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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)**

### **INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016**

#### **RESULT HIGHLIGHTS**

- The Group's unaudited consolidated revenue for the six months ended 30 June 2016 was approximately RMB5,909.6 million, representing an increase of approximately 27.1% as compared with the corresponding period of last year. The increase in revenue mainly benefited from the Company's development in the smartphone and vehicle imaging market.
- The gross profit for the six months ended 30 June 2016 was approximately RMB988.0 million, representing an increase of approximately 36.8% as compared with the corresponding period of last year. The gross profit margin was approximately 16.7%.
- The net profit for the six months ended 30 June 2016 increased by approximately 50.4% to approximately RMB465.0 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 was approximately 7.9%.

#### **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 2016, together with the comparative figures for the corresponding period in the year 2015 as follows:

## Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	NOTES	Six months ended 30 June	
		2016 RMB'000 (unaudited)	2015 RMB'000 (unaudited)
Revenue	3	5,909,615	4,651,228
Cost of sales		<u>(4,921,633)</u>	<u>(3,929,186)</u>
Gross profit		987,982	722,042
Other income	4	43,577	37,929
Other gains and losses	5	24,078	(3,422)
Selling and distribution expenses		(63,612)	(43,776)
Research and development expenditure		(273,567)	(236,736)
Administrative expenses		(147,419)	(117,984)
Share of results of associates		(9,945)	(375)
Finance costs		<u>(8,609)</u>	<u>(8,699)</u>
Profit before tax		552,485	348,979
Income tax expense	6	<u>(87,497)</u>	<u>(39,905)</u>
Profit for the period	7	<u>464,988</u>	<u>309,074</u>
Other comprehensive income (expense)			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences arising on translation of foreign operations		<u>7,964</u>	<u>(289)</u>
Total comprehensive income for the period		<u><u>472,952</u></u>	<u><u>308,785</u></u>
Profit (loss) for the period attributable to:			
Owners of the Company		465,274	307,650
Non-controlling interests		<u>(286)</u>	<u>1,424</u>
		<u>464,988</u>	<u>309,074</u>
Total comprehensive income attributable to:			
Owners of the Company		469,347	307,388
Non-controlling interests		<u>3,605</u>	<u>1,397</u>
		<u><u>472,952</u></u>	<u><u>308,785</u></u>
Earnings per share – Basic (RMB cents)	8	43.21	28.70
– Diluted (RMB cents)	8	<u>42.82</u>	<u>28.28</u>

## Condensed Consolidated Statement of Financial Position

At 30 June 2016

		<b>30 June 2016</b>	31 December 2015
	<i>NOTES</i>	<i>RMB'000</i> (unaudited)	<i>RMB'000</i> (audited)
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	<i>10(a)</i>	<b>1,275,377</b>	1,140,809
Prepaid lease payments	<i>10(c)</i>	<b>141,789</b>	113,003
Investment properties	<i>10(b)</i>	<b>15,401</b>	15,836
Intangible assets		<b>3</b>	6
Interests in associates	<i>13</i>	<b>100,495</b>	110,440
Deferred tax assets		<b>7,792</b>	5,700
Deposits paid for acquisition of property, plant and equipment	<i>11</i>	<b>180,405</b>	137,043
Available-for-sale investments	<i>12</i>	<b>67,672</b>	67,672
Deposits paid for acquisition of a land use right	<i>15</i>	<b>27,741</b>	27,741
Derivative financial assets	<i>16</i>	<b>–</b>	947
		<b>1,816,675</b>	1,619,197
<b>CURRENT ASSETS</b>			
Inventories	<i>14</i>	<b>1,398,070</b>	896,962
Trade and other receivables and prepayment	<i>15</i>	<b>3,439,433</b>	3,002,950
Prepaid lease payments	<i>10(c)</i>	<b>3,838</b>	3,337
Derivative financial assets	<i>16</i>	<b>4,385</b>	16,108
Financial assets designated as at fair value through profit or loss	<i>17</i>	<b>1,363,141</b>	1,708,270
Amounts due from related parties	<i>24(c)</i>	<b>903</b>	1,215
Pledged bank deposits	<i>18</i>	<b>187,093</b>	129,559
Short term fixed deposits	<i>18</i>	<b>112,854</b>	71,916
Bank balances and cash	<i>18</i>	<b>309,922</b>	186,780
		<b>6,819,639</b>	6,017,097
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>19</i>	<b>3,612,534</b>	2,914,402
Amounts due to related parties	<i>24(c)</i>	<b>2,759</b>	3,114
Derivative financial liabilities	<i>16</i>	<b>55,480</b>	103,929
Tax payable		<b>44,617</b>	21,128
Borrowings	<i>20</i>	<b>747,991</b>	683,239
Deferred income – current portion	<i>25</i>	<b>22,031</b>	13,609
		<b>4,485,412</b>	3,739,421
<b>NET CURRENT ASSETS</b>		<b>2,334,227</b>	2,277,676
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>4,150,902</b>	3,896,873

	<i>NOTES</i>	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
<b>NON-CURRENT LIABILITIES</b>			
Deferred tax liabilities		<b>24,757</b>	19,201
Derivative financial liabilities	<i>16</i>	–	1,932
Other payable	<i>19</i>	<b>2,817</b>	6,347
Deferred income – non-current portion	<i>25</i>	<b>25,638</b>	24,502
		<u><b>53,212</b></u>	<u>51,982</u>
<b>NET ASSETS</b>		<u><b>4,097,690</b></u>	<u>3,844,891</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>21</i>	<b>105,177</b>	105,177
Reserves		<b>3,975,472</b>	3,725,806
Equity attributable to owners of the Company		<u><b>4,080,649</b></u>	<u>3,830,983</u>
Non-controlling interests		<b>17,041</b>	13,908
<b>TOTAL EQUITY</b>		<u><b>4,097,690</b></u>	<u>3,844,891</u>

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

## 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 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2015.

### *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 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle

The Directors of the Company anticipate that the application of the above 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, results, total assets and total liabilities by operating and reportable segments:

**For the six months ended 30 June 2016**

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Eliminations <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
<b>Revenue</b>						
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	<u>1,443,683</u>	<u>4,507,323</u>	<u>114,080</u>	<u>6,065,086</u>	<u>(155,471)</u>	<u>5,909,615</u>
Segment profit (loss)	<u>361,688</u>	<u>200,398</u>	<u>(4,885)</u>	<u>557,201</u>	<u>-</u>	<u>557,201</u>
Share of results of associates						(9,945)
Unallocated income						37,711
Unallocated expenses						<u>(32,482)</u>
Profit before tax						<u>552,485</u>

**As at 30 June 2016**

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Unallocated <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
Total assets	<u>1,045,925</u>	<u>3,441,998</u>	<u>68,368</u>	<u>4,556,291</u>	<u>4,080,023</u>	<u>8,636,314</u>
Total liabilities	<u>(369,974)</u>	<u>(2,623,464)</u>	<u>(30,703)</u>	<u>(3,024,141)</u>	<u>(1,514,483)</u>	<u>(4,538,624)</u>

**For the six months ended 30 June 2015**

	Optical Components <i>RMB'000</i> (unaudited)	Optoelectronic Products <i>RMB'000</i> (unaudited)	Optical Instruments <i>RMB'000</i> (unaudited)	Segments' total <i>RMB'000</i> (unaudited)	Eliminations <i>RMB'000</i> (unaudited)	Total <i>RMB'000</i> (unaudited)
<b>Revenue</b>						
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)	-
<b>Total</b>	<u>1,117,119</u>	<u>3,569,382</u>	<u>90,811</u>	<u>4,777,312</u>	<u>(126,084)</u>	<u>4,651,228</u>
<b>Segment profit</b>	<u>215,535</u>	<u>147,128</u>	<u>646</u>	<u>363,309</u>	<u>-</u>	<u>363,309</u>
Share of results of associates						(375)
Unallocated income						2,320
Unallocated expenses						(16,275)
<b>Profit before tax</b>						<u>348,979</u>

**As at 31 December 2015**

	Optical Components <i>RMB'000</i> (audited)	Optoelectronic Products <i>RMB'000</i> (audited)	Optical Instruments <i>RMB'000</i> (audited)	Segments' total <i>RMB'000</i> (audited)	Unallocated <i>RMB'000</i> (audited)	Total <i>RMB'000</i> (audited)
Total assets	<u>961,865</u>	<u>2,702,545</u>	<u>66,676</u>	<u>3,731,086</u>	<u>3,905,208</u>	<u>7,636,294</u>
Total liabilities	<u>(419,414)</u>	<u>(2,071,581)</u>	<u>(44,445)</u>	<u>(2,535,440)</u>	<u>(1,255,963)</u>	<u>(3,791,403)</u>

Segment profit (loss) represents the profit (loss) earned by each segment without allocation of central administration costs, Directors' salaries, certain 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	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants ( <i>Note 25</i> )	9,069	13,985
Bank interest income	1,293	1,014
Interest income from short term fixed deposits	590	1,074
Interest income from pledged deposits	596	1,202
Interest income from financial assets designated at FVTPL	25,866	14,286
Income from sales of moulds	307	1,036
Income from sales of scrap materials	1,032	1,235
Rental income and recharge of utilities	2,348	1,472
Others	2,476	2,625
	<u>43,577</u>	<u>37,929</u>

#### 5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net foreign exchange losses	(10,903)	(5,281)
Gain on disposal of property, plant and equipment	317	328
Allowance for bad and doubtful debts on trade receivables, net	(3,047)	(789)
Gains on changes in fair value of derivative financial instruments, net	37,711	2,320
	<u>24,078</u>	<u>(3,422)</u>



## 6. INCOME TAX EXPENSE

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(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%	<b>84,034</b>	34,504
Deferred tax:		
– Current period	<b>3,463</b>	5,401
	<b>87,497</b>	39,905

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

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Auditor’s remuneration	<b>1,149</b>	1,173
Depreciation of property, plant and equipment	<b>140,472</b>	124,765
Depreciation of investment properties	<b>435</b>	–
Release of prepaid lease payments	<b>1,610</b>	1,610
Allowance for (reversal of allowance for) inventories	<b>11,074</b>	(6)

## 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:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(unaudited)
<b>Earnings</b>		
Earnings for the purposes of basic and diluted earnings per share	<b>465,274</b>	307,650
<b>Number of shares</b>	<b>'000</b>	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>1,076,711</b>	1,071,917
Effect of dilutive potential ordinary shares-restricted shares	<b>9,852</b>	15,802
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>1,086,563</b>	1,087,719

## 9. DIVIDENDS

Six months ended 30 June	
2016	2015
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(unaudited)

Dividends recognised as distribution during the period:

Final dividend paid in 2016 for 2015 of HK\$24.90 cents per share,  
approximately RMB20.80 cents per share (2015: HK\$19.00 cents per share  
for 2014, approximately RMB15.50 cents per share)

<b>228,176</b>	<b>170,035</b>
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The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2016 (the corresponding period of 2015: 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 RMB281,554,000 (the corresponding period of 2015: RMB141,879,000) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed of certain of its plants and equipment with a carrying amount of approximately RMB6,585,000 (the corresponding period of 2015: RMB1,413,000), resulted in a gain of approximately RMB317,000 (the corresponding period of 2015: RMB328,000)

As at 30 June 2016, certain buildings of the Group with aggregated net book value of approximately RMB84,048,000 were pledged to secure bank borrowings granted (Note 20).

### (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 RMB15,836,000 as at 31 December 2015. During the current interim period, a depreciation charge of RMB435,000 (the corresponding period of 2015: nil) was recognised in profit or loss and the carrying value of investment properties was amounted to RMB15,401,000 as at 30 June 2016.

### (c) Prepaid lease payments

30 June	31 December
2016	2015
<i>RMB'000</i>	<i>RMB'000</i>
(unaudited)	(audited)

Analysed for reporting purpose as:

Current assets	3,838	3,337
Non-current assets	<b>141,789</b>	113,003
	<b>145,627</b>	<b>116,340</b>

During the current interim period, the Group acquired a piece of leasehold land located in the PRC amounting to RMB30,897,000 (the corresponding period of 2015: nil).

As at 30 June 2016, certain lands of the Group with aggregated net book value of approximately RMB104,448,000 were pledged to secure bank borrowings granted (Note 20).

## 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 2016 or 2017.

During the current interim period, the Group paid an amount of approximately RMB149,023,000 (the corresponding period of 2015: RMB76,000,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB105,661,000 (the corresponding period of 2015: RMB54,793,000) to property, plant and equipment.

## 12. AVAILABLE-FOR-SALE INVESTMENTS

	<b>30 June 2016</b>	31 December 2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Unlisted equity securities	<b>67,672</b>	67,672

As at 30 June 2016 and 31 December 2015, as all the investment represents less than 20% of attributable equity interest of the investees and that the Group has no controlling power or significant influence over the management and the operation of the investees, the investments are classified as available-for-sale investments by the Group.

## 13. INTERESTS IN ASSOCIATES

	<b>30 June 2016</b>	31 December 2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Cost of investment in unlisted associates	<b>134,907</b>	134,907
Share of post-acquisition profit or loss and other comprehensive income or expenses, net of dividends received	<b>(24,415)</b>	(14,470)
Impairment loss recognised	<b>(9,997)</b>	(9,997)
	<b>100,495</b>	110,440

As at 30 June 2016, the Group held approximately (i) 30.85% (31 December 2015: 30.85%) of ownership interests in Visiondigi (Shanghai) Technology Co., Ltd., (ii) 26% (31 December 2015: 26%) of ownership interests in Jiangsu Sunny Medical Equipments Co., Ltd., (iii) 27.47% (31 December 2015: 27.47%) of ownership interests in Yuyao City Sunny Huitong Microcredit Co. Ltd., and (iv) 32.61% (31 December 2015: 32.61%) of ownership interests in Wuxi Wissen Intelligent Sensing Technology Co., Ltd..

## 14. INVENTORIES

	<b>30 June 2016</b>	31 December 2015
	<b>RMB'000</b>	RMB'000
	<b>(unaudited)</b>	(audited)
Raw materials	<b>283,222</b>	229,185
Work in progress	<b>155,992</b>	47,850
Finished goods	<b>958,856</b>	619,927
	<b>1,398,070</b>	896,962

## 15. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
<b>Current assets</b>		
Trade receivables	2,970,663	2,447,368
Less: allowance for doubtful debts	(7,658)	(4,611)
	<u>2,963,005</u>	<u>2,442,757</u>
Bill receivables	<u>195,214</u>	391,367
Other receivables and prepayment:		
Value added tax and other tax receivables	150,143	18,155
Individual income tax receivable from employees	36,127	45,819
Advance to suppliers	41,141	39,380
Interest receivables	1,986	6,167
Prepaid expenses	19,330	30,926
Rental and utilities deposits	15,185	14,985
Others	17,302	13,394
	<u>281,214</u>	<u>168,826</u>
Total trade and other receivables and prepayment	<u><u>3,439,433</u></u>	<u><u>3,002,950</u></u>
<b>Non-current asset</b>		
Deposits paid for acquisition of a land use right ( <i>Note</i> )	<u><u>27,741</u></u>	<u><u>27,741</u></u>

*Note:* During the year ended 31 December 2014, the Group acquired a land use right at the public auction at a cash consideration of RMB27,033,000 together with the stamp duty of RMB708,000 which has been paid by the Group and disclosed as the deposit paid for acquisition of a land use right.

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.

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Within 90 days	2,894,400	2,401,786
91 to 180 days	64,602	40,146
Over 180 days	4,003	825
	<u><u>2,963,005</u></u>	<u><u>2,442,757</u></u>

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

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Within 90 days	171,794	287,129
91 to 180 days	<u>23,420</u>	<u>104,238</u>
<b>Total</b>	<b><u>195,214</u></b>	<b><u>391,367</u></b>

Movement in the allowance for doubtful debts:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Balance at beginning of the reporting period	4,611	5,953
Impairment losses recognised on receivables	3,773	3,702
Impairment losses reversed	<u>(726)</u>	<u>(5,044)</u>
<b>Balance at end of the reporting period</b>	<b><u>7,658</u></b>	<b><u>4,611</u></b>

## 16. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	<b>Assets</b>		<b>Liabilities</b>	
	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
<b>Current assets</b>				
Foreign currency forward contracts	–	5,485	–	6,238
Foreign currency options contracts	<u>4,385</u>	<u>10,623</u>	<u>55,480</u>	<u>97,691</u>
<b>Total</b>	<b><u>4,385</u></b>	<b><u>16,108</u></b>	<b><u>55,480</u></b>	<b><u>103,929</u></b>
<b>Non-current assets</b>				
Foreign currency options contracts	<u>–</u>	<u>947</u>	<u>–</u>	<u>1,932</u>

As at 30 June 2016 and 31 December 2015, the Group had entered into the following foreign currency forward contracts and foreign currency options contracts:

#### Foreign currency forward contracts

	Selling currency	Receiving currency	Maturity date	Weighted average forward exchange rate
Contract A	USD15,000,000	RMB92,700,000	10 March 2016	USD:RMB at 1:6.18
Contract B	RMB92,100,000	USD15,000,000	10 March 2016	USD:RMB at 1:6.14

Both contract A and contract B had expired during the period ended 30 June 2016.

#### 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 a series of the valuation dates specified within the respective contracts ("Valuation Date").

At each Valuation Date, the Reference Rate<sup>+</sup> 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 relevant banks an amount as specified in the contracts if certain conditions specified within the respective contracts are met.

+ 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:

	Total notional amount	Strike/barrier rates	Last Settlement Date
Contract C	70,000	USD:RMB at 1:6.6/6.8	13 January 2017
Contract D	180,000	USD:RMB at 1:6.8	15 December 2016
Contract E	195,000	USD:RMB at 1:6.185/6.4/6.5	11 July 2017
Contract F	195,000	USD:RMB at 1:6.4/6.5	11 July 2017
Contract G	195,000	USD:RMB at 1:6.4/6.5	11 July 2017

## 17. 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. All the structured deposits as at 30 June 2016 were 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 4.10% (31 December 2015: 1.80% to 5.60%) per annum.

In the opinion of the Directors of the Company, the fair value of the structured deposits at 30 June 2016 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 with carrying value at approximately RMB1,066,240,000 as at 30 June 2016 have been matured after the reporting period ended 30 June 2016 at their principal amounts together with returns which approximated the expected return.

## 18. PLEDGED BANK DEPOSITS/SHORT TERM FIXED DEPOSITS/BANK BALANCES AND CASH

During the current interim period, bank balances, represent saving accounts and deposits, carry interest at market saving rates at 0.35% (31 December 2015: 0.35%) per annum, short term fixed deposits carry fixed interest rates ranging from 1.29% to 2.15% (31 December 2015: 1.82% to 5.00%) per annum and pledged bank deposits carry interest rates ranging from 1.0% to 1.35% (31 December 2015: 1.0% to 1.35%) per annum. Short term fixed deposits have original maturity dates less than one year and therefore classified as current assets.

## 19. TRADE AND OTHER PAYABLES

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

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
<b>Current liabilities</b>		
Trade payables		
Within 90 days	2,424,024	1,685,666
91 to 180 days	251,976	166,341
Over 180 days	11,188	6,125
Accrued purchases	212,170	220,773
	<u>2,899,358</u>	<u>2,078,905</u>
Total trade payables		
	<u>2,899,358</u>	<u>2,078,905</u>
Note payables		
Within 90 days	340,342	412,836
91 to 180 days	3,560	43,699
	<u>343,902</u>	<u>456,535</u>
Other payables		
Payables for purchase of property, plant and equipment	29,544	20,825
Payable for acquisition of assets (Note 1)	4,233	4,233
Staff salaries and welfare payables	188,120	199,099
Advances from customers	50,121	29,580
Value added tax payables and other tax payables	39,208	52,966
Technology grant payables (Note 2)	11,081	9,405
Commission payables	8,233	10,576
Accrued research and development expenses	18,384	18,352
Rental and utilities payable	3,754	9,848
Payable for acquisition of an associate	-	6,000
Others	16,596	18,078
	<u>369,274</u>	<u>378,962</u>
	<u>3,612,534</u>	<u>2,914,402</u>
<b>Non-current liability</b>		
Other payable		
Payable for acquisition of assets (Note 1)	2,817	6,347
	<u>2,817</u>	<u>6,347</u>

The credit period on purchases of goods is up to 180 days (2015: 180 days) and the credit period for note payables is 90 days to 180 days (2015: 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.

*Note 1:* The balance represents the unpaid cash consideration for the acquisition of assets from Konica Minolta Optical Products (Shanghai) Co., Ltd. which were unsecured and interest free. According to the relevant agreements, the Group is required to settle the purchase consideration in 5 yearly instalments, with the last payment in 2018.

*Note 2:* Shanghai Sunny Hengping Scientific Instrument Co., Ltd., Ningbo Sunny Opotech Co. Ltd. and Sunny Group Limited cooperated with several business partners to perform development and research projects on hi-tech products. The technology grant payables represent the government grants received on behalf of other business parties.

## **20. BORROWINGS**

During the current interim period, the Group obtained new bank borrowings with amounts of approximately RMB328,304,000 (the corresponding period of 2015: RMB290,775,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately RMB263,552,000 (the corresponding period of 2015: RMB135,027,000) were made in line with the relevant repayment terms.

As at 30 June 2016 and 31 December 2015, the borrowings with a total amount of approximately RMB527,991,000 (31 December 2015: RMB442,001,000) were denominated in United States Dollar. The Group's borrowings carried fixed interest rate with weighted average interest rate of 2.27% (31 December 2015: 2.52%) per annum.

As at 30 June 2016, borrowings amounted to RMB220,000,000 (31 December 2015: RMB220,000,000) are secured by certain buildings and lands of the Group with aggregated carrying value of approximately RMB188,496,000 (Note 10(a)).

## **21. SHARE CAPITAL**

Issued share capital as at 30 June 2016 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.



## 22. 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:

	<b>Weighted average fair value (per share) HKD</b>	<b>No. of Restricted Shares ( '000)</b>
At 1 January 2015 (audited)	6.385	25,779
Lapsed	7.933	(423)
Vested	5.517	(11,016)
Granted	<u>15.527</u>	<u>5,718</u>
At 31 December 2015 and 1 January 2016 (audited)	9.405	20,058
Lapsed	18.074	(34)
Vested	8.646	(3,917)
Granted ( <i>Note</i> )	<u>24.200</u>	<u>2,154</u>
As at 30 June 2016 (unaudited)	<u><u>11.297</u></u>	<u><u>18,261</u></u>

The equity-settled share-based payments expense charged to profit or loss was approximately RMB39,227,000 for the current interim period (the corresponding period of 2015: RMB27,666,000).

*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:

<b>Restricted shares</b>	<b>Scale</b>
2,154,428 shares	One-half

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

## 23. COMMITMENTS

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	<u><u>79,490</u></u>	<u><u>126,263</u></u>

## 24. RELATED PARTY DISCLOSURES

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

<b>Name</b>	<b>Principal activities</b>	<b>Relationship</b>
Ningbo Sunny Electronic Limited ("Ningbo SST")*	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")*	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
Shanghai Shuangquan Scientific Instruments Company Limited ("Shuangquan")*	Distribution and sale of scientific instruments	Company controlled by a close family member of the shareholder of Shanghai 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 for optical instruments	Company controlled by a close family member of the Company's director, Mr. Ye Liaoning with significant influence on the Group
Jiangsu Sunny Medical Equipments Co., Ltd. ("Jiangsu Medical")*	Manufacture and sale 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' senior management, Mr. Zhang Guoxian
Wuxi Wissen Intelligent Sensing Technology Co. Ltd. ("Wissen")*	Research and development of imaging motion sensors	An associate 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

\* The English name is for identification purpose only.

(b) Transactions with related parties

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<b>Sales of goods</b>		
Ningbo SST	184	349
舜藝光學	597	391
Shuangquan	329	383
Jiangsu Medical	599	515
Wissen	150	–
	<u>1,859</u>	<u>1,638</u>
<b>Sales of raw materials</b>		
舜藝光學	–	330
	<u>–</u>	<u>330</u>
<b>Purchase of raw materials</b>		
益康	36	231
Movidius	84	–
舜藝光學	3,974	3,690
Xingli	–	3
	<u>4,094</u>	<u>3,924</u>
<b>Utilities and rental income</b>		
Wissen	523	–
	<u>523</u>	<u>–</u>
<b>Property rental and utilities expenses</b>		
舜藝光學	119	–
Ningbo SST	517	–
	<u>636</u>	<u>–</u>
<b>Gain (loss) on disposal of property, plant and equipment</b>		
舜藝光學	618	(44)
	<u>618</u>	<u>(44)</u>

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:

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Current assets:		
Amounts due from related parties		
Ningbo SST	685	662
Shuangquan	25	62
舜藝光學	7	203
Wissen	186	288
	<u>903</u>	<u>1,215</u>
Current liabilities:		
Amounts due to related parties		
舜藝光學	2,746	3,023
Ningbo SST	-	23
益康	13	68
	<u>2,759</u>	<u>3,114</u>

All of the above amounts are of a trade nature, unsecured, interest free and repayable on demand.

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

	<b>30 June 2016 RMB'000 (unaudited)</b>	31 December 2015 RMB'000 (audited)
Current assets:		
Within 90 days	<u>903</u>	<u>1,215</u>
Current liabilities:		
Within 90 days	<u>2,759</u>	<u>3,114</u>

The Group allows a credit period of 90 days to related party trade receivables (31 December 2015: 90 days). The average credit period on purchases of goods from related parties is 90 days (31 December 2015: 90 days).

(d) Compensation of key management personnel

	Six months ended 30 June	
	2016 <i>RMB'000</i> (unaudited)	2015 <i>RMB'000</i> (unaudited)
Short-term benefits	5,202	3,970
Post-employment benefits	278	241
Share award scheme benefits	4,397	2,216
	<u>9,877</u>	<u>6,427</u>

25. DEFERRED INCOME

	Six months ended 30 June	
	2016 <i>RMB'000</i> (unaudited)	2015 <i>RMB'000</i> (unaudited)
Amounts credited to profit or loss during the period:		
Subsidies related to technology enhancement of production lines	3,625	3,570
Subsidies related to research and development of technology projects	4,162	7,164
Incentive subsidies	1,282	3,251
	<u>9,069</u>	<u>13,985</u>
	30 June 2016 <i>RMB'000</i> (unaudited)	31 December 2015 <i>RMB'000</i> (audited)
Deferred income related to government grants:		
Subsidies related to technology enhancement of production lines	15,406	19,031
Subsidies related to research and development of technology projects	32,263	19,080
	<u>47,669</u>	<u>38,111</u>
Total		
Less: current portion	<u>(22,031)</u>	<u>(13,609)</u>
Non-current portion	<u>25,638</u>	<u>24,502</u>

## 26. 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	30 June 2016 (unaudited)	Fair value as at 31 December 2015 (audited)	Fair value hierarchy	Valuation technique and key inputs
Financial assets designated as at fair value through profit or loss	<b>Bank deposits in the PRC with non-closely related embedded derivative: RMB1,363,141,000</b>	Bank deposits in the PRC with non-closely related embedded derivatives: RMB1,708,270,000	Level 3	Discounted cash flows  Key unobservable inputs are: (1) expected yields of debt instruments invested by banks (Note) (2) a discount rate that reflects the credit risk of the banks (Note)
Foreign currency forward contracts classified as derivatives financial assets and liabilities	<b>Current derivative financial assets: Nil</b>  <b>Current derivative financial liabilities: Nil</b>	Current derivative financial assets: RMB5,485,000  Current derivative financial liabilities: RMB6,238,000	Level 2	Discounted cash flows  Key input: A discount rate that reflects the credit risk of the banks
Foreign currency options contracts classified as derivatives financial assets and liabilities	<b>Current derivative financial assets: RMB4,385,000</b>  <b>Current derivative financial liabilities: RMB55,480,000</b>	Current and non-current derivative financial assets: RMB11,570,000  Current and non-current derivative financial liabilities: RMB99,623,000	Level 2	Black-Scholes model  Key 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 and the discount rate applied 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.

## Reconciliation of Level 3 fair value measurements of financial assets

	<b>Financial assets designated as at fair value through profit or loss RMB'000</b>
At 1 January 2015	374,946
Purchases	5,659,390
Release	<u>(5,208,349)</u>
At 30 June 2015	<u><u>825,987</u></u>
At 1 January 2016	<b>1,708,270</b>
Purchases	<b>10,006,791</b>
Release	<u><b>(10,351,920)</b></u>
At 30 June 2016	<u><u><b>1,363,141</b></u></u>

### Fair value measurements and valuation processes

The Board of Directors of the Company has set up a team, which is headed up by the Chief Financial Officer of the Company, to determine the appropriate valuation techniques and inputs for fair value measurement.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the team will assess the valuation of financial instruments based on discounted cash flow and will exercise their judgements based on their experience to establish and determine the appropriate valuation techniques and inputs to valuation model at the end of each reporting period. The Chief Financial Officer reports the team's findings to the Board of Directors at the end of each reporting period to explain the cause of fluctuations in the fair value of the Assets and Liabilities.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities are disclosed above.

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 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 events affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2015.

## FINANCIAL REVIEW

### Revenue

The Group's revenue for the six months ended 30 June 2016 increased by approximately 27.1% or approximately RMB1,258.4 million to approximately RMB5,909.6 million as compared with the corresponding period of last year. The increase in revenue mainly benefited from the Company's development in the smartphone and vehicle imaging markets.

Revenue generated from the Optical Components business segment increased by approximately 30.2% or approximately RMB299.2 million to approximately RMB1,291.0 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 sales prices of handset lens sets.

Revenue generated from the Optoelectronic Products business segment increased by approximately 26.2% or approximately RMB936.6 million to approximately RMB4,505.5 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the increase in average sales prices of handset camera modules and other optoelectronic products.

Revenue generated from the Optical Instruments business segment increased by approximately 25.0% or approximately RMB22.6 million to approximately RMB113.1 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the Company's increased efforts in promoting the technology upgrade and market expansion of its products.



## **Gross Profit and Margin**

The Group's gross profit for the six months ended 30 June 2016 was approximately RMB988.0 million, and the gross profit margin was approximately 16.7%, which was approximately 1.2-percentage point higher than that for the corresponding period of last year. The improvement in gross profit margin was mainly due to the rapid growth in the sales of the products under 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 the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 38.2%, 8.7% and 38.4%, respectively (corresponding period of 2015: approximately 32.5%, 9.1% and 35.2%, respectively).

## **Selling and Distribution Expenses**

The Group's selling and distribution expenses for the six months ended 30 June 2016, increased by approximately 45.3% or approximately RMB19.8 million to approximately RMB63.6 million as compared with the corresponding period of last year, accounting for approximately 1.1% of the Group's revenue, which was approximately 0.2-percentage point higher 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**

The Group's R&D expenditure for the six months ended 30 June 2016 increased by approximately 15.6% or approximately RMB36.8 million to approximately RMB273.6 million as compared with the corresponding period of last year. It accounted for approximately 4.6% of the Group's revenue during the period under review, which was approximately 0.5-percentage point lower than that for the corresponding period of last year. The increase in absolute amounts 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- and high-end optical instruments and the upgrade of existing product categories.

## **Administrative Expenses**

The Group's administrative expenses for the six months ended 30 June 2016 increased by approximately 24.9% or approximately RMB29.4 million to approximately RMB147.4 million as compared with the corresponding period of last year. It accounted for approximately 2.5% of the Group's revenue during the period under review, which was the same 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 and the corresponding increase of relevant fringe benefits.

## **Income Tax Expense**

The Group's income tax expense for the six months ended 30 June 2016 increased by approximately 119.3% or approximately RMB47.6 million to approximately RMB87.5 million as compared with the corresponding period of last year. The increase was mainly because the profit before tax increased and tax losses of some subsidiaries of the Group had been fully utilized in 2015, which resulted in decreased income tax expense for the same period of last year. Most of the

major 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 15.8% during the period under review and approximately 11.4% for the corresponding period of last year.

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

	2015	2016	2017 (Expected)	2018 (Expected)
** Zhejiang Sunny Optics Co., Ltd. (“ <b>Sunny Optics</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
** Ningbo Sunny Instruments Co., Ltd. (“ <b>Sunny Instruments</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
** Sunny Optics (Zhongshan) Co., Ltd. (“ <b>Sunny Zhongshan</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
** Ningbo Sunny Opotech Co., Ltd. (“ <b>Sunny Opotech</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
** Ningbo Sunny Infrared Technologies Company Ltd. (“ <b>Sunny Infrared</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
** Shanghai Sunny Hengping Scientific Instrument Co., Ltd. (“ <b>Sunny Hengping</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
** Ningbo Sunny Automotive Optech Co., Ltd. (“ <b>Sunny Automotive</b> ”)	15.0%	<b>15.0%</b>	15.0%	15.0%
Hangzhou Sunny Security Technology Co., Ltd. (“ <b>Sunny Hangzhou Security</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%
Xinyang Sunny Optics Co., Ltd. (“ <b>Sunny Xinyang Optics</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%
Shanghai Sunny Yangming Precision Optics Co., Ltd. (“ <b>Sunny Shanghai Optics</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%
Ningbo Sunny Intelligent Technology Co., Ltd. (“ <b>Sunny Intelligent Technology</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%
Sunny Group Limited (“ <b>Sunny Group</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%
Zhejiang Sunny Optical Intelligence Technology Co., Ltd. (“ <b>Sunny Intelligence Opotech</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%
Qingdao Sunny Hengping Instrument Company Limited (“ <b>Qingdao Hengping Instrument</b> ”)	25.0%	<b>25.0%</b>	25.0%	25.0%

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

+ The Hi-Tech Enterprises Certification of the Companies will expire on 31 December 2016 or 31 December 2017, but the management expects the certification will be extended for another 3 years.

## **Profit for the Period and Net Profit Margin**

The Group's profit for the period of six months ended 30 June 2016 increased by approximately 50.4% or approximately RMB155.9 million to approximately RMB465.0 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 was approximately 7.9%.

## **Profit for the Period Attributable to Owners of the Company**

The Group's profit attributable to owners of the Company for the period of six months ended 30 June 2016 increased by approximately 51.2% or approximately RMB157.6 million to approximately RMB465.3 million as compared with the corresponding period of last year.

## **Interim Dividends**

For the year ended 31 December 2015, the dividends proposed by the Board was approximately RMB0.208 (being HK\$0.249) per share, with a payout ratio of approximately 30.0% of the profit attributable to owners of the Company for the year, and was paid in June 2016.

The Board does not recommend the payment of any interim dividends for the six months ended 30 June 2016 (corresponding period of 2015: nil).

## **BUSINESS REVIEW**

Looking back to the first half of 2016, the global economy recovered moderately. The United States (the "U.S."), the United Kingdom (the "UK") and other developed economies experienced a slower-than-expected economic recovery, Brexit cast a shadow over the global economy, major emerging economies even endured a greater downward pressure, and China still proceeded with structural adjustment. Under this complicated backdrop, the global smartphone industry also got trapped in a quagmire of decelerating growth. Among which, China, being the largest smartphone market, has saturated with abundant supply of smartphones which gave rise to keener industrial competition, evident industrial consolidation and remarkable brand reshuffle. However, certain local smartphone manufacturers with technical innovation capability and core competitive edge have not only seized a significant larger market share, but also moved up the technical ladder towards the mid- and high-end products, which have become a major market force to push the replacement of old smartphones with new ones. On the other hand, along with the promulgation of new decrees and regulations, certain countries and regions have further tightened their requirements on traffic safety. At the same time, there are increasing consumers who tend to take whether the smart driver assistance system has been installed as one of the important factors when selecting an auto brand. Vehicle lens sets, as an important component for the reverse image function and the smart driver assistance system, continued to enjoy strong market demand and have grown rapidly. In view of the above, despite the complicated operational environment and various challenges faced during enterprises' own growth, 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 2016, the global smartphone shipment volume reached 678,200,000 units (source: International Data Corporation (“**IDC**”)), while the smartphone shipment volume in China amounted to 241,600,000 units (source: IDC). As a result of decelerated growth in the industry, smartphone manufacturers competed fiercely in performance, aesthetics and distinguished features of their products. Cameras, as an important means to meet customers’ actual needs, have become a key device for various brands to increase their investment so as to showcase the hi-tech and high quality of their products. Therefore, in addition to further pixel migration, other more complicated camera specifications such as ultra-thin, wide angle, large aperture, optical image stabilization (“**OIS**”), phase detection auto focus (“**PDAF**”) and dual-camera are also well accepted. The Group, as a leading supplier of handset lens sets and handset camera modules, will definitely 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**”) and European New Car Assessment Programme (“**E-NCAP**”) continued to push forward the implementation of the relevant regulation and assessment system. On the other hand, NHTSA and the Insurance Institute for Highway Safety (“**IIHS**”) jointly announced a commitment by 20 automakers representing more than 99 percent of the U.S. auto market to make automatic emergency braking a standard feature on virtually all new cars no later than 1st September 2022. The Ministry of Land, Infrastructure, Transport and Tourism of Japan has preliminarily decided that the “mirrorless vehicles” with their mirrors replaced by cameras and screens will be permitted on road from this June. In addition, owing to the expanding application sites for the advanced driver assistance systems (“**ADAS**”) and the clearer development pattern of autopilot technology, the number of cameras installed in a new vehicle will continue to increase, and their specifications will become more complicated and diverse. 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 the vehicle cameras industry and has expanded at speed. Currently, the Group has enjoyed the largest market share in the global vehicle lens sets market, and such market share has been expanded further.

For the optical instruments market, as 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. However, on account of China’s effort to promote the transformation and upgrade of its manufacturing industry, there saw an accelerated move from “Made in China” into “Intelligently Manufactured in China”, which has translated into increased market demand for instruments and equipment required in machine vision and automatic production. Moreover, the Chinese government continued to increase its investment in environmental protection, food safety, education and other fields. This shows that the mid- and high-end optical measuring instruments and analytical instruments are promising in the domestic market and the Group’s optical instruments business segment will benefit therefore.

For other areas in which the Group has been engaged in, such as digital security, action cameras, drones and virtual reality (“**VR**”)/ augmented reality (“**AR**”), they are still in the early stage of development in terms of business activities and models. However, both traditional mobile device manufacturers and hi-tech Internet Companies are vigorously penetrating into smart home, industry internet, games, logistics and other fields with great enthusiasm. As such, new business opportunities have emerged with huge development potential. 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 top-tier hi-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, in order to enhance its R&D capability and consolidate the technological advantage of its existing products in the industry, the Group increased its R&D investments to upgrade the existing products of its three major business segments, thereby greatly improving their technology level. Meanwhile, the Group attached much importance to develop and improve innovative products. After considering both its market strategy and customers' demands, the Group has developed and mass produced a number of world-leading innovative products. On the other hand, the Group attached great importance to promote and optimize automation in each production line. Taking advantage of the expertise accumulated in manufacturing automatic equipment, the Group constantly developed new equipment that meet its own needs and upgraded its existing self-manufactured equipment, which improved its production efficiency and product quality, obtained considerable economic benefits and gained recognition from brand customers. This has not only consolidated the Group's leading edge, but has also laid a solid foundation for the Group's future sustainable development. In addition, the Group has been actively making patent applications with 49 new patents being added. As of 30 June 2016, the Group had 342 patents, including 85 invention patents, 231 utility model patents and 26 exterior design patents, in addition to other 363 patent applications pending approval.

The Group received numerous honors during the period under review. For the Optical Components business segment, Sunny Zhongshan. was awarded the "2015 Best Strategic Partner" by Dahua Technology Co., Ltd.. For the Optoelectronic Products business segment, Sunny Opotech won the "Quality Gold Price" from TINNO Mobile. For the Optical Instruments business segment, the Gas Chromatography-Mass Spectrometer MSQ8100 developed by Sunny Hengping won the gold prize in the 16th Beijing Conference and Exhibition on Instrumental Analysis ("BCEIA2015"). In addition, the Company was ranked top 3 among Technology/Hardware companies of the "Best CEO", "Best CFO", "Best IR Professional", "Best IR Program", "Best Analyst Day" and the "Best Website" in 2016 All-Asia (excluding Japan) Executive Team survey by "Institutional Investor", an US magazine. The Company was also recognized as a "Most Honored Company". These awards show that the Company's product quality, quality management and control, 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**

Benefiting from the adjustment in the supply chain of camera lens of smartphones and the continuous growth in the vehicle imaging field as well as the appropriate 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. During the period under review, the sales revenue from this business segment amounted to approximately RMB1,291.0 million, representing an increase of approximately 30.2% as compared with the corresponding period of last year. This business segment accounted for approximately 21.8% of the Group's total revenue as compared with approximately 21.3% in the corresponding period of last year.

During the period under review, the shipment volume of handset lens sets of the Group recorded a year-on-year growth of approximately 16.6% with product mix improvement. The proportion of shipment volume of 8-mega pixel and above products increased from approximately 10.5% in the corresponding period of last year to approximately 37.2%, of which the proportion of shipment volume of 10-mega pixel above products was approximately 17.1% as compared with approximately 4.9% in the corresponding period of last year.

The Group has commenced mass production of handset lens sets with 13-mega pixel wide angle, 16-mega pixel large aperture and 10-mega pixel above handset lens sets with 6 pieces of plastic aspheric lenses (“6P”). The Group’s customer base of handset lens sets was further optimized. In addition to continued mass production of high-end handset lens sets with 5-mega pixel wide angle and 10-mega pixel above for a Korean customer and the continued mass production of 10-mega pixel above handset lens sets for Japanese customers, more and more high-end products, including selfie lens with 10-mega pixel above, wide angle, large aperture and ultra-thin lens with 10-mega pixel above have gained recognition from domestically famous handset makers and as a result our market share in the PRC experienced a swift surge. Furthermore, leveraging on the technical advantage in optical field, the Group has launched a number of products used in emerging areas, such as VR/AR lenses and lens sets which have undergone mass production.

During the period under review, vehicle lens sets of the Group recorded a year-on-year growth of approximately 43.7% in shipment volume, and continued to improve its share in the global market.

### **Optoelectronic Products**

Benefiting from the development of smartphone market and other mobile device products in the PRC, 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 RMB4,505.5 million, representing an increase of approximately 26.2% over the corresponding period of last year. This business segment accounted for approximately 76.2% of the Group’s total revenue as compared with approximately 76.7% in the corresponding period of last year.

During the period under review, the proportion of shipment volume of 10-mega pixel above handset camera modules increased from approximately 20.2% in the corresponding period of last year to approximately 59.6%.

During the period under review, the Group commenced mass production of dual-camera handset modules with 12-mega pixel, and became the major supplier of such products. In addition, the Group also carried out full collaboration with its domestic and overseas customers in the areas of iris recognition and AR with some of the products already at mass production stage. Superior products with high pixel, coupled with advanced technologies and first-mover advantage, allowed the Group to maintain its leading position in the supply chain of smartphones in China, further increasing the Group’s market share amongst the domestic branded smartphone manufacturers.

### **Optical Instruments**

During the period under review, as affected by the slow recovery of global economy and the slowdown in domestic economic growth, the demand for industrial instruments decreased. However, as a result of increased efforts put into new product development and market expansion by the Group, the revenue from the Optical Instruments business segment increased by approximately 25.0% to approximately RMB113.1 million. This business segment accounted for approximately 2.0% 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 existing products and continuously advanced its lean management, so as to further enhance the performance and economic benefits of the products. The Group will further increase its investment in the R&D and 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; the Group has established a subsidiary, Sunny Intelligence Opotech, in Hangzhou, responsible for the R&D and marketing of 3D and VR/ AR products used in emerging areas as well as customer base expansion.

## **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 2016.

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

During the period under review, the Group has made good use of its business strengths and will continue to allocate resources in the second half of this year to increase the proportion of sales of high-end handset lens sets and handset camera modules, and to enhance the market competitiveness of these products, vehicle lens sets and optical instruments for a higher market share. Meanwhile, the Group will strengthen its supply chain management, 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 rapidly increase the sales of relevant products through continuing to allocate resources to existing emerging businesses and further expand and optimise their sales channels. 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 an integrated optical product manufacturer to a smart optical system solution provider. Furthermore, the Group will keep a close eye on the development of the enterprise consumption sector. It helps the Group to grasp the business opportunities bred in changes in production modes and industrial patterns, achieve breakthroughs in segment markets and accomplish the transformation from an instrument manufacturer to a system integrator. All these facilitate its sustainable mid- to long-term development.

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

The Group will continue to strengthen its managerial function, improve its performance evaluation system, enhance its financial management capability, further promote technological innovation by focusing on “automation” and innovate its corporate culture and management style. These will help the Group to adjust and fully utilise its resources, so as to achieve a more flexible management innovation. In the coming years, the Group will continue to provide the global top-tier technology companies with more products and services by leveraging on the broad development prospect of the optoelectronic industry where the Group has a strong presence and the excellent position in the market as an optical expert, maintain innovation and uphold the “Mingpeijiao” (名配角) strategy, thereby achieving corporate growth and value enhancement to create returns for the shareholders continuously.

## LIQUIDITY AND FINANCIAL RESOURCES

### Cash Flows

The table below summarises the Group’s cash flows for the six months ended 30 June 2016 and 30 June 2015:

	For the six months ended 30 June	
	2016	2015
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	<b>390.0</b>	960.2
Net cash used in investing activities	<b>(71.5)</b>	(808.9)
Net cash used in financing activities	<b>(203.2)</b>	(35.8)

The Group is self-sufficient and 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 funded by net cash from operating activities, if necessary, by additional bank borrowings 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 RMB309.9 million as of 30 June 2016, representing an increase of approximately RMB123.1 million when compared to the beginning of this year.

### Capital Expenditure

For the six months ended of 30 June 2016, the Group’s capital expenditure amounted to approximately RMB353.4 million, which was mainly used for the purchases of property, machinery and equipment, a land use right 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 2016 amounted to approximately RMB748.0 million (31 December 2015: approximately RMB683.2 million). Pledged bank deposits amounted to approximately RMB187.1 million (31 December 2015: approximately RMB129.6 million) and pledged buildings and land of approximately RMB188.5 million (31 December 2015: approximately RMB195.0 million) were arranged by the Group.

As of 30 June 2016, all bank borrowings were settled in the U.S. Dollars and RMB. 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 8.7%, reflecting that the Group's financial position was at a sound level.

#### ***Bank facilities***

As of 30 June 2016, the Group had bank facilities of RMB545.0 million with Yuyao Branch of Agricultural Bank of China, RMB200.0 million with Yuyao Branch of Ningbo Bank, USD36.0 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, USD35.0 million with The Hong Kong and Shanghai Banking Corporation Limited, RMB200.0 million with Yuyao Branch of Bank of Communications Co., Limited and RMB80.0 million with Ningbo Branch of Hua Xia Bank Co., Limited.

#### ***Debt securities***

As of 30 June 2016, the Group did not have any debt securities.

#### ***Contingent Liabilities***

As of 30 June 2016, 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 2016, except for the pledged bank deposits of RMB187.1 million and the pledged buildings and land of approximately RMB188.5 million.

### **Capital commitments**

As of 30 June 2016, the capital expenditure of the Group in respect of acquisition of property, machinery and equipment contracted for but not provided in the condensed consolidated financial statements amounted to approximately RMB79.5 million (31 December 2015: approximately RMB126.3 million).

As of 30 June 2016, the Group had no other capital commitments save as disclosed above.

## **OFF-BALANCE SHEET TRANSACTIONS**

As of 30 June 2016, the Group did not enter into any material off-balance sheet transactions.

## **PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENT 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, machinery and equipment. For the six months ended 30 June 2016, the Group's investments amounted to approximately RMB353.4 million, mainly involving in the purchases of machinery and equipment, acquisition of a land use right, 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 2016, the effective interest rate on fixed-rate bank borrowings was approximately 2.27% per annum.

### **Foreign Exchange Rate Fluctuation Risk**

The Group exports a portion of its products to and makes bulk 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 17,668 dedicated full-time employees as of 30 June 2016, including 2,962 management and administrative staff, 14,356 production workers and 350 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 (the “**Restricted Share Award Scheme**”), for the purposes of providing incentives and rewards to eligible participants to recognise their contribution to the Group and enhance their ownership spirits. For the six months ended 30 June 2016, no share option was granted or agreed to be granted by the Company under the Scheme. In addition, during the six-month period ended 30 June 2016, 2,154,428 shares were granted to eligible participants in accordance with the Restricted Share Award Scheme.

## **OTHER INFORMATION**

### **A. PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES**

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 2016.

### **B. SHARE OPTION SCHEME**

On 25 May 2007, the Company adopted the Share Option 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 2016, 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 22 of the condensed consolidated financial statements.

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 the shares granted under the Restricted Share Award Scheme, 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 of the Group so as to achieve effective accountability and to maximise the shareholders' benefits.

For the six months ended 30 June 2016, 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**”).

### **Internal Controls and Risk Management**

The Board acknowledges the significance of establishing and maintaining an effective system of internal controls and risk management. The Group has an internal audit department in force which report to the management and the audit committee of the Board. It reviews the systems of the Group, covering all business units of the Group, from the operational, financial and internal controls perspectives. The Board considers that the internal audit department has been staffed adequately in terms of their qualifications and experiences, as well as provided with adequate resources, training program and budget of the Group's accounting and financial reporting function.

To strengthen its risk management control, during the period under review, the Group was in the process of setting up an internal risk management committee to ensure 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 for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules. After having made specific enquiry with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the six-month period ended 30 June 2016.

## 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, regarding environmental protection, the Group has observed relevant regulations such as EU Restriction of Hazardous Substances ("RoHS"), EU Regulation concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals ("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 provides on-job education and training for its employees to improve their knowledge and expertise. For instance, the Group arranged the one-week orientation program and six-month on-job training for fresh university graduates, various class trainings and outward bound trainings for R&D engineers and middle management member of the manufacturing team, such as the Jiaoyang Program and Yulang Program. In addition, the Group arranged its key staff at all levels to attend engineering master, undergraduate or college education, in order to improve their education levels.

### E. AUDIT COMMITTEE

The audit committee comprises of three independent non-executive Directors, namely, Mr. Zhang Yuqing as Committee Chairman, Mr. Feng Hua Jun and Mr. Shao Yang Dong. The audit committee and the Company's external auditors 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 2016.

### 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, 3 non-deal roadshows, and participated in 13 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](http://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, 15 August 2016

*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 Mr. Zhang Yuqing, Mr. Feng Hua Jun and Mr. Shao Yang Dong who are independent non-executive directors.*