tax and other tax receivables	**24,475**	98,378
Individual income tax receivable from employees	**102,587**	83,972
Advance to suppliers	**43,475**	60,369
Interest receivables	**1,825**	5,816
Prepaid expenses	**75,003**	36,968
Rental and utilities deposits	**49,606**	14,717
Others	**22,674**	20,773
	319,645	320,993
Total trade and other receivables and prepayment	**4,019,676**	3,715,939

The Group allows a credit period from 60 to 90 days to its trade customers and 90 to 180 days for bill receivables. The following is an aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period, which approximated the respective revenue recognition dates.

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**3,071,315**	2,583,568
91 to 180 days	**22,426**	246,083
Over 180 days	**3,583**	46,504
	3,097,324	2,876,155

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**469,229**	473,975
91 to 180 days	**69,579**	44,816
Total	**538,808**	518,791

Movement in the allowance for doubtful debts:

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Balance at beginning of the reporting period	**141,827**	4,611
Impairment losses recognised on receivables	**9,940**	141,327
Amounts written off as uncollectible	**(1,050)**	(205)
Impairment losses reversed	**(57,209)**	(3,906)
Balance at end of the reporting period	**93,508**	141,827

Regarding the legal proceeding filed by the Group in early 2017 in relation to the overdue trade receivables of several customers, the Group has entered into out-of-court agreements with these customers with detailed payment schedule. As at 30 June 2017, the Group had received RMB333,715,000, the specific provision made for these overdue trade receivables in the amount of RMB49,406,000 was reversed during the interim period, and the outstanding balance of the allowance for the bad debt of these overdue trade receivables is RMB86,089,000.

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

17. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

At the end of the reporting period, the Group held certain derivatives designated as fair value through profit or loss and not under hedge accounting as follows:

	Assets		Liabilities	
	30 June 2017	31 December 2016	**30 June 2017**	31 December 2016
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(audited)	**(unaudited)**	(audited)
Foreign currency options contracts	**13,669**	13,795	**30,835**	93,251
Total	**13,669**	13,795	**30,835**	93,251
Less: current portion				
Foreign currency options contracts	**2,400**	13,795	**6,945**	93,251
	2,400	13,795	**6,945**	93,251
Non-current portion	**11,269**	–	**23,890**	–

As at 30 June 2017 and 31 December 2016, the Group had entered into the following foreign currency options contracts.

Foreign currency options contracts

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

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

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

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

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

	Notional amount	Strike/barrier/forward rates	Ending Settlement Date *(Note 1)*	
	USD'000		**30 June 2017**	31 December 2016
Contract E *(Note 2)*	105,000	USD:RMB at 1:6.185/6.4/6.5	**N/A**	13 July 2017
Contract H	120,000	USD:RMB at 1:7.02	**26 September 2017**	26 September 2017
Contract I	120,000	USD:RMB at 1:7.00	**26 September 2017**	26 September 2017
Contract J *(Note 3)*	105,000	USD:RMB at 1:6.55	**N/A**	13 July 2017
Contract K *(Note 4)*	120,000	USD:RMB at 1:7.156	**27 March 2018**	N/A
Contract L *(Note 4)*	120,000	USD:RMB at 1:7.15	**27 March 2018**	N/A
Contract M *(Note 4)*	120,000	USD:RMB at 1:7.22	**26 September 2018**	N/A
Contract N *(Note 4)*	120,000	USD:RMB at 1:7.20	**26 September 2018**	N/A
Contract O *(Note 4)*	200,000	USD:RMB at 1:7.30	**7 May 2019**	N/A
Contract P *(Note 4)*	200,000	USD:RMB at 1:7.28	**7 May 2019**	N/A

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

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

Note 3: Contract J was settled as a result of occurrence of trigger event on 11 January 2017.

Note 4: Both contract K and contract L were entered into on 6 January 2017, contract M and contract N were entered into on 7 February 2017, contract O and contract P were entered into on 5 May 2017.

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

As at 30 June 2017:

		Related amounts not set off in the consolidated statement of financial position		
	Gross/net amount of presented in the consolidated financial position	**Financial instrument**	**Cash collateral received/ pledged**	**Net amount**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Financial assets				
Bank balances	**15,263**	**(15,263)**	**–**	**–**
Derivatives	**13,669**	**(13,669)**	**–**	**–**
Financial liabilities				
Derivatives	**(30,835)**	**28,932**	**–**	**(1,903)**
Borrowings	**(706,576)**	**–**	**–**	**(706,576)**
	(708,479)	**–**	**–**	**(708,479)**

As at 31 December 2016:

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

18. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

During the current interim period, the Group entered into several contracts of structured deposits with banks. The structured deposits contain embedded derivatives which were not closely related to the host contracts. The entire combined contracts have been designated as at financial assets at FVTPL on initial recognition. Except for the principal of RMB710,000,000 which was guaranteed by the relevant banks, the remaining principal of RMB930,001,000 was not guaranteed by the relevant banks in which the return of the structured deposits was determined by reference to the performance of the underlying government debt instruments and treasury notes and the expected return rate stated in the contracts ranges from 1.80% to 5.30% (31 December 2016: 1.60% to 4.50%) per annum.

In the opinion of the Directors of the Company, the fair value of the structured deposits at 30 June 2017 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. All structured deposits will be matured within one year.

19. PLEDGED BANK DEPOSITS/SHORT TERM FIXED DEPOSITS/BANK BALANCES AND CASH

During the current interim period, bank balances, which represent saving accounts and deposits, carry interest at market saving rates at 0.30% (31 December 2016: 0.35%) per annum, short term fixed deposits carry fixed interest rates ranging from 1.95% to 2.13% (31 December 2016: 0.55% to 2.13%) per annum. Short term fixed deposits have original maturity dates less than one year and therefore classified as current assets.

