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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

RESULT HIGHLIGHTS

- The Group's unaudited consolidated revenue for the period ended 30 June 2015 was approximately RMB4,651.2 million, representing an increase of approximately 21.2% as compared with the corresponding period of the previous year. The increase in revenue was mainly benefited from the Company's development in the smartphone and vehicle imaging market.

- The gross profit for the first half of financial year 2015 was approximately RMB722.0 million, representing an increase of approximately 28.6% as compared with the corresponding period of the previous year. The gross profit margin was approximately 15.5%.

- The net profit for the period increased by approximately 21.8% to approximately RMB309.1 million as compared with the corresponding period in 2014. The increase in net profit was mainly due to the increased gross profit. The net profit margin was approximately 6.6%.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sunny Optical Technology (Group) Company Limited (the "**Company**") presents the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the six months ended 30 June 2015, together with the comparative figures for the corresponding period in the year 2014 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**4,651,228**	3,836,139
Cost of sales		**(3,929,186)**	(3,274,526)
Gross profit		**722,042**	561,613
Other income	*4*	**37,929**	47,410
Other gains and losses	*5*	**(3,422)**	(8,296)
Selling and distribution expenses		**(43,776)**	(42,894)
Research and development expenditure		**(236,736)**	(149,193)
Administrative expenses		**(117,984)**	(100,696)
Share of results of associates		**(375)**	(146)
Finance costs		**(8,699)**	(7,258)
Profit before tax		**348,979**	300,540
Income tax expense	*6*	**(39,905)**	(46,744)
Profit for the period	*7*	**309,074**	253,796
Other comprehensive expense			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**(289)**	(268)
Total comprehensive income for the period		**308,785**	253,528
Profit (loss) for the period attributable to:			
Owners of the Company		**307,650**	256,851
Non-controlling interests		**1,424**	(3,055)
		309,074	253,796
Total comprehensive income (expense) attributable to:			
Owners of the Company		**307,388**	256,730
Non-controlling interests		**1,397**	(3,202)
		308,785	253,528
Earnings per share – Basic *(RMB cents)*	*8*	**28.70**	24.05
– Diluted *(RMB cents)*	*8*	**28.28**	23.76

Condensed Consolidated Statement of Financial Position
At 30 June 2015

	NOTES	As at 30 June 2015 RMB'000 (unaudited)	As at 31 December 2014 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**1,050,768**	1,035,159
Prepaid lease payments		**114,613**	116,223
Intangible assets		**9**	15
Interests in associates		**62,156**	62,531
Deferred tax assets		**5,417**	5,417
Deposits for acquisition of property, plant and equipment	11	**108,820**	87,613
Available-for-sale investments	12	**67,672**	52,279
Deposit paid for acquisition of a land use right	14	**27,033**	27,033
Derivative financial assets	15(a)	**2,552**	3,176
		1,439,040	1,389,446
CURRENT ASSETS			
Inventories	13	**1,131,323**	895,693
Trade and other receivables and prepayment	14	**2,621,532**	2,388,469
Prepaid lease payments		**3,337**	3,337
Derivative financial assets	15(a)	**5,830**	5,307
Financial assets designated as at fair value through profit or loss ("FVTPL")	15(b)	**825,987**	374,946
Amounts due from related parties	22(c)	**177**	474
Tax recoverable		**14**	7,175
Pledged bank deposits	16	**153,165**	4,392
Short term fixed deposits	16	**73,934**	20,000
Bank balances and cash	16	**619,949**	504,600
		5,435,248	4,204,393
CURRENT LIABILITIES			
Trade and other payables	17	**2,695,113**	1,744,472
Amounts due to related parties	22(c)	**3,274**	3,010
Derivative financial liabilities	15(a)	**5,222**	8,479
Tax payable		**20,468**	8,155
Borrowings	18	**677,319**	521,571
Deferred income – current portion	23	**13,714**	11,105
		3,415,110	2,296,792
NET CURRENT ASSETS		**2,020,138**	1,907,601
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,459,178**	3,297,047

	NOTES	As at 30 June 2015 RMB'000 (unaudited)	As at 31 December 2014 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**16,188**	10,787
Derivative financial liabilities	*15(a)*	**4,991**	2,905
Other payable	*17*	**6,347**	9,537
Deferred income – non-current portion	*23*	**27,434**	23,228
		54,960	46,457
NET ASSETS		**3,404,218**	3,250,590
CAPITAL AND RESERVES			
Share capital	*19*	**105,177**	105,177
Reserves		**3,295,486**	3,142,520
Equity attributable to owners of the Company		**3,400,663**	3,247,697
Non-controlling interests		**3,555**	2,893
TOTAL EQUITY		**3,404,218**	3,250,590

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 ("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. The Group has not early adopted the amendments to Appendix 16 issued by the Stock Exchange of Hong Kong Limited in early 2015 that are effective for accounting period ending on or after 31 December 2015.

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 2015 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014.

Application of new or revised HKFRSs

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

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010 – 2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011 – 2013 Cycle

The Directors 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
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 2015

	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	**991,862**	**3,568,825**	**90,541**	**4,651,228**	**–**	**4,651,228**
Inter-segment sales	**125,257**	**557**	**270**	**126,084**	**(126,084)**	**–**
Total	**1,117,119**	**3,569,382**	**90,811**	**4,777,312**	**(126,084)**	**4,651,228**
Segment profit	**215,535**	**147,128**	**646**	**363,309**	**–**	**363,309**
Share of results of associates						**(375)**
Unallocated income						**2,320**
Unallocated expenses						**(16,275)**
Profit before tax						**348,979**

For the six months ended 30 June 2014

	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	584,850	3,138,547	112,742	3,836,139	–	3,836,139
Inter-segment sales	86,416	146	1,568	88,130	(88,130)	–
Total	671,266	3,138,693	114,310	3,924,269	(88,130)	3,836,139
Segment profit	81,767	236,900	11,714	330,381	–	330,381
Share of results of associates						(146)
Unallocated expenses						(29,695)
Profit before tax						300,540

