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SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED

舜宇光學科技（集團）有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2382.HK)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2018

RESULT HIGHLIGHTS

The Group's unaudited consolidated revenue for the six months ended 30 June 2018 was approximately RMB11,976.4 million, representing an increase of approximately 19.4% as compared with the corresponding period of last year. The increase in revenue was mainly benefited from the Group's further development in smartphone related businesses and rapid development in the vehicle imaging field.

The gross profit for the six months ended 30 June 2018 was approximately RMB2,320.1 million, representing an increase of approximately 12.1% as compared with the corresponding period of last year. The gross profit margin was approximately 19.4%.

The net profit for the six months ended 30 June 2018 increased by approximately 2.5% to approximately RMB1,189.8 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 9.9%.

The net profit margin decreased from approximately 11.6% for the six months ended 30 June 2017 to approximately 9.9% for the corresponding period of this year. It was mainly due to: (i) the year-on-year decrease of gross profit margin of handset camera modules; and (ii) net foreign exchange loss amounting to approximately RMB201.0 million resulting from the depreciation of RMB against USD, mainly caused by the USD600.0 million bonds issued on 23 January 2018.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") of Sunny Optical Technology (Group) Company Limited (the "**Company**" or "**Sunny Optical**") 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 2018, together with the comparative figures for the corresponding period in the year 2017 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	NOTES	For the six months ended 30 June	
		2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Revenue	3	11,976,354	10,031,683
Cost of sales		<u>(9,656,294)</u>	<u>(7,961,965)</u>
Gross profit		2,320,060	2,069,718
Other income	4	191,603	65,250
Other gains and losses	5	(173,722)	64,800
Impairment losses, net of reversal		(1,398)	47,269
Selling and distribution expenses		(95,454)	(104,686)
Research and development expenditure		(544,462)	(535,015)
Administrative expenses		(184,109)	(182,397)
Share of results of associates		(9,283)	(4,762)
Finance costs		<u>(90,858)</u>	<u>(22,146)</u>
Profit before tax		1,412,377	1,398,031
Income tax expense	6	<u>(222,620)</u>	<u>(237,035)</u>
Profit for the period	8	<u>1,189,757</u>	<u>1,160,996</u>
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Fair value gain on investments in equity instruments at fair value through other comprehensive income ("FVTOCI")		2,811	–
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		<u>957</u>	<u>599</u>
Other comprehensive income for the period		<u>3,768</u>	<u>599</u>
Total comprehensive income for the period		<u><u>1,193,525</u></u>	<u><u>1,161,595</u></u>

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

		For the six months ended	
		30 June	
		2018	2017
		RMB'000	RMB'000
<i>NOTES</i>		(unaudited)	(unaudited)
Profit for the period attributable to:			
	Owners of the Company	1,179,794	1,159,246
	Non-controlling interests	9,963	1,750
		<u>1,189,757</u>	<u>1,160,996</u>
Total comprehensive income attributable to:			
	Owners of the Company	1,183,341	1,159,499
	Non-controlling interests	10,184	2,096
		<u>1,193,525</u>	<u>1,161,595</u>
Earnings per share – Basic (RMB cents)			
		108.03	107.37
Earnings per share – Diluted (RMB cents)			
		107.61	106.68

Condensed Consolidated Statement of Financial Position

At 30 June 2018

		30 June 2018	31 December 2017
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11(a)</i>	3,234,247	2,585,922
Prepaid lease payments	<i>11(b)</i>	208,201	162,928
Investment properties	<i>11(c)</i>	51,885	54,080
Intangible assets		370,623	392,424
Interests in associates		115,312	124,595
Deferred tax assets	<i>12</i>	46,090	40,435
Deposits paid for acquisition of property, plant and equipment	<i>13</i>	695,999	594,992
Available-for-sale investments		–	129,373
Equity instruments at fair value through other comprehensive income		162,363	–
Debt instruments at amortised cost	<i>14</i>	105,044	–
Financial assets at fair value through profit or loss (“FVTPL”)		209,316	–
Deposits paid for acquisition of a land use right		3,823	3,823
Derivative financial assets	<i>15</i>	4,852	2,283
		5,207,755	4,090,855
CURRENT ASSETS			
Inventories	<i>16</i>	2,804,215	2,621,844
Trade and other receivables and prepayment	<i>17</i>	6,327,108	5,665,689
Prepaid lease payments	<i>11(b)</i>	5,461	4,515
Derivative financial assets	<i>15</i>	11,073	1,092
Financial assets at fair value through profit or loss		4,003,339	1,952,340
Amounts due from related parties		33,680	2,810
Pledged bank deposits		355,312	140,288
Short term fixed deposits		20,000	20,000
Bank balances and cash		1,497,178	1,226,877
		15,057,366	11,635,455
Assets classified as held for sale	<i>18</i>	42,786	–
		15,100,152	11,635,455