20. TRADE AND OTHER PAYABLES

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

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Current liabilities		
Trade payables		
Within 90 days	**2,666,778**	3,994,292
91 to 180 days	**214,436**	264,922
Over 180 days	**4,127**	3,259
Accrued purchases	**304,210**	331,685
Total trade payables	**3,189,551**	4,594,158
Note payables		
Within 90 days	**518,118**	421,837
91 to 180 days	**12,269**	11,812
	530,387	433,649

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Other payables		
Payables for purchase of property, plant and equipment	**53,672**	77,518
Payable for acquisition of assets	**3,520**	4,233
Staff salaries and welfare payables	**333,748**	308,314
Advances from customers	**60,315**	30,981
Value added tax payables and other tax payables	**105,709**	16,470
Technology grant payables	**29,941**	29,914
Commission payables	**33,444**	28,146
Interest payable	**1,896**	1,437
Rental and utilities payable	**8,004**	2,325
Accrued research and development expenses	**1,643**	21,348
Others	**36,187**	24,049
	668,079	544,735
	4,388,017	5,572,542
Non-current liability		
Long term payables		
Payable for acquisition of assets	**–**	2,817
Payable for acquisition of patent *(Note 11)*	**434,832**	–

The credit period on purchases of goods is up to 180 days (2016: 180 days) and the credit period for note payables is 90 days to 180 days (2016: 90 days to 180 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit time frame.

21. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately RMB1,005,817,000 (the corresponding period of 2016: RMB328,304,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately RMB453,570,000 (the corresponding period of 2016: RMB263,552,000) were made in line with the relevant repayment terms.

As at 30 June 2017 and 31 December 2016, the borrowings with a total amount of approximately RMB796,595,000 (31 December 2016: RMB684,348,000) were denominated in United States Dollar. The Group's borrowings carried weighted average interest rate of 2.89% (31 December 2016: 2.27%) per annum.

As at 30 June 2017, borrowings amounted to RMB220,000,000 (31 December 2016: RMB324,055,000) are secured by certain buildings and land of the Group of aggregated net book value approximately RMB181,325,000 (Note 10(a)(c)).

22. SHARE CAPITAL

Issued share capital as at 30 June 2017 amounted to HK$109,700,000 (equivalent to approximately RMB105,177,000) with number of ordinary shares amounted to 1,097,000,000 of HK$0.1 each. There were no movements in the issued share capital of the Company in the current interim period.

23. SHARE AWARD SCHEME

The fair value of the Company's restricted shares awarded was determined based on the market values of the Company's shares at the grant dates.

Movements in the number of restricted shares granted and related fair value are as follows:

	Weighted average fair value (per share) *HKD*	**No. of Restricted Shares** *('000)*
At 1 January 2016 (audited)	9.405	20,058
Lapsed	13.178	(326)
Vested	8.876	(9,792)
Granted	30.841	2,782
At 31 December 2016 and 1 January 2017 (audited)	14.402	12,722
Lapsed	31.340	(71)
Vested	15.350	(3,722)
Granted *(Note)*	57.280	1,297
As at 30 June 2017 (unaudited)	19.378	10,226

The equity-settled share-based payments expense charged to profit or loss was approximately RMB45,573,000 for the current interim period (the corresponding period of 2016: RMB39,227,000).

Note: The restricted shares granted during the current interim period vest on every anniversary date of the grant date of each batch of the restricted shares in tranches on the following scale:

Restricted shares	**Scale**
1,092,800 shares	One-half
203,994 shares	One-third

The fair value of the restricted shares granted is measured on the basis of an observable market price.

24. ACQUISITION OF A SUBSIDIARY

On 31 May 2017, the Company, through Sunny Group Limited, an indirectly wholly-owned subsidiary of the Company, entered into an equity transfer agreement with several equity investors to acquire their residual equity interests of Yuyao City Sunny Huitong Microcredit Co., Ltd. ("**Sunny Huitong**") at a cash consideration of RMB145,055,000 (the "**Acquisition**"). Immediately before acquisition, Sunny Huitong was an associate of the Group. Thereafter, Sunny Huitong became an indirectly 100%-owned subsidiary of the Company. Sunny Huitong is established in the PRC and is principally engaged in provision of financing service in Yuyao City, Zhejiang Province.

The Directors considered that the Acquisition was beneficial to the Company by expanding the access to financial support, eliminating of future continuing connected transactions and enhancing the overall management effectiveness of the Group's operations. The Directors considered that the Acquisition is accounted for as an acquisition of assets and assumption of liabilities.

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	RMB'000
Non-current assets	
Property, plant and equipment	8,438
Deferred tax assets	15,649
Current assets	
Loan and advances to customers	61,314
Other receivable	684
Bank balances and cash	117,694
Current liabilities	
Tax payable	(43)
Other payables	(920)
Net assets acquired	202,816
Less: amounts previously held as interests in associates	(56,453)
Less: gain on acquisition of a subsidiary	(1,308)
Satisfied by cash	145,055

The assets and liabilities were recognised and measured at their relative fair value according to respective HKFRSs at acquisition date. Property, plant and equipment acquired through the Acquisition were located in the PRC and that the respective fair value had been arrived at on the basis of a valuation carried out by Yuyao Yongxin Assets Appraisal Co., Ltd., an independent qualified professional valuers not connected to the Group.

Net cash outflow arising on acquisition:	*RMB'000*
Consideration paid in cash	145,055
Less: Bank balances and cash	(117,694)
	27,361

Had the acquisition been completed on 1 January 2017, the revenue and profit generated from the subsidiary are insignificant, accordingly, no such disclosure is made.

25. COMMITMENTS

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**484,235**	220,068

26. RELATED PARTY DISCLOSURES

(a) Names and relationships with related parties during the periods are as follows:

Name	**Principal activities**	**Relationship**
Ningbo Sunny Electronic Limited (“**Ningbo SST**”) 寧波舜宇電子有限公司 (「**寧波舜宇科技**」)	Manufacture and sale of telescopes and riflescopes	Company controlled by a close family member of the Company’s director and ultimate controlling shareholder, Mr. Wang Wenjian
Shanghai Shuangquan Scientific Instruments Company Limited (“**Shuangquan**”) 上海雙圈國際貿易有限公司 (「**雙圈**」)	Distribution and sale of scientific instruments	Company controlled by a close family member of the shareholder of Shanghai Sunny Hengping
餘姚市舜藝光學儀器有限公司 (「**舜藝光學**」)	Manufacture and sale of parts for optical instruments	Company controlled by a close family member of the Company’s director, Mr. Ye Liaoning with significant influence on the Group
寧波市益康國際貿易有限公司 (「**益康**」)	Sale of electronic devices	Company controlled by a close family member of Company’s senior management, Mr. Zhang Guoxian
Jiangsu Sunny Medical Equipments Co., Ltd. (“**Jiangsu Medical**”) 江蘇舜宇醫療器械有限公司 (「**江蘇舜宇醫療**」)	Manufacture and sales of medical instruments	An associate of the Group
Ningbo Wissen Intelligent Sensing Technology Co. Ltd. (“**Ningbo Wissen**”)	Research and development of imaging motion sensors	A wholly owned subsidiary of an associate of the Group
MEMS Drive, Inc. (“**MEMS**”)	Development and sales of MEMS actuator	An available-for-sale investment of the Group
MantisVision Ltd. (“**MantisVision**”)	Developing, manufacturing and marketing of emergent vision technologies for consumers and professional applications	An available-for-sale investment of the Group
餘姚市陽明智行投資中心（有限合夥）(“**V Fund**”)	Equity investment management	An available-for-sale investment of the Group
Movidius Ltd. (“**Movidius**”)	Developing, manufacturing and marketing of mobile vision technologies for wireless electronic devices	An available-for-sale investment of the Group and being disposed in second half of 2016