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries, 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 loss on disposal of property, plant and equipment to each segment without allocating the related bank balances, depreciable assets and the relevant financial instruments to those segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

4. OTHER INCOME

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(note 23)*	**13,985**	8,733
Bank interest income	**1,014**	748
Interest income from short term fixed deposits	**1,074**	239
Interest income from pledged bank deposits	**1,202**	3,825
Interest income from financial assets designated at FVTPL	**14,286**	18,398
Interest income from entrusted loans	**–**	8,558
Income from sales of moulds	**1,036**	3,773
Income from sales of scrap materials	**1,235**	588
Rental income and recharge of utilities	**1,472**	–
Others	**2,625**	2,548
	37,929	47,410

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Foreign exchange losses, net	**(5,281)**	(12,665)
Gain on disposal of property, plant and equipment	**328**	1,656
Allowance for bad and doubtful debts on trade receivables, net	**(789)**	(1,937)
Gain on changes in fair value of derivative financial instruments, net	**2,320**	–
Reversal on overprovision of repair expenses on property, plant and equipment arising from flooding accident in Yuyao City in prior year	**–**	4,650
	(3,422)	(8,296)

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2015	2014
	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%	**34,504**	46,863
Deferred tax:		
– Current period	**5,401**	(119)
	39,905	46,744

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	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Auditor's remuneration	**1,173**	1,079
Depreciation of property, plant and equipment	**124,765**	100,879
Release of prepaid lease payments	**1,610**	320
(Reversal of allowance for) allowance for inventories (included in cost of sales)	**(6)**	4,333

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	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**307,650**	256,851
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,071,917**	1,068,049
Effect of dilutive potential ordinary shares	**15,802**	12,842
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,087,719**	1,080,891

9. DIVIDENDS

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period:		
Final dividend paid in 2015 for 2014 of HK$19.00 cents per share, approximately RMB15.50 cents per share (2014: HK$15.40 per share for 2013, approximately RMB12.10 cents per share)	**170,035**	132,737

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2015 (corresponding period of 2014: Nil).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired manufacturing equipment and incurred construction costs for manufacturing plants of approximately RMB141,879,000 (corresponding period of 2014: RMB153,396,000) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed certain of its plants and equipment with a carrying amount of approximately RMB1,413,000 (corresponding period of 2014: RMB231,000) which resulted in a gain of approximately RMB328,000 (corresponding period of 2014: RMB1,656,000)

11. 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. The deposits will be transferred to property, plant and equipment by batches by the end of 2015 or 2016. During the current interim period, the Group paid an amount of RMB76,000,000 (corresponding period of 2014: RMB104,841,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of RMB54,793,000 (corresponding period of 2014: RMB46,837,000) to property, plant and equipment.

12. AVAILABLE-FOR-SALE INVESTMENTS

	As at 30 June 2015	As at 31 December 2014
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Unlisted equity securities	**67,672**	52,279

During the current interim period, one of the investees, MEMS Drive, Inc. ("MEMS Drive"), issued additional 379,053 Series A preferred stock to a third party investor. Upon completion, the equity interest of MEMS Drive held by the Group was reduced from 17.80% to 13.62%.

On 20 February 2015, the Group had entered into a purchase agreement with Movidius Limited ("Movidius") relating to the purchase of 35,307,703 Series B preferred shares of Movidius at a consideration of US$2,500,000 (equivalent to RMB15,393,000) (the "Investment"). Movidius is incorporated under the Laws of Ireland and is principally engaged in the development and marketing of programmable image signal processing products to process images from camera to mobile devices. As the Investment represents less than 3% of attributable equity interest held by the Group and that the Group has no controlling power or significant influence over the management and the operation of Movidius, the Investment is classified as available-for-sale investments by the Group.

13. INVENTORIES

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Raw materials	**232,097**	207,596
Work in progress	**68,029**	29,780
Finished goods	**831,197**	658,317
	1,131,323	895,693

14. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Trade receivables	**2,164,941**	1,509,256
Less: allowance for doubtful debts	**(6,742)**	(5,953)
	2,158,199	1,503,303
Bills receivables	**322,448**	777,437
Other receivables and prepayment		
Value added tax and other tax receivables	**30,288**	12,995
Individual income tax receivables from employees	**30,460**	24,145
Advance to suppliers	**24,522**	23,214
Prepaid expenses	**21,374**	20,728
Rental and utilities deposits	**10,383**	8,484
Others	**23,858**	18,163
	140,885	107,729
Total trade and other receivables and prepayment	**2,621,532**	2,388,469
Non-current asset		
Deposits paid for acquisition of a land use right *(note)*	**27,033**	27,033

Note: During the current interim period, the Group submitted the construction plan to the local government for assessment and the management expected that the land use right will be obtained by 31 December 2015.

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

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Within 90 days	**2,092,780**	1,472,709
91 to 180 days	**44,851**	28,518
Over 180 days	**20,568**	2,076
	2,158,199	1,503,303

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

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
0 to 90 days	**278,210**	694,421
91 to 180 days	**44,238**	83,016
	322,448	777,437

Movement in the allowance for doubtful debts:

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Balance at beginning of the reporting period	**5,953**	3,552
Impairment losses recognised on receivables	**3,523**	7,757
Impairment losses reversed	**(2,734)**	(5,356)
Balance at end of the reporting period	**6,742**	5,953

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

(a) Derivative financial assets and liabilities

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

	Assets		Liabilities	
	As at 30 June 2015	As at 31 December 2014	**As at 30 June 2015**	As at 31 December 2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(audited)	**(unaudited)**	(audited)
Foreign currency forward contracts *(note 1)*	**5,021**	8,483	**3,590**	8,912
Foreign currency options contracts *(note 2)*	**3,361**	–	**6,623**	2,472
Total	**8,382**	8,483	**10,213**	11,384
Less: current portion				
Foreign currency forward contracts *(note 1)*	**5,021**	5,307	**3,590**	6,007
Foreign currency options contracts *(note 2)*	**809**	–	**1,632**	2,472
	5,830	5,307	**5,222**	8,479
Non-current portion	**2,552**	3,176	**4,991**	2,905

Note 1:

Major items of the foreign currency forward attracts are as follows:

As at 30 June 2015:

Derivative financial instruments	Foreign exchange forward contracts
Underlying currency	Sell USD and buy RMB
Total notional amount	USD40,000,000
Weighted average forward exchange rate	USD:RMB at 1:6.17
Maturity date	From July 2015 to March 2016
Fair value of derivative financial assets	RMB5,021,000

Derivative financial instruments	Foreign exchange forward contracts
Underlying currency	Sell RMB and buy USD
Total notional amount	USD45,000,000
Weighted average forward exchange rate	USD:RMB at 1:6.14
Maturity date	From July 2015 to March 2016
Fair value of derivative financial liabilities	RMB3,590,000

Note 2:

Major items of the foreign currency option contracts are as follows:

As at 30 June 2015:

Derivative financial instruments	Foreign exchange option contracts
Position	Long position
Underlying currency	USD:RMB
Total notional amount	USD330,000,000
Strike price	USD:RMB from 1:6.6 to 1:6.8
Maturity date	From September 2015 to January 2017
Fair value of derivative financial assets	RMB3,361,000

Derivative financial instruments	Foreign exchange option contracts
Position	Short position
Underlying currency	USD:RMB
Total notional amount	USD330,000,000
Strike price	USD:RMB from 1:6.6 to 1:6.8
Maturity date	From September 2015 to January 2017
Fair value of derivative financial liabilities	RMB6,623,000

(b) Financial assets designated as at FVTPL

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 RMB101,650,000 (31 December 2014: RMB25,000,000) which was guaranteed by the relevant banks, the remaining principal of RMB724,337,000 (31 December 2014: RMB349,946,000) was not guaranteed by the relevant banks in which the return of the structured deposits was determined by reference to the performance of certain government debt instruments and treasury notes and the expected return rate stated in the contracts ranges from 1.70% to 5.80% (31 December 2014: 2.25% to 6.20%) per annum.

In the opinion of the Directors, the fair value of the structured deposits at 30 June 2015 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. At the date the condensed consolidated financial statements are authorised for issue, structured deposits amounting to approximately RMB607,477,000 have been matured after the reporting period ended 30 June 2015 at their principal amounts together with returns which approximated the expected return. The remaining principals together with the expected returns will be received by the Group when the structured deposits mature within one year.

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

Bank balances, represent saving accounts and deposits, carry interest at market saving rates at 0.35% (31 December 2014: 0.35%) per annum while short term fixed deposits and pledged bank deposits carry fixed interest rate ranging from 0.98% to 3.08% (31 December 2014: 3.08% to 3.38%) per annum and ranging from Nil to 0.75% (31 December 2014: Nil) per annum, respectively. Short term fixed deposits have an original maturity date less than one year and therefore classified as current assets.

17. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and notes payables presented based on the invoice date at the end of the reporting period. The credit period allowed for the purchases is typically within 90 days. The credit period allowed for notes payables is ranging from 90 days to 180 days.

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Trade payables		
Within 90 days	**1,639,589**	1,000,589
91 to 180 days	**118,489**	74,127
Over 180 days	**2,626**	5,676
Accrued purchases	**239,275**	85,805
Total trade payables	**1,999,979**	1,166,200
Notes payables (within 90 days)	**416,457**	212,050
Other payables		
Payables for purchase of property, plant and equipment	**46,317**	40,381
Staff salaries and welfare payables	**143,757**	168,714
Advance from customers	**22,287**	16,635
Value added tax payables and other tax payables	**30,732**	87,727
Commission payables	**11,380**	18,193
Accrued research and development expenses	**1,272**	14,838
Payable for acquisition of assets	**4,233**	4,233
Others	**18,699**	15,501
	278,677	366,222
	2,695,113	1,744,472
Non-current liability		
Other payable		
Payable for acquisition of assets	**6,347**	9,537

18. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately RMB290,775,000 (corresponding period of 2014: RMB621,379,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately RMB135,027,000 (corresponding period of 2014: RMB259,058,000) were made in line with the relevant repayment terms.

As at 30 June 2015 and 31 December 2014, all the Group's borrowings were unsecured and were denominated in United States Dollar and carried fixed interest rate with weighted average interest rate of 1.96% (31 December 2013: 2.02%) per annum.

19. SHARE CAPITAL

Issued and fully paid share capital as at 30 June 2015 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.

20. RESTRICTED SHARE AWARD SCHEME

During the current interim period, pursuant to the original restricted share award scheme ("Restricted Share Award Scheme") dated 26 March 2010, on 26 May 2015, the Directors resolved to change (i) the vesting period under the Restricted Share Award Scheme from three to five years to two to five years; and (ii) the circumstances when the Company's shares would lapse, with immediate effect.

The details of the amendments have been disclosed in the announcement of the Company dated 26 May 2015.

The Directors considered that the above amendments have had no material impact on the recognition and measurement of those shares granted before 26 May 2015.

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

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

	Weighted average fair value (per share) *HKD*	**Number of shares** *('000)*
As at 1 January 2014 (audited)	3.919	30,575
Lapsed	4.519	(470)
Vested	3.306	(15,278)
Granted	8.894	10,952
As at 31 December 2014 and 1 January 2015 (audited)	6.385	25,779
Lapsed	7.473	(240)
Vested	4.819	(3,149)
Granted *(note)*	16.093	3,480
As at 30 June 2015 (unaudited)	7.847	25,870

The equity-settled share-based payments expense charged to profit or loss was approximately RMB27,666,000 for the current interim period (corresponding period of 2014: RMB18,418,000).

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

Shares	**Scale**
1,386,000 shares	One-fourth
2,094,000 shares	One-half

The fair values of shares granted in measured on the basis of an observable market price.

21. COMMITMENTS

	As at 30 June 2015 ***RMB'000*** **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Capital expenditure in respect of acquisition of the property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**92,675**	64,706

22. RELATED PARTY DISCLOSURES

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

Name	Principal activities	Relationship
Sunny Group Limited ("Sunny Group") 舜宇集團有限公司 *(note)*	Investment holding	A substantial shareholder of the Company with significant influence on the Group
Ningbo Sunny Electronic Limited ("Ningbo SST")* 寧波舜宇電子有限公司	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
Yuyao City Xingli Optics Instruments Factory* ("Xingli") 餘姚市興立光學器材廠	Manufacture and sale of parts for optical instruments	Company controlled by a close family member of the Company's director, Mr. Ye Liaoning
Shanghai Shuangquan Scientific Instruments Company Limited ("Shuangquan")* 上海雙圈科學儀器有限公司	Distribution and sale of scientific instruments	Company controlled by a close family member of the shareholder of Sunny Hengping. This shareholder has significant influence on Sunny Hengping
寧波舜宇機械有限公司 ("Sunny Machinery")	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
餘姚市舜藝光學儀器有限公司 (「舜藝光學」)	Manufacture and sale of parts of optical instruments	Company controlled by a close family member of the Company's director, Mr. Ye Liaoning
上海舜宇海逸光電技術有限公司 (「舜宇海逸」)	Research and development and manufacturing of optoelectronic products	Company controlled by a substantial shareholder of the Company with significant influence on the Group
Jiangsu Sunny Medical Equipments Co., Ltd. ("Jiangsu Medical") 江蘇舜宇醫療器械有限公司	Manufacture and sales of medical instruments	An associate of 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.

* The English name is for identification purpose only.

Note: Sunny Group was acquired by the Group on 26 September 2014 and it is not considered a related party thereafter.

(b) Transactions with related parties

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of goods		
Ningbo SST	**349**	409
舜藝光學	**391**	100
Shuangquan	**383**	609
Jiangsu Medical	**515**	283
	1,638	1,401
Sales of raw materials		
舜藝光學	**330**	–
Purchase of raw materials		
益康	**231**	–
Ningbo SST	**–**	9
舜藝光學	**3,690**	2,304
Xingli	**3**	76
	3,924	2,389
Property rental expenses		
Sunny Group	**–**	2,226
Ningbo SST	**–**	1,070
	–	3,296
Processing charge and other expenses		
Ningbo SST	**–**	283
Purchase of property, plant and equipment		
舜宇海逸	**–**	852
Disposal of property, plant and equipment		
舜藝光學	**44**	–

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 trade-related balances with related parties:

	As at 30 June 2015 *RMB'000* **(unaudited)**	As at 31 December 2014 *RMB'000* (audited)
Current assets:		
Amounts due from related parties		
Ningbo SST	**–**	474
Shuangquan	**125**	–
Xingli	**52**	–
	177	474
Current liabilities:		
Amounts due to related parties		
舜藝光學	**3,090**	2,772
Ningbo SST	**113**	220
Xingli	**–**	16
Sunny Machinery	**–**	2
益康	**71**	–
	3,274	3,010

The amounts are unsecured, interest free and repayable on demand.

The Group allows a credit period of 90 days to related party trade receivables (31 December 2014: 90 days). The average credit period on purchases of goods from related parties is 90 days (31 December 2014: 90 days). All the trade receivables and payables aged within 90 days.

(d) Compensation of key management personnel

	Six months ended 30 June	
	2015 *RMB'000* **(unaudited)**	2014 *RMB'000* (unaudited)
Short-term benefits	**3,970**	3,829
Post-employment benefits	**241**	523
Restricted share award scheme benefits	**2,216**	2,906
	6,427	7,258

23. DEFERRED INCOME

	Six months ended 30 June	
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Amounts credited to profit or loss during the period:		
Subsidies related to technology enhancement of production lines	**3,570**	2,105
Subsidies related to research and development of technology projects	**7,164**	4,262
Incentive subsidies	**3,251**	2,366
	13,985	8,733

	As at	As at
	30 June	31 December
	2015	2014
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Deferred income related to government grants:		
Subsidies related to technology enhancement of production lines	**21,575**	18,378
Subsidies related to research and development of technology projects	**19,573**	15,955
Total:	**41,148**	34,333
Less: current portion	**(13,714)**	(11,105)
Non-current portion	**27,434**	23,228

24. 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 2015** **(unaudited)**	31 December 2014 (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: RMB825,987,000	Bank deposits in the PRC with non-closely related embedded derivative: RMB374,946,000	Level 3	Discounted cash flows Key unobservable inputs are (i) expected yields of debt instruments invested by banks; and (ii) a discount rate that reflects the credit risk of the banks *(note)*
Foreign currency forward contracts classified as derivatives financial assets and liabilities	Current derivative financial assets: RMB5,021,000 Current derivative financial liabilities: RMB3,590,000	Current and non-current derivative financial assets: RMB8,483,000 Current and non-current derivative financial liabilities: RMB8,912,000	Level 2	Discounted cash flows Key unobservable input is discount rate that reflects the credit risk of the banks

Financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation technique and key inputs**
	30 June 2015 (unaudited)	31 December 2014 (audited)		
Foreign currency option contracts classified as derivatives financial assets and liabilities	Current and non-current derivative financial assets: RMB3,361,000 Current and non-current derivative financial liabilities: RMB6,623,000	Current derivative financial liabilities: RMB2,472,000	Level 2	Black-Scholes model Key unobservable inputs are (i) Volatility of the foreign exchange rate; and (ii) discount rate that reflects the credit risk of the banks

Note: The Directors 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 1 and level 2 during the period.

No gains or losses are recognised in profit or loss relating to the change in fair value of structured deposits classified as Level 3 in the current and prior period as the amount involved is insignificant, and therefore no reconciliation of Level 3 fair value measurements is presented.

The Directors 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**"). We focus on the market 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 combined 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 event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2014.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2015, the Group's revenue was approximately RMB4,651.2 million, representing an increase of approximately 21.2% or approximately RMB815.1 million as compared with the corresponding period of last year. The increase in revenue was mainly benefited from the Company's development in the smartphone and vehicle imaging market.

Revenue generated from the Optical Components business segment increased by approximately 69.6% to approximately RMB991.9 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.

Revenue generated from the Optoelectronic Products business segment increased by approximately 13.7% to approximately RMB3,568.8 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.

Revenue generated from the Optical Instruments business segment decreased by approximately 19.7% to approximately RMB90.5 million as compared with the corresponding period of last year. The decreased in revenue was mainly attributable to the decreased demand for industrial instruments.

Gross Profit and Margin

The gross profit for the first half of the financial year 2015 was approximately RMB722.0 million, and the gross profit margin was approximately 15.5%, which was 0.9 percentage points higher than that for the corresponding period of last year. The increase was mainly due to the rapid growth in the sales of Optical Components business segment which has a higher gross profit margin as compared with the general gross profit margin of the Group. The gross profit margins of Optical Components business segment, Optoelectronic Products business segment and Optical Instruments business segment were approximately 32.5%, 9.1% and 35.2% respectively (corresponding period of 2014: approximately 26.6%, 10.9% and 35.9%, respectively).

Selling and Distribution Expenses

For the six months ended 30 June 2015, selling and distribution expenses increased by approximately 2.1% or approximately RMB0.9 million to approximately RMB43.8 million as compared with the corresponding period of last year, accounting for approximately 0.9% of the Group's revenue, which was 0.2 percentage points lower than that for the corresponding period of last year. The increase in absolute amounts was primarily due to the increase in costs of selling, marketing and distribution personnel resulted from the growth in sales activities.

R&D Expenditure

R&D expenditure increased by approximately 58.7% from approximately RMB149.2 million for the six months ended 30 June 2014 to approximately RMB236.7 million for the corresponding period of 2015. It accounted for approximately 5.1% of the Group's revenue during the period under review, which was approximately 1.2 percentage points higher than that for the corresponding period of last year. The increase was attributable to the Group's continuous investment in R&D activities and business development. The R&D expenditure was mainly used in the R&D of high-end handset lens sets and camera modules, vehicle lens sets, infrared products, security surveillance systems, mid- to high-end optical instruments and the upgrade of existing product categories.

Administrative Expenses

Administrative expenses increased by approximately 17.2% from approximately RMB100.7 million for the six months ended 30 June 2014 to approximately RMB118.0 million for the corresponding period of 2015. It accounted for approximately 2.5% of the Group's revenue during the period under review, which was approximately 0.1 percentage points lower than that for the corresponding period of last year. The increase in overall administrative expenses was mainly due to the increase in the headcount of administrative staff, the increase in remuneration, the grant of restricted shares and the corresponding increase of relevant fringe benefits.

Income Tax Expense

Income tax expense decreased from approximately RMB46.7 million for the year ended 30 June 2014 to approximately RMB39.9 million for the corresponding period of 2015. The decrease was mainly because more subsidiaries of the Group in the PRC have successfully applied for the status of "Hi-Tech enterprises". The income tax rate applicable to Hi-Tech enterprises is 15.0% according to the national policy in the PRC. The Group's effective tax rate was approximately 11.4% during the period under review and approximately 15.6% for the corresponding period of last year.

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

	2014	2015	2016	2017
*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 Company Ltd. ("**Sunny Infrared**")	15.0%	**15.0%**	15.0%	15.0%
*Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("**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%
*Suzhou Shun Xin Instruments Co., Ltd. ("**Suzhou Shun Xin Instruments**")	15.0%	**15.0%**	15.0%	15.0%
Sunny Optics (Tianjin) Co., Ltd. ("**Sunny Tianjin Optics**")	25.0%	**25.0%**	25.0%	25.0%
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 Advanced Instruments Co., Ltd. ("**Sunny Advanced Instruments**")	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 Intelligence Opotech**")	25.0%	**25.0%**	25.0%	25.0%

* Companies recognized as Hi-Tech enterprises prior to the balance sheet date

Profit for the Period and Net Profit Margin

Profit for the period increased by approximately 21.8% from approximately RMB253.8 million for the six months ended 30 June 2014 to approximately RMB309.1 million for the period ended 30 June 2015. The increase in net profit was mainly attributable to the increase in gross profit. The net profit margin was approximately 6.6%.

Profit for the Period Attributable to Owners of the Company

Profit for the period attributable to owners of the Company amounted to approximately RMB307.7 million, representing an increase of approximately RMB50.8 million or approximately 19.8% as compared with approximately RMB256.9 million for the corresponding period of last year.

Interim Dividends

For the year ended 31 December 2014, the dividends proposed by the Board was approximately RMB0.155 (being HK$0.190) per share, with payout ratio of approximately 30.0% of the profit attributable to owners of the Company for the year, and was paid in June 2015.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2015 (corresponding period of 2014: nil).

BUSINESS REVIEW

Looking back to the first half of 2015, despite the continuous recovery of the global economy, the pace in general was not as strong as expected. Besides, as economic downward pressure mounted, the economy in the PRC continued to record a slower growth rate. Given such difficult conditions, the smartphone market of China also slowed down its growth momentum and saw intense industrial competition. The performance of major brands varies greatly, implying the advent of a new era of industrial pattern. On the other hand, as statutory requirements in laws and regulations and consumers' concern for safety driving and smart driving are increasing, market demand for vehicle imaging field has been strong and growing rapidly. Though faced with a complicated operational environment, the Group achieved solid growth in overall performance by leveraging on its accumulation in technology and making adjustments to its marketing strategy in a timely manner.

During the first half of 2015, the global smartphone shipment volume reached 665,731,000 units (source: Gartner), while the smartphone shipment volume in China amounted to 199,281,000 units (data from Gartner). Meanwhile, major smartphone manufacturers continued to increase investment on enhancing the front and rear camera specifications, considering the quality of the smartphone camera as an important medium to reflect the differentiation and technological contents of end-products. Therefore, in addition to higher resolution, more complicated specifications such as wide angle, large aperture, optical image stabilization ("**OIS**") and dual-camera have been introduced to cameras to provide better imaging quality and enhance user experience. The Group as a leading handset lens sets and handset camera modules supplier will therefore benefit from such development.