Condensed Consolidated Statement of Financial Position

At 30 June 2018

		30 June 2018	31 December 2017
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
CURRENT LIABILITIES			
Trade and other payables	19	6,046,971	6,182,802
Amounts due to related parties		3,859	4,087
Derivative financial liabilities	15	4,180	30,438
Tax payable		–	101,494
Bank borrowings	20	1,486,624	1,347,881
Contract liabilities		99,174	–
Deferred income – current portion		31,952	38,788
		<u>7,672,760</u>	<u>7,705,490</u>
NET CURRENT ASSETS		<u>7,427,392</u>	<u>3,929,965</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>12,635,147</u>	<u>8,020,820</u>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	12	273,094	106,895
Derivative financial liabilities	15	3,745	2,597
Long term payables	19	362,852	347,294
Deferred income – non-current portion		46,918	44,825
Bonds payable	21	3,931,200	–
		<u>4,617,809</u>	<u>501,611</u>
NET ASSETS		<u>8,017,338</u>	<u>7,519,209</u>
CAPITAL AND RESERVES			
Share capital	22	105,177	105,177
Reserves		7,870,598	7,383,342
Equity attributable to owners of the Company		7,975,775	7,488,519
Non-controlling interests		41,563	30,690
TOTAL EQUITY		<u>8,017,338</u>	<u>7,519,209</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 (the “**Listing Rules**”).

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 revalued amounts or fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“**HKFRSs**”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2017.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied for the first time, the following new amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKAS 28	<i>As part of the Annual Improvements to HKFRSs 2014-2016 Cycle</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments, the impacts on opening condensed consolidated statement of financial position arising from the application of all new standards are described as below.

2.1 Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table show the adjustments recognised for each individual line item.

	31 December 2017	HKFRS 15	HKFRS 9	1 January 2018
	(Audited)			(Restated)
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current Assets				
Available-for-sale investments	129,373	–	(129,373)	–
Financial assets at FVTPL	–	–	36,750	36,750
Equity instruments at FVTOCI	–	–	134,056	134,056
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current Assets				
Trade and other receivables and prepayment	5,665,689	–	(1,966)	5,663,723
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Current liabilities				
Trade and other payables	6,182,802	(76,050)	–	6,106,752
Contract liabilities	–	76,050	–	76,050
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Non-current liabilities				
Deferred tax liabilities	106,895	–	6,215	113,110
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capital and Reserves				
Reserves	7,383,342	–	33,252	7,416,594
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

3A. REVENUE FROM GOODS

Disaggregation of revenue

	For the six months ended 30 June 2018
	<i>RMB'000</i>
Sales of optical and optical-related products	
Mobile phone related products	10,195,255
Other lens sets	778,577
Digital camera related products	411,163
Optical instruments	98,061
Other spherical lens and plane products	57,298
Digital video lens	35,263
Industrial endoscopes	5,566
Other products	395,171
	<u> </u>
Total	<u>11,976,354</u>

**For the six
months ended
30 June 2018**
RMB'000

Geographical markets

Mainland China	10,229,244
Korea	509,352
Japan	283,898
United States	224,708
Hong Kong	203,368
Others	525,784
	11,976,354
Total	11,976,354