(b) **Transactions with related parties:**

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of goods		
Ningbo Wissen	**1,839**	150
MantisVision	**882**	–
Jiangsu Medical	**462**	599
舜藝光學	**443**	597
Shuangquan	**292**	329
Ningbo SST	**51**	184
MEMS	**34**	–
	4,003	1,859
Sales of raw materials		
舜藝光學	**58**	–
Purchase of raw materials		
舜藝光學	**4,343**	3,974
益康	**118**	36
Movidius	**–**	84
	4,461	4,094
Purchase of fix assets		
Ningbo SST	**58**	–
Utilities and rental income		
Ningbo Wissen	**439**	523
Ningbo SST	**184**	–
	623	523
Property rental and utilities expenses		
Ningbo SST	**279**	517
舜藝光學	**–**	119
	279	636
Gain on disposal of property, plant and equipment		
舜藝光學	**–**	618
Fund management income		
V Fund	**1,226**	–

All of the above transactions were entered into in accordance with the terms agreed by the relevant parties.

(c) Balances with related parties:

At the end of the reporting period, the Group has the following significant balances with related parties:

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Current assets:		
Amounts due from related parties		
Ningbo Wissen	**294**	106
Ningbo SST	**241**	247
Shuangquan	**15**	78
舜藝光學	**10**	251
	560	682
Current liabilities:		
Amounts due to related parties		
舜藝光學	**3,552**	4,554
Ningbo Wissen	**228**	536
益康	**17**	94
Ningbo SST	**2**	21
	3,799	5,205

The following is an aged analysis of related parties' balance of trade nature at the end of reporting period.

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Current assets:		
Within 90 days	**560**	682

	30 June 2017 *RMB'000* **(unaudited)**	31 December 2016 *RMB'000* (audited)
Current liabilities:		
Within 90 days	**3,799**	5,205

The Group allows a credit period of 90 days to related party trade receivables (31 December 2016: 90 days). The average credit period on purchases of goods from related parties is 90 days (31 December 2016: 90 days).

(d) Compensation of key management personnel

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Short-term benefits	**5,695**	5,202
Post-employment benefits	**331**	278
Share award scheme benefits	**4,175**	4,397
	10,201	9,877

27. DEFERRED INCOME

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Amounts credited to profit or loss during the period:		
Subsidies related to technology enhancement of production lines	**4,389**	3,625
Subsidies related to research and development of technology projects	**2,754**	4,162
Incentive subsidies	**6,556**	1,282
	13,699	9,069

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Deferred income related to government grants:		
Subsidies related to technology enhancement of production lines	**15,195**	19,459
Subsidies related to research and development of technology projects	**41,057**	38,002
Incentive subsidies	**–**	700
Total	**56,252**	58,161
Less: current portion	**(29,463)**	(29,973)
Non-current portion	**26,789**	28,188

28. FAIR VALUE MEASUREMENT

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Financial assets	Fair value as at 30 June 2017 (unaudited)	Fair value as at 31 December 2016 (audited)	Fair value hierarchy	Valuation technique and key inputs
Financial assets designated as at fair value through profit or loss	**Bank deposits in the PRC with non-closely related embedded derivative: RMB1,640,001,000**	Bank deposits in the PRC with non-closely related embedded derivatives: RMB2,027,497,000	Level 3	Discounted cash flows Key unobservable inputs are: (1) expected yields of debt instruments invested by banks (2) a discount rate that reflects the credit risk of the banks *(Note)*
Foreign currency options contracts classified as derivatives financial assets and liabilities	**Current and non-current derivative financial assets: RMB13,669,000** **Current and non-current derivative financial liabilities: RMB30,835,000**	Current derivative financial assets: RMB13,795,000 Current derivative financial liabilities: RMB93,251,000	Level 2	Black-Scholes model Key unobservable inputs: (1) Volatility of the foreign exchange rate (2) A discount rate that reflects the credit risk of the banks

Note: The Directors of the Company consider that the impact of the fluctuation in expected yields of the debt instruments to the fair value of the structured deposits was insignificant as the deposits have short maturities, and therefore no sensitivity analysis is presented.

There is no transfer between level 2 and level 3 during the period.

Reconciliation of Level 3 fair value measurements of financial assets

	Financial assets designated as at fair value through profit or loss *RMB'000*
At 1 January 2016	1,708,270
Purchases	10,006,791
Release	(10,351,920)
At 30 June 2016	1,363,141
At 1 January 2017	**2,027,497**
Purchases	**15,610,190**
Release	**(15,997,686)**
At 30 June 2017	**1,640,001**

The Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the condensed consolidated financial statements approximate their fair values.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading integrated optical components and products manufacturer with more than thirty years of history in the People's Republic of China (the "**PRC**" or "**China**"). The Group is principally engaged in the design, research and development ("**R&D**"), manufacture and sales 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 and other various lens sets) ("**Optical Components**"), optoelectronic products (such as handset camera modules, three-dimensional ("**3D**") optoelectronic products, security cameras and other optoelectronic modules) ("**Optoelectronic Products**") and optical instruments (such as microscopes, optical measuring instruments and various high-end optical analytical instruments) ("**Optical Instruments**"). The Group focuses on the application fields of optoelectronic-related products, such as handsets, digital cameras, vehicle imaging systems, security surveillance systems, optical measuring instruments and high-end optical analytical instruments, which are equipped with optical, electronic, software and mechanical technologies.

Save as disclosed in this announcement, there has been no material change in the development or future developments of the Group's business and financial position, and no important events which may affect the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2016.

FINANCIAL REVIEW

Sales revenue

The Group's revenue for the six months ended 30 June 2017 was about RMB10,031.7 million, showing an increase of approximately 69.8% or approximately RMB4,122.1 million as compared with the corresponding period of last year. The increase in revenue was mainly benefited from the Group's rapid development in the smartphone related business and vehicle imaging field.

Sales revenue generated from the Optical Components business segment increased by approximately 46.8% to approximately RMB1,895.6 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the growth in the shipment volume of handset lens sets and vehicle lens sets and the increase in the average selling price through the improvement of product mix of handset lens sets.

Sales revenue generated from the Optoelectronic Products business segment increased by approximately 77.9% to approximately RMB8,013.6 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the growth in the shipment volume of handset camera modules and the increase in the average selling price through the improvement of product mix.

Sales revenue generated from the Optical Instruments business segment increased by approximately 8.3% to approximately RMB122.5 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the recovery of the market demands for industrial instruments.

Gross Profit and Margin

The Group's gross profit for the six months ended 30 June 2017 was approximately RMB2,069.7 million and the gross profit margin was approximately 20.6%, which was approximately 3.9-percentage point higher than that for the corresponding period of last year. The improvement in gross profit margin was due to the increased gross profit margin of each business segment compared with the corresponding period of last year. The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 43.7%, 12.7% and 42.2%, respectively (corresponding period of 2016: approximately 38.2%, 8.7% and 38.4%, respectively).

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six months ended 30 June 2017 increased by approximately 64.6% or approximately RMB41.1 million to approximately RMB104.7 million as compared with the corresponding period of last year, accounting for approximately 1.0% of the Group's revenue, which was approximately 0.1-percentage point lower than that for the corresponding period of last year. The increase in absolute amount was primarily attributable to the increase in costs of selling, marketing and distribution personnel resulting from the growth in sales activities.

R&D Expenditure

The Group's R&D expenditure for the six months ended 30 June 2017 increased by approximately 95.6% or approximately RMB261.4 million to approximately RMB535.0 million as compared with the corresponding period of last year, accounting for approximately 5.3% of the Group's revenue, which was approximately 0.7-percentage point higher than that for the corresponding period of last year. The increase in absolute amount was attributable to the Group's continuous investments in R&D activities and business development. The R&D expenditure was mainly used in the R&D of high-end handset lens sets and handset camera modules, vehicle lens sets, infrared products, security surveillance systems, mid- to high-end optical instruments and the development of products in other emerging fields.

Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2017 increased by approximately 23.7% or approximately RMB35.0 million to approximately RMB182.4 million as compared with the corresponding period of last year, accounting for approximately 1.8% of the Group's revenue, which was 0.7-percentage point lower than that for the corresponding period of last year. The increase in overall administrative expenses was mainly attributable to the increase in the headcount of administrative staff, the increase in remuneration, the grant of restricted shares and the corresponding increase in relevant fringe benefits.

Income Tax Expense

The Group's income tax expense for the six months ended 30 June 2017 increased by approximately 170.9% or approximately RMB149.5 million to approximately RMB237.0 million as compared with the corresponding period of last year. The increase was mainly attributable to the growth in earnings. The Group's actual effective tax rate was approximately 17.0% during the period under review and approximately 15.8% for the corresponding period of last year.

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

	2016	**2017**	2018 (Expected)	2019 (Expected)
+* Zhejiang Sunny Optics Co., Ltd. ("**Sunny Optics**")	15.0%	**15.0%**	15.0%	15.0%
+* Ningbo Sunny Instruments Co., Ltd. ("**Sunny Instruments**")	15.0%	**15.0%**	15.0%	15.0%
+* Sunny Optics (Zhongshan) Co., Ltd. ("**Sunny Zhongshan**")	15.0%	**15.0%**	15.0%	15.0%
+* Ningbo Sunny Opotech Co., Ltd. ("**Sunny Opotech**")	15.0%	**15.0%**	15.0%	15.0%
+* Ningbo Sunny Infrared Technologies Co., Ltd. ("**Sunny Infrared**")	15.0%	**15.0%**	15.0%	15.0%
+* Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("**Shanghai Sunny Hengping**")	15.0%	**15.0%**	15.0%	15.0%
+* Ningbo Sunny Automotive Optech Co., Ltd. ("**Sunny Automotive**")	15.0%	**15.0%**	15.0%	15.0%
Hangzhou Sunny Security Technology Co., Ltd. ("**Sunny Hangzhou Security**")	25.0%	**25.0%**	25.0%	25.0%
Xinyang Sunny Optics Co., Ltd. ("**Sunny Xinyang Optics**")	25.0%	**25.0%**	25.0%	25.0%
Shanghai Sunny Yangming Precision Optics Co., Ltd. ("**Sunny Shanghai Optics**")	25.0%	**25.0%**	25.0%	25.0%
Ningbo Sunny Intelligent Technology Co., Ltd. ("**Sunny Intelligent Technology**")	25.0%	**25.0%**	25.0%	25.0%
Sunny Group Limited ("**Sunny Group**")	25.0%	**25.0%**	25.0%	25.0%
Zhejiang Sunny Optical Intelligence Technology Co., Ltd. ("**Sunny Optical Intelligence**")	25.0%	**25.0%**	25.0%	25.0%
Qingdao Sunny Hengping Instrument Company Limited ("**Qingdao Hengping Instrument**")	25.0%	**25.0%**	25.0%	25.0%

	2016	**2017**	2018 (Expected)	2019 (Expected)
Sunny Optics (Zhejiang) Research Institute Co., Ltd. ("**Sunny Research Institute**")	25.0%	**25.0%**	25.0%	25.0%
Yuyao Sunny Optical Intelligence Technology Co., Ltd. ("**Sunny Optical Intelligence Yuyao**")	25.0%	**25.0%**	25.0%	25.0%
Ningbo Mei Shan Bao Shui Gang Qu Sunyi Investment Co., Ltd. ("**Ningbo Sunyi**")	25.0%	**25.0%**	25.0%	25.0%
Ningbo Mei Shan Bao Shui Gang Qu Sunxin Investment Partnership (Limited Partnership) ("**Ningbo Sunxin**")	25.0%	**25.0%**	25.0%	25.0%
Yuyao City Sunny Huitong Microcredit Co., Ltd. ("**Sunny Huitong**")	25.0%	**25.0%**	25.0%	25.0%

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

\+ The Hi-Tech Enterprise Certification of the companies will expire on 31 December 2017, 31 December 2018 or 31 December 2019.

Profit for the Period and Net Profit Margin

The Group's profit for the six months ended 30 June 2017 increased by approximately 149.7% or approximately RMB696.0 million to approximately RMB1,161.0 million as compared with the corresponding period of last year. The increase in net profit was mainly attributable to the increase in gross profit and the effective control in operating expenses. The net profit margin for the six months ended 30 June 2017 was approximately 11.6% and approximately 7.9% for the corresponding period of last year.

Profit for the Period Attributable to Owners of the Company

The Group's profit attributable to owners of the Company for the six months ended 30 June 2017 increased by approximately 149.2% or approximately RMB694.0 million to approximately RMB1,159.2 million as compared with the corresponding period of last year.

Interim Dividends

For the year ended 31 December 2016, the dividends proposed by the Board was approximately RMB0.290 (being HK$0.323) per share with a payout ratio of approximately 25.0% of the profit for the year attributable to owners of the Company and was paid in June 2017.

The Board does not recommend the payment of any interim dividends for the six months ended 30 June 2017 (corresponding period of 2016: nil).

BUSINESS REVIEW

Looking back to the first half of 2017, the global economy showed a positive development momentum and the recovery speed and range were optimal in recent years. However, there were still some uncertainties and risks. Global smartphone industry maintained its overall slow growth trend continued from last year. Although the smartphone market in China remains the largest market, the shipment volume in the first half of this year was lower than that in the same period of last year due to the saturated demands, and competition became much fiercer. Only a handful of Chinese domestic smartphone manufacturers gained market shares successfully including traditional international brands with their technology advantages, channel advantages and effective marketing strategies, and continued to change the industry structure. In addition, Chinese smartphone brands rose quickly in emerging markets such as India and the Middle East. On the other hand, with the development of vehicle internet of things and the international popularisation and promotion of laws and regulations, the vehicle lens sets, as important components of vehicle imaging systems and advanced driver assistance systems ("**ADAS**"), realised quick development in global market and maintained a high growth momentum. Overall, in spite of the complex and changing external environment, the Group consolidated its leading position in the industry and realised huge growth of overall performance with its excellent competitiveness.

During the first half of 2017, the global smartphone shipment volume reached 689.0 million units (source: International Data Corporation ("**IDC**"), while the smartphone shipment volume in China amounted to 215.9 million units (source: **IDC**). Following the popularisation of smartphones, the different functions have become the main driver of replacement demand for new phones. Therefore, in addition to further increasing the resolution of the front and rear cameras, more complicated specifications such as dual-camera, ultra-thin, wide angle, large aperture, biological recognition and augmented reality ("**AR**") are also added by smartphone manufacturers to meet customers' demands. In addition, with the further development of new materials, processors and display screen technology, smartphones will have more new attributes that will greatly improve the user experiences. The Group, as a leading supplier of handset lens sets and handset camera modules, will definitely benefit from such development.

The vehicle lens sets industry developed quickly with the increase of the penetration rate and the adoption rate of vehicle lens sets. On one hand, the United States ("**U.S.**") National Highway Traffic Safety Administration ("**NHTSA**") and European New Car Assessment Programme ("**E-NCAP**") continued to push forward the implementation of relevant regulations and assessment system. The Ministry of Land, Infrastructure, Transport and Tourism of Japan has also permitted the "mirrorless vehicles" with their side-view mirrors being replaced by cameras and screens. The Implementation Plan for Advancing Convenient "Internet+" Traffic to Promote the Development of Intelligent Traffic issued by relevant authorities in China specified that the development and application of smart vehicle facilities and autonomous vehicles should be regarded as an important mission to improve the automation level of facilities and vehicles. On the other hand, in order to improve the active safety coefficient and smart experiences of vehicles in driving, many vehicle manufacturers started to take cameras as the core components for ADAS, semi-automatic and fully autonomous driving. The number of cameras installed in each vehicle will continue to increase and their specifications will become more complicated and diversified. As one of the few suppliers who can provide high-quality and multi-specification vehicle lens sets in the world, the Group will continue to benefit from the rapid growth of the vehicle cameras industry and enjoy further expansion of its market share.

For the optical instruments market, the whole market, benefited from the recovery of global economy and increase in investments to the global electronic industry, has recovered. We saw an accelerated move from "Made in China" into "Intelligently Manufactured in China", which has translated into increased market demands for instruments and equipment required in machine vision applications, automatic productions and smart factories. Meanwhile, the demands of medical and educational fields for smart, digital and automatic microscopes have increased constantly and the development of mid- to high-end microscope market has become promising. Optical Instruments business segment of the Group will benefit therefore.

For the other areas in which the Group has been engaging, such as unmanned aerial vehicle ("**UAV**"), AR/virtual reality ("**VR**"), 3D and a various of other emerging fields, although they are still at the early stage of development, there is huge potential for future growth. Especially for the VR technology, the world entered the first year of VR in 2016. In 2017, VR technology continued to be applied in different commercial fields and has changed from hardware oriented to software oriented. According to the latest forecast of Super Data, a market research institution, the total addressable market size of VR will increase to USD4.9 billion this year from USD1.8 billion last year and will reach USD37.7 billion in 2020 (increased by 20 times of 2016). Taking advantage of its outstanding R&D capabilities, technological innovation abilities and the first-mover advantages, the Group's products and services have gained recognitions from global top-tier hi-tech companies. These brought many valuable cooperation opportunities, which have in turn created considerable economic benefits and laid a solid foundation for the Group's mid- to long-term development.

During the period under review, facing the increasingly fierce market competition, the Group maintained its farsightedness, seized market opportunities, made continuous innovation, improved efficiency, optimised product combination, acted upon its advantages and thereby improved its comprehensive competitiveness. On one hand, the Group continuously enhanced its R&D capabilities, increased its R&D investments and upgraded the existing products of its three major business segments, thereby greatly improving the technology level. On the other hand, the Group promoted and optimised its self-manufactured automation equipment and production lines constantly, thereby improving its production efficiency and product quality, obtained considerable economic benefits and gained recognitions from branded customers. This has not only consolidated the Group's leading edge, but also laid a solid foundation for its future sustainable development. In addition, the Group has been actively making patent layout with 71 new patents being acquired during the first half of 2017. As of 30 June 2017, the Group had 482 patents, including 108 invention patents, 338 utility model patents and 36 exterior design patents, in addition to other 679 patent application pending approval.

The Group received numerous honours during the period under review. For the Optical Components business segment, Zhejiang Sunny Optics Co., Ltd. was awarded the "Quality Award" by Vivo Communication Technology Co. Ltd. ("**VIVO**"). Ningbo Sunny Automotive Optech Co., Ltd. was awarded the "Global Supplier Award" by Bosch. For the Optoelectronic Products business segment, Ningbo Sunny Opotech Co., Ltd. won the "Innovation Award" granted by VIVO and the "Best Delivery Supplier Award" granted by Panasonic Co., Ltd.. In addition, the Group was ranked Top three among Technology/Hardware companies of the "Best CEO", "Best CFO", "Best IR Professionals", "Best IR Company", "Best Analyst Day" and "Best Website" by Institutional Investor, an US magazine. The Company also received the title of a "Most Honored Company". These awards show the excellent performance of the Group in scientific and technological innovation and also indicate that the Group's product quality, services and delivery have been highly recognised and approved by customers. This encouraged the Group to provide customers with better products and services continuously.

Optical Components

Benefiting from the continuous growth in mid- to high-end smartphone market and vehicle lens sets industry as well as the Group's excellent control ability of the market trend, the shipment volume of the major products of the Optical Components business segment recorded a significant growth. Meanwhile, its product mix was further optimised, leading to satisfactory results for this business segment. During the period under review, the sales revenue from this business segment amounted to approximately RMB1,895.6 million, representing an increase of approximately 46.8% as compared with the corresponding period of last year. This business segment accounted for approximately 18.9% of the Group's total revenue as compared with approximately 21.8% in the corresponding period of last year.

During the period under review, the shipment volume of handset lens sets of the Group increased by 81.2% as compared with the corresponding period of last year, and the product mix was also improved. The proportion of shipment volume of 10-mega pixel above products increased from approximately 17.1% in the corresponding period of last year to approximately 42.9%.

During the period under review, the Group has commenced the mass production of 16-mega pixel handset lens sets with F Number ("**FNo.**") 1.65 and the miniaturised handset lens sets suitable for screen size of 18:9. Meanwhile, the Group has also commenced the mass production of handset lens sets with 20-mega pixel. In addition, with the continuous rise of the domestic and international customers' requirements, more and more high-end products including 10-mega pixel above handset lens sets with large aperture, wide angle, ultra-thin, dual-camera and other complicated functions have gained recognition. As a result, the Group's market share experienced further expansion. In addition, the Group has developed a wide range of products for various applications in emerging fields such as lenses and lens sets used in VR/AR, biological recognition, motion tracking, 3D and so on, thanks to its profound accumulation of experience in the field of optics and leading edge in technology. Furthermore, some of the products have commenced the mass production.

During the period under review, the shipment volume of vehicle lens sets of the Group increased by 44.3% as compared with the corresponding period of last year and continued to keep its role as the No. 1 in the world, and further increased its market share.

Optoelectronic Products

Benefiting from the growth of mid- to high-end smartphone market in the PRC, the rise of the domestic brands and the development of other mobile device products, the Optoelectronic Products business segment recorded an impressive growth. During the period under review, the revenue from the Optoelectronic Products business segment amounted to approximately RMB8,013.6 million, representing an increase of approximately 77.9% over the corresponding period of last year. This business segment accounted for approximately 79.9% of the Group's total revenue as compared with approximately 76.2% in the corresponding period of last year.

During the period under review, the shipment volume of handset camera modules of the Group recorded a year-on-year growth of approximately 42.3% and the proportion of shipment volume of 10-mega pixel above products increased from approximately 59.6% in the corresponding period of last year to approximately 64.1%.

During the period under review, dual-camera module has gradually become the trend of smartphone industry and its global market size has significantly expanded. The Group has now become the largest supplier of dual-camera modules in China. The Group served as a major supplier of dual-camera modules with 10-mega pixel above and optical zoom function to numerous domestic smartphone brands and has established good and long-term cooperation relationships. In addition, the R&D on the Group's periscope-style tiny optical zoom modules and 16-mega pixel handset camera modules with FNo.1.65 have been completed. The 360° panoramic camera modules have commenced the mass production, and modules of the time of flight ("**TOF**") have serialised and commenced the mass production. At the same time, the Group has developed a new patented packaging process technology which significantly fulfills the requirements of module miniaturisation due to the increased proportion of mobile phone screen. This technology helps to promote and develop dual-camera module business. Therefore, the Group has maintained the industry-leading advantage and achieved a growth much faster than its peers in the industry with its continuous technological innovation and sharp market insight.

Optical Instruments

During the period under review, benefiting from economic environmental recovery and the increase in the demands for related instruments and equipment due to the recovery of the entire electronic market, the revenue from the Optical Instruments business segment amounted to approximately RMB122.5 million, representing an increase of approximately 8.3% over the corresponding period of last year. This business segment accounted for approximately 1.2% of the Group's total revenue as compared with approximately 2.0% in the corresponding period of last year.

During the period under review, the Group conducted technological upgrade of its existing products and advanced its lean management continuously, so as to further enhance the performance and economic benefits of the products. The Group has completed the R&D on LED microscope illuminate system for colour temperature adjustment applied to medical education, and has commenced the mass production of zoom-stereo microscopes with maximum zoom ratio applied to life science field and the equipment of infrared-cut filter slide and module. Moreover, the Group will further increase its investments in R&D and marketing of high-end optical instruments in the fields of industry, education and medical treatment in order to maintain its mid- to long-term steady development.

Production

The Group's products are mainly manufactured in four production bases in Yuyao of Zhejiang Province, Zhongshan of Guangdong Province, Shanghai and Xinyang of Henan Province in the PRC, respectively. In addition, the Group has established a subsidiary in Silicon Valley, California, the U.S. for technical support, marketing and customer base expansion in North America.

OUTLOOK AND FUTURE STRATEGIES

Adhering to the mission of ensuring the sustainable growth of the Group, the management team strove to make further progress with innovation on original favourable basis. Every business of the Group has achieved a sound development. During the period under review, the Group has a satisfactory performance. Although the global economic growth remains uncertain, the Group remains optimistic about its future operations as at the beginning of the year. The Group has been accelerating its business transformation and upgrade, and has been continuing to implement its development strategies decided at the beginning of the year to maintain the sound development momentum since the first half of 2017. The Group's future strategies include:

1. Continue to consolidate the Group's leading position in the market by improving and expanding its existing advantageous business, improving the Group's competitiveness in the market, and increasing the Group's market share

During the period under review, the Group established the following advantages:

- technology advantages in terms of principal activities by allocating resources efficiently and focusing on the R&D of core technologies and key processes;

- manufacturing advantages by improving the informatised manufacturing system so as to promote lean management and increased production efficiency;

- purchasing costs advantages by optimising supply chain management and implementing measures on the control of end-to-end supply chain; and

- quality advantages by constructing a quality control system and enhancing quality traceability.

By establishing advantages in the above aspects, the Group has enhanced its competitiveness in the market.

2. Strongly promote the accomplishment as the role of a smart optical system solution provider, and lay a solid foundation for the rapid development of the optical instruments business

The Group will continue to allocate sufficient resources to enhance its capability of integrating software and hardware and product innovation effectively in order to seek the breakthroughs of smart optical modules in segment markets. The Group will focus on optical capabilities and strive to achieve market breakthroughs in the emerging application fields such as AR and VR, biometric identification, artificial intelligence and so on to accomplish the execution of being a smart optical system solution provider.

The Group will effectively advance the customer-oriented product development and focus on target market segments such as the manufacturing of precision machinery and consumer electronics and so on, in order to achieve substantial breakthroughs in the field of the smart manufacturing. The Group will discover customers' sorrows and difficulties as well as combine microscopic techniques with software technologies to develop and deliver automatic micro-assembling, testing solutions and products to customers.

3. **Further promote the internal mechanism construction, propel and improve the formation and completion of the new development mechanism**

   The Group will sort out the relationship between the "Create Together" and the new development mechanism clearly, and combine the new mechanism with the existing business management models of parent company and subsidiaries to fully mobilise business objects' motivation, as well as to be more proactive in seizing the market opportunities within the main channels. Meanwhile, the Group will develop, train and retain future management talents for the Company.

   In the coming years, the Group will continue to provide the global top tier hi-tech companies with more high-quality products and services by leveraging on the broad development prospects of the optoelectronic industry where the Group bases and its excellent position in the market as an optical expert, maintain innovation and adhere to the "Mingpeijiao" (名配角) strategy, thereby achieving corporate growth and value enhancement to constantly create returns for the shareholders.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2017 and 30 June 2016:

	For the six months ended 30 June	
	2017	2016
	RMB million	*RMB million*
Net cash from operating activities	**578.5**	390.0
Net cash used in investing activities	**(524.8)**	(71.5)
Net cash from (used in) financing activities	**144.1**	(203.2)

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

The Group's balance of cash and cash equivalents was approximately RMB665.3 million as at 30 June 2017, representing an increase of approximately RMB198.4 million when compared to the beginning of this year.

Capital Expenditure

For the six months ended 30 June 2017, the Group's capital expenditure amounted to approximately RMB782.6 million, which was mainly used for the purchases of machinery and equipment, acquisition of land use rights and purchase of other tangible and intangible assets. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

The Group will seek bank borrowings when operational needs arise and there is no seasonality issue in the Group's bank borrowings.

Bank borrowings of the Group as at 30 June 2017 amounted to approximately RMB1,456.6 million (31 December 2016: approximately RMB904.3 million). The value of pledged buildings and land amounted to approximately RMB181.3 million (31 December 2016: approximately RMB186.1 million).

As at 30 June 2017, all bank borrowings were denominated mainly in U.S. Dollars and Renminbi. The gearing ratio of the Group by reference to the total debt to total book capitalisation ratio (total book capitalisation means the sum of total liabilities and shareholders' equity) was approximately 11.8%, reflecting that the Group's financial position was at a sound level.

Bank facilities

As at 30 June 2017, the Group had bank facilities of RMB1,225.0 million with Yuyao Branch of Agricultural Bank of China, RMB200.0 million with Yuyao Branch of Ningbo Bank, USD44.0 million with BNP Paribas Hong Kong Branch, USD60.0 million with BNP Paribas (China) Limited, USD10.0 million with Oversea-Chinese Banking Corporation Limited, Hong Kong Branch, USD37.0 million with The Hong Kong and Shanghai Banking Corporation Limited, RMB200.0 million with Yuyao Branch of Bank of Communication Co., Limited, RMB372.8 million with Yuyao Branch of Bank of China Co., Limited and RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Limited. All of the above bank facilities have not been fully utilised. For details of the borrowings, please refer to Note 21 of the notes to the condensed consolidated financial statements.

Debt Security

As at 30 June 2017, the Group did not have any debt securities.

Contingent liabilities

As at 30 June 2017, the Group did not have any material contingent liabilities or guarantees.

Funding and treasury policies and objectives

The Group adopts prudent funding and treasury policies. The Group will seek bank borrowings when operational needs arise and review its level of bank facilities regularly to strive for a stable and healthy financial position.

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as at 30 June 2017, except for the pledged bank deposits of approximately RMB276.3 million and pledged buildings and land of approximately RMB181.3 million. For details of the pledged bank deposits, please refer to Note 19 of the Notes to the Condensed Consolidated Financial Statements.

COMMITMENTS

As at 30 June 2017, the capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements amounted to approximately RMB484.2 million (31 December 2016: approximately RMB220.1 million).

As at 30 June 2017, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2017, 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 mainly include the purchase and redemption of financial assets designated as at fair value through profit or loss, placement and withdrawal of pledged bank deposits, placement and withdrawal of short term fixed deposits and purchases of property, plant and equipment. For the six months ended 30 June 2017, the Group's investments amounted to approximately RMB782.6 million, which mainly involves the purchases of machinery and equipment, as well as the initial production settings of new products, acquisition of land use right, intangible assets and the necessary equipment configurations of new projects. These investments enhanced the Group's R&D and technology application capabilities 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 the returns. The Group did not and has no plan to use any financial instrument for hedging purposes and will continue to fund its future investment from its own financial resources.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks on its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. The rising of interest rates increases the costs of both existing and new debts. For the six months ended 30 June 2017, the effective interest rate on fixed-rate bank borrowings was approximately 3.62% per annum, while the effective interest on variable-rate bank borrowings was approximately from 1.99% to 2.35% 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 U.S. dollars or other foreign currencies. Please refer to the information of the Group's foreign currency options contracts at Note 17 to the notes to the condensed consolidated financial statements. Except certain investments which are in line with the Group's business and which are denominated in foreign currency, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

The Group's financial assets include derivative financial assets, bank balances and cash, pledged bank deposits, short-term fixed deposits, financial assets designated as at fair value through profit or loss, trade and other receivables, amounts due from related parties and available-for-sale investments, which represent the Group's maximum exposure to credit risk in relation to financial assets.

In order to minimise the credit risk in relation to trade receivables, the management has delegated a team which is responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that prompt follow-up actions are taken to recover overdue debts, and had insurance policies in place relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. The amounts presented in the condensed consolidated statement of financial position are net of allowances for bad and doubtful debts, estimated by the management based on prior experience, their assessment of the current economic environment and the discounted cash flows to be received in future.

The Group has no significant concentration of credit risk since its trade receivables are dispersed to a large number of customers.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2017, the Group has acquired the residual equity interests of Sunny Huitong. For further details of the acquisition, please refer to Note 24 of the notes to the condensed consolidated financial statements.

OTHER INFORMATION

A. PURCHASE, SALE OR REDEMPTION OF THE SHARES OF THE COMPANY OR ITS SUBSIDIARIES

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 requirements imposed from time to time by The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries, with the exception of the trustees of the Restricted Share Award Scheme, of the Company's listed shares during six months ended 30 June 2017.

B. SHARE OPTION SCHEME

On 25 May 2007, the Company adopted the Share Option Scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company. Eligible participants of the Share Option Scheme include, without limitation, employees, Directors and shareholders of the Group. The Group has no share option exercised at the beginning and at the end of the period under review. For the six months ended 30 June 2017, no share option (i) has been granted or agreed to be granted to any person; (ii) has been exercised by any person; (iii) has been cancelled; and (iv) lapsed under the Scheme.

C. RESTRICTED SHARE AWARD SCHEME

On 22 March 2010 (the "**Adoption Date**"), the Board has adopted the Restricted Share Award Scheme. Pursuant to the Restricted Share Award Scheme, the Directors, all employees, senior staff, agents and consultants of the Company and its subsidiaries are entitled to participate in this scheme. The purpose of the Restricted Share Award Scheme is to assist the Company in attracting new staff as well as motivating and retaining its current talents. The Restricted Share Award Scheme shall be effective from the Adoption Date and shall continue in full force and effect for a term of 10 years and be managed by its administrative committee and the trustee. Details of the Restricted Share Award Scheme could be found in Note 23 of the notes to the condensed consolidated financial statements.

Pursuant to the Restricted Share Award Scheme, the Company shall transfer cash to the trustee from time to time for the acquisition of shares to be held upon trust for the benefits of the selected participants. Shares granted to the selected participants are subject to restrictions and limitations and will become unrestricted upon vesting at the end of each vesting period. No shares shall be granted under the Restricted Share Award Scheme if the number of shares granted at any time during the Restricted Share Award Scheme period has exceeded 10% of the 1,000,000,000 issued shares of the Company as at the Adoption Date (i.e. 100,000,000 shares). Apart from the expenses incurred by the trustee attributable to or payable in connection with the vesting of the shares which shall be borne by the selected participants, vested shares shall be transferred at no cost to the selected participants.

The Restricted Share Award Scheme has been amended and restated on 26 May 2015 pursuant to a Board resolution to change (i) the vesting period under the scheme from three to five years to two to five years; and (ii) the circumstances when the shares would lapse. For details of the amendments, please refer to the announcement of the Company dated 26 May 2015. The purpose of the amendments is to allow the Restricted Share Award Scheme to offer better long-term incentive to the grantees.

Save as disclosed above, at no time during the period under review was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other corporation.

D. RISK MANAGEMENT, INTERNAL CONTROL AND CORPORATE GOVERNANCE

Code of Corporate Governance Practices

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability and to maximise the shareholders' benefits.

For the six months ended 30 June 2017, the Company complied with all code provisions and adopted most of the recommended best practices of the Code on Corporate Governance ("**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("**Listing Rule**").

Internal Controls and Risk Management

The Board acknowledges the significance of establishing and maintaining an effective system of internal control and risk management. The Group has an internal audit department in place which reports to the management and the audit committee of the Board. It reviews the systems of the Group, covering all business units of the Group, including the operational, financial and internal control perspectives. The Board considers that the internal audit department has been staffed adequately in terms of their qualification and experience, as well as provided with adequate resources, training programmes and budgets, so as to implement the Group's accounting and financial reporting function.

To strengthen its risk management control, during the period under review, the Group has set up the specialised department to ensure that the necessary procedures and systems would be in place to comply with the relevant rules and requirements under the Corporate Governance Code.

Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. After having made specific enquiry of all Directors with regard to the securities transactions, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the six-month period ended 30 June 2017.

E. AUDIT COMMITTEE

The Company's audit committee consists of three independent non-executive Directors (Mr. Zhang Yuqing (committee chairman), Mr. Feng Hua Jun and Mr. Shao Yang Dong) ("**Audit Committee**"). The audit Committee, together with our external auditor, has reviewed and discussed about relevant issues such as audition, internal control and financial statements, among which includes examination of condensed consolidated financial statements for the six months ended 30 June 2017 which has not been audited yet. Members of the Audit Committee agree with the accounting treatments adopted in the preparation of the condensed consolidated financial statements.

F. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Company deeply understands that shareholders are entitled to have a better understanding of the business and future of the Group. Therefore, it always makes active communication with investment community (including both institutional and retail investors). Shareholder communication policy has been adopted to regulate and promote the efficient and sound communication among the Company, its shareholders and other stakeholders. The policy can be accessed on our website.

The Company provides investors with its information at fixed time every month so as to improve the transparency of the Group. Shortly after its publication of annual results in March 2017, the Company has held an investor presentation of annual results in Hong Kong, and has attended many one-on-one investor meetings around the world, among which includes 1 reverse roadshow, 2 non-deal roadshows and 11 investors' forums and conferences, so as to keep close contact with investors.

Shareholders are recommended to regularly visit our website (www.sunnyoptical.com) for the latest information.

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

Hong Kong, 14 August 2017

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.