The vehicle imaging field has been growing rapidly with strong momentum. On the one hand, U.S. National Highway Traffic Safety Administration ("**NHTSA**") has promulgated new rules to require all light vehicles produced after May 2018 to be equipped with at least one rear-view camera, and European New Car Assessment Programme ("**NCAP**") has incorporated "Autonomous Emergency Braking (AEB)" and "Lane Departure Warning (LDW)" into the five-star safety standard rating systems. On the other hand, the market demand for advanced driver assistance systems ("**ADAS**") has grown significantly. As a result, the number of cameras installed in a new vehicle will increase continuously, and their specifications will be more complicated. The Group as one of the few producers which can provide high-quality and multi-specification vehicle lens sets worldwide continued to benefit from the rapid growth of vehicle cameras industry. Currently, the Group has the largest market share in the global vehicle lens sets market, and such market share was further expanded with good development momentum.

For optical instruments market, affected by the slow recovery of the global economy, demand in the industrial market remained sluggish. In particular, orders from European and American customers recorded a significant decline. But the Group also noted that the PRC government had substantially increased its public expenditures in areas like health care, education, environmental protection and food safety according to the "12th Five-Year Plan". Moreover, the transformation and upgrade of the manufacturing industry in China has driven greater market demand for instruments and equipment required in machine vision and automatic production. This shows that the mid- to high-end optical measuring instruments and analytical instruments have bright prospects in domestic market and the Group's Optical Instruments business segment will benefit therefrom.

For other areas in which the Group has been engaged in, such as security and action camera products, market demand is developing rapidly with huge potential. The infrared imaging system experienced further expansion with broader applications. Moreover, as for the innovative applications on mobile terminals such as 3D, wearable consumer electronic devices and intelligent household in which the Group has already been involved, new favourable opportunities in consumer electronics industry are brewing. Taking advantage of its outstanding R&D capabilities, technological innovation abilities and the first-mover advantage in establishing the market presence, the Group's products and services have gained recognition from global tier-one high-tech companies, bringing about many valuable cooperation opportunities, which have in turn established a good foundation for the Company's mid- to long-term development.

During the period under review, the Group continued to make greater investment and strengthen its R&D capabilities. The Group conducted R&D enhancement of existing products for the Group's three major business segments, which further consolidated the technological advantages for the Group's existing products in the industry. On the other hand, the Group attached great importance to promoting and optimizing automation in each production line. Taking advantage of the expertise accumulated in manufacturing automatic equipment, the Group constantly improves its production efficiency and product quality, obtains considerable economic benefits and gains recognition from brand customers. This does not only consolidate the Group's leading edge in emerging high-end products, but has also laid a solid foundation for the Group's future sustainable development. In addition, the Group has been actively developing the patent layout with 30 new patents being added. As of 30 June 2015, the Group had 269 patents including 55 invention patents, 182 utility model patents and 32 exterior design patents, and 194 patent applications pending approval.

The Group received numerous honours in the period under review. For the Optical Components business segment, Sunny Optics (Zhongshan) Co., Ltd. was awarded "The Best Strategic Cooperative Partner" by Hangzhou Hikvision Digital Technology Co., Ltd.. For the Optoelectronic Products business segment, Ningbo Sunny Opotech Co., Ltd. won "2014 Quality Golden Prize for Supplier" presented by TINNO Mobile Technology Corporation, and "Outstanding Business Partner Award" presented by Vivo Communication Technology Co. Ltd. (VIVO). In addition, the "Research and Industrialization of Key Technology for High-Reliable Chip on Film ("COF") Handset Camera Module" project developed by Ningbo Sunny Optotech Co., Ltd. won the first prize of scientific and technological progress award from All-China Federation of Industry and Commerce ("ACFIC"). For the Optical Instruments business segment, the SHP8400PMS-I Explosion-proof Process Mass Spectrometer produced by Shanghai Sunny Hengping Scientific Instrument Co., Ltd. was presented the "Independent Innovation Gold Prize" by China Instruments Manufacturers Association. These awards show that the Company's product quality, quality management, innovation, technology and service capabilities have been highly recognized and approved by customers, thereby encouraging the Company to continue to provide customers with better products and services.

Optical Components

Benefited from the sustained growth of smartphone market and vehicle imaging field as well as the correct business strategy and solid executive power of the Group, the shipment volume of the major products of the Optical Components business segment recorded a significant growth. Meanwhile, its product mix was also improved, leading to satisfactory results for this business segment. The revenue from the Optical Components business segment amounted to approximately RMB991.9 million, representing an increase of approximately 69.6% over the corresponding period of last year. This business segment accounted for approximately 21.3% of the Group's revenue as compared with approximately 15.3% in the corresponding period of last year.

During the period under review, handset lens sets of the Group recorded a year-on-year growth of approximately 233.0% in shipment volume with product mix improvement. Among all handset lens sets, the proportion of shipment volume of 5-mega pixel or above products increased from approximately 67.8% in the corresponding period of last year to approximately 84.6%, of which the proportion of shipment volume of 10-mega pixel above products was approximately 4.9% as compared with approximately 2.2% in the corresponding period of last year.

During the period under review, the Group had completed the R&D on 23-mega pixel, 16-mega pixel (ultra-thin/6P), 13-mega pixel (ultra-thin/OIS), high-resolution handsets lens sets equipped with large aperture, large pixel size, wide angle and dual-camera. Many of them commenced mass production. The Group's customer base was further optimized. In addition to mass production of high-end handsets camera lens sets equipped with wide angle and 10-mega pixel above for Korean customers, the Group also supplied products to more domestic smartphone brands, expanding its market share of domestic smartphone brands as a result.

During the period under review, vehicle lens sets of the Group recorded a year-on-year growth of approximately 40.2% in shipment volume and sustainably improved its share in the global market.

Optoelectronic Products

Benefited from the development of smartphone market and other mobile device products in the PRC, the Optoelectronic Products business segment recorded a growth. During the period under review, the revenue from Optoelectronic Products business segment amounted to approximately RMB3,568.8 million, representing an increase of approximately 13.7% over the corresponding period of last year. This business segment accounted for approximately 76.7% of the Group's total revenue as compared with approximately 81.8% in the corresponding period of last year.

During the period under review, the proportion of handset camera modules with 10-mega pixel above, among the shipment volume of all handset camera modules, increased to approximately 20.1 % from approximately 12.6% in the same period of last year.

During the period under review, the Group started mass production of handset camera modules with 20-mega pixel and 13-mega pixel featuring OIS and dual-camera as well as camera modules for phase detection autofocus ("PDAF") handsets. In addition, mass production of iris recognition handset camera modules for smartphone mobile payment has been started for a Japanese customer. The outstanding high resolution products allowed the Group to maintain its leading position in the supply chain of domestic handsets, and to further increase its market share amongst domestic handsets makers. The Group's subsidiary established in the U.S. has been working to explore international renowned customers under this business segment, and conducting deep cooperation with leading global hi-tech companies in innovative applications of various mobile terminals, which successfully resulted in mass production for certain projects. In addition, the Group established Zhejiang Sunny Optics Intelligence Technology Co., Ltd. in Hangzhou lately, where the Group would carry out the development, marketing and sales of 3D intelligent optical products.

Optical Instruments

During the period under review, as affected by the European debt crisis and the slowdown in domestic economic growth, the demand for industrial instruments decreased. As a result, the revenue from the Optical Instruments business segment decreased by approximately 19.7% to approximately RMB90.5 million. This business segment accounted for approximately 2.0% of the Group's total revenue, as compared with approximately 2.9% in the corresponding period of last year.

During the period under review, the Group conducted technological upgrading of existing products and continuously advancing its delicacy management, so as to further enhance the performance and economic benefits of our products. The Group will capitalize on this opportunity to further increase its investment in R&D and the marketing of high-end optical instruments in order to foster 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. to provide technical support, marketing and customer base expansion in North America region.

OUTLOOK AND FUTURE STRATEGIES

Upholding the mission of building a stronger and bigger group, the management team of the Group strives to make progress with innovation based on the solid foundation. All businesses of the Group have obtained sound development under their leadership. During the period under review, the Group recorded strong performance. Although uncertainties will continue to overshadow the growth of the global economy, the Group basically remains positive on its full-year performance just like its attitude held at the beginning of the year. The Group has been accelerating its business transformation and upgrade, implementing its development strategies formulated at the beginning of the year and striving to maintain the sound development momentum seen in the first half of 2015.

1. **Continue in-depth exploration and dedicate to and focus on existing business strengths**

   During the period under review, the Group has utilized its business strengths and will continue to allocate resources to increase the proportion of sales of high-end handset lens sets and handset camera modules, and to increase the market share of these products, vehicle lens sets and optical instruments. Meanwhile, the Group will strengthen the market functions and enhance its market penetration power through its subsidiary in the U.S.. The Group will further implement "Lean Production", and improve its production management process with an aim to further enhance its management and control of production processing.

2. **Achieve breakthrough in existing emerging businesses and realize a balanced development**

   The Group aims to increase the sales of relevant products through further expansion and optimization of its sales channels of existing emerging businesses. At the same time, the Group will continue to explore new optical applications, especially the innovative optical applications on mobile devices. The Group will identify key emerging businesses by the manner of combination of self-development and cooperative development, to achieve the transformation from integrated optical product manufacturer to smart optical system and solution provider, and to realize its sustainable mid- to long-term development.

3. **Continue to enhance management performance and facilitate management innovation**

   The Group will strengthen its managerial function, improve its performance evaluation system, enhance its financial management capability, further promote technology innovation by focusing on "automation", and innovate its corporate culture and management style. These will help the Group adjust and fully utilize the resources, so as to achieve a more flexible management innovation.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarizes the Group's cash flows for the six months ended 30 June 2014 and 30 June 2015:

	For the six months ended 30 June	
	2015	2014
	RMB million	*RMB million*
Net cash from (used in) operating activities	**960.2**	(579.8)
Net cash (used in) from investing activities	**(808.9)**	349.1
Net cash (used in) from financing activities	**(35.8)**	211.5

The Group is self-sufficient and derives its working capital mainly from net cash generated from operating activities. The Board expects that the Group will rely on net cash from operating activities and bank borrowings in the short run to meet its working capital and other capital expenditure requirements. In the long run, the Group will be funded by net cash from operating activities and, if necessary, by additional equity financing. 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 RMB619.9 million as of 30 June 2015, representing an increase of approximately RMB115.5 million when compared to the beginning of this year.

Capital Expenditure

For the six months ended 30 June 2015, the Group's capital expenditure amounted to approximately RMB160.3 million, which was mainly used for the purchases of property, plant and equipment and other tangible assets. All of the capital expenditure was financed by internal resources and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Borrowings

Bank borrowings of the Group as of 30 June 2015 amounted to approximately RMB677.3 million (31 December 2014: approximately RMB521.6 million). Pledged bank deposit of the Group amounting to approximately RMB153.2 million (31 December 2014: approximately RMB4.4 million) was arranged.

As of 30 June 2015, all bank borrowings were denominated in U.S. Dollars. The gearing ratio of the Group by reference to the total debt to total book capitalization ratio (total book capitalization means the sum of total liabilities and shareholders' equity) was approximately 9.9%, reflecting that the Group's financial position was at a sound level.

Bank facilities

As of 30 June 2015, the Group had bank facilities of RMB545.0 million with Yuyao Branch of Agricultural Bank of China, USD25.0 million with Yuyao Branch of Ningbo Bank, USD22.0 million with BNP Paribas Hong Kong Branch, USD50.0 million with BNP Paribas (China) Limited, USD38.0 million with Oversea-Chinese Banking Corporation Limited, Hong Kong Branch, USD21.0 million with The Hong Kong and Shanghai Banking Corporation Limited, USD15.0 million with Yuyao Branch of Bank of Communication and RMB80.0 million with Ningbo Branch of Huaxia Bank.

Debt securities

As of 30 June 2015, the Group did not have any debt securities.

Contingent Liabilities

As of 30 June 2015, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as of 30 June 2015, except for the pledged bank deposits of RMB153.2 million.

Capital Commitments

As of 30 June 2015, 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 RMB92.7 million (31 December 2014: approximately RMB64.7 million).

As of 30 June 2015, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2015, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS

The Group's investing activities mainly include the purchase and redemption of financial assets designated as at FVTPL, 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 2015, the Group's investments amounted to approximately RMB160.3 million, mainly involving in the purchases of machinery and equipment, as well as the initial production settings of new products and the necessary equipment configurations of new projects. These investments enhanced the capabilities of the Group's R&D and technology applications as well as production efficiency, and thus broadening the sources of revenue.

The Group adopts prudent financial policies, and therefore its investment projects are mostly principal-protected with fixed income. The Group can guarantee stable and healthy financial positions while improving its returns.

Going forward, the Group intends to invest further in and expand its production capacity in order to enhance competitiveness.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks on its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. Upward fluctuations in interest rates increase the costs of both existing and new debts. For the six months ended 30 June 2015, the effective interest rate on fixed-rate bank borrowings was approximately 1.96% per annum.

FOREIGN EXCHANGE RATE FLUCTUATION RISK

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

EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 16,142 dedicated full-time employees as of 30 June 2015, including 2,360 management and administrative staff, 13,453 production workers and 329 operation supporting staff. In line with the performance of the Company and individual employees, a competitive remuneration package is offered to retain elite employees, including salaries, medical insurance, discretionary bonuses, other fringe benefits as well as mandatory provident fund scheme for employees in Hong Kong and state-managed retirement benefit scheme for employees in the PRC. The Group has also adopted a share option scheme (the "Scheme") and a Restricted Share Award Scheme, for the purposes of providing incentives and rewards to eligible participants to recognize their contribution to the Group and enhance their ownership spirits. For the six months ended 30 June 2015, no share option was granted or agreed to be granted by the Company under the Scheme. In addition, during the six months period ended 30 June 2015, 3,480,000 shares was granted to eligible participants in accordance with the Restricted Share Award Scheme.

OTHER INFORMATION

A. PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Companies Law of the Cayman Islands and the Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries with the exception of purchases by the trustee of the Restricted Share Award Scheme, of the Company's listed shares during the six months ended 30 June 2015.

B. SHARE OPTION SCHEME

On 25 May 2007, the Company adopted 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 Scheme include, without limitation, employees, Directors and shareholders of the Group. Up to 30 June 2015, no share option has been granted or agreed to be granted to any person or exercised by any person 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 talents as well as motivating and retaining its current staff. 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 the Note 20 of the condensed consolidated financial statements. For the six months ended 30 June 2015, 3,480,000 shares were granted to eligible participants in accordance with the Restricted Share Award Scheme.

D. CORPORATE GOVERNANCE

Code of Corporate Governance Practices

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures 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 2015, the Company complied with all code provisions and adopted most of the recommended best practices of the Code on Corporate Governance Practices ("**Corporate Governance Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rule**").

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 of the Listing Rules, and after having made specific enquiry with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the six months period ended 30 June 2015.

Corporate Social Responsibilities

As the Group's continuous efforts to perform its corporate social responsibilities ("**CSR**"), the management of the Group monitored the development, implementation and results of the initiatives carried out by different departments of the Group, in which the CSR objectives and environmental, social and governance standards have been integrated into their operations and activities.

During the period under review, as concerning environmental protection, the Group has observed relevant regulations such as EU RoHS, EU REACH regulation and the halogen-free standard. The Group required suppliers to provide the harmful substance test reports issued by third-party laboratories and to sign the Group's environmental warranty, and conducted long-term quality monitoring and periodic review over its suppliers. The Group set up a quality assurance group to improve the safety and quality of its products, raised the frequency and level of inspections at the beginning of mass production, promptly followed up on product quality, and developed special testing equipment to carry out internal quality control. The Group constantly provided on-job education and training for its employees to improve their knowledge and expertise, the 4-hour "TRIZ Innovative Training" for its technological development engineers, the 4-hour "Optical Technology Application and 3D Printing Technology Training" for its middle to senior management and technical personnel. Other relevant trainings on on-site management, lean on-site improvements and 6S on-site management were provided for an aggregate of 24 hours for middle and junior management members of the manufacturing team. The Group arranged its key staff at all levels to attend engineering master, undergraduate and college education, in order to improve the education level of its employees.

E. AUDIT COMMITTEE

The audit committee comprises of 3 independent non-executive Directors, namely, Mr. Zhang Yuqing as Committee Chairman, Mr. Chu Peng Fei Richard and Dr. Liu Xu. The audit committee and the Company's external auditor have reviewed and discussed matters relating to auditing, internal controls and financial statements, including a review of the unaudited condensed consolidated financial statements for the six months ended 30 June 2015.

F. INVESTOR RELATIONS AND COMMUNICATIONS

The Company recognises the importance of the shareholders' right to understand its businesses and prospects, and therefore has always taken a proactive approach to communicate with the investment community, including institutional investors and retail investors. The Company has adopted a shareholders' communication policy to formalise and facilitate the effective and healthy communication between the Company, its shareholders and other stakeholders. The policy is available on the website of the Group.

Newsletter is sent to investors every month to improve the Group's transparency. Immediately after the annual results announcement in March, the Company held a results announcement presentation in Hong Kong and successively participated in a couple of one-on-one meetings globally, which included 1 post-results briefing, 1 reverse roadshow, 5 non-deal roadshows, and participated in 10 investors' forums and conferences in order to maintain close relationship with the investors.

Shareholders of the Company are recommended to visit the Company's website (www.sunnyoptical.com) from time to time, where up-to date information of the Group can be accessed.

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

Hong Kong, 24 August 2015

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