Timing of revenue recognition

A point in time	11,976,354
	11,976,354

3B. SEGMENT INFORMATION

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

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

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

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

For the six months ended 30 June 2018

	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)
Revenue						
External sales	2,656,250	9,186,943	133,161	11,976,354	-	11,976,354
Inter-segment sales	687,867	5,295	8,650	701,812	(701,812)	-
	3,344,117	9,192,238	141,811	12,678,166	(701,812)	11,976,354
	3,344,117	9,192,238	141,811	12,678,166	(701,812)	11,976,354
Segment profit	1,062,251	427,401	11,521	1,501,173	-	1,501,173
	1,062,251	427,401	11,521	1,501,173	-	1,501,173
Share of results of associates						(9,283)
Unallocated income						55,677
Unallocated expenses						(135,190)
						(88,696)
Profit before tax						1,412,377

As at 30 June 2018

	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>2,294,246</u>	<u>6,297,174</u>	<u>102,922</u>	<u>8,694,342</u>	<u>11,613,565</u>	<u>20,307,907</u>
Total liabilities	<u>(1,103,950)</u>	<u>(4,108,021)</u>	<u>(65,896)</u>	<u>(5,277,867)</u>	<u>(7,012,702)</u>	<u>(12,290,569)</u>

For the six months ended 30 June 2017

	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)
Revenue						
External sales	1,895,548	8,013,640	122,495	10,031,683	–	10,031,683
Inter-segment sales	<u>391,524</u>	<u>5,170</u>	<u>6,152</u>	<u>402,846</u>	<u>(402,846)</u>	<u>–</u>
Total	<u>2,287,072</u>	<u>8,018,810</u>	<u>128,647</u>	<u>10,434,529</u>	<u>(402,846)</u>	<u>10,031,683</u>
Segment profit (loss)	<u>656,844</u>	<u>712,006</u>	<u>(15,347)</u>	<u>1,353,503</u>	<u>–</u>	<u>1,353,503</u>
Share of results of associates						(4,762)
Unallocated income						83,717
Unallocated expenses						<u>(34,427)</u>
Profit before tax						<u>1,398,031</u>

As at 31 December 2017

	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>1,894,446</u>	<u>5,876,353</u>	<u>97,333</u>	<u>7,868,132</u>	<u>7,858,178</u>	<u>15,726,310</u>
Total liabilities	<u>(1,086,266)</u>	<u>(4,035,614)</u>	<u>(66,446)</u>	<u>(5,188,326)</u>	<u>(3,018,775)</u>	<u>(8,207,101)</u>

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

Inter-segment sales are charged at prevailing market rates.

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

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

4. OTHER INCOME

	For the six months ended	
	30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Government grants	60,498	13,699
Bank interest income	7,849	1,051
Interest income from short term fixed deposits	4,746	797
Interest income from pledged deposits	1,084	1,315
Investment income from financial assets at FVTPL	89,618	27,421
Investment income from debt instruments	2,839	–
Interest income from loan receivables	3,668	1,348
Income from sales of moulds	3,330	1,338
Income from sales of scrap materials	4,369	1,716
Income from customised specialised equipment services	3,657	9,684
Gross rental income	2,203	1,349
Handling service charges	1,176	1,965
Fund management income	3,019	1,226
Others	3,547	2,341
	191,603	65,250

5. OTHER GAINS AND LOSSES

	For the six months ended	
	30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Net foreign exchange (loss) gain	(201,046)	1,550
Loss on disposal of property, plant and equipment	(2,650)	(420)
Gain on changes in fair value of derivative financial instruments, net	37,660	62,290
Loss on changes in fair value of debt instruments and fund investments at FVTPL	(8,543)	–
Gain on disposal of subsidiaries	857	–
Gain on acquisition of a subsidiary	–	1,308
Others	–	72
	(173,722)	64,800

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	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%	68,787	200,410
Deferred tax (<i>Note 12</i>):		
– Current period	153,833	36,625
	<u>222,620</u>	<u>237,035</u>

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.

7A. DISPOSAL OF SUBSIDIARIES

According to the reorganisation proposal authorised by the Board of Directors, the Group entered into a sale agreement in March 2018 to fully dispose its equity interest in Shanghai Sunny Hengping Scientific Instrument Company Limited and Qingdao Sunny Hengping Instrument Company Limited to the non-controlling shareholders with the net liabilities of approximately RMB779,000 and RMB78,000 respectively, the consideration was nil and the disposal gains of RMB857,000 was recognised in the current interim period.

7B. DISPOSAL OF AN ASSOCIATE

Ningbo Mei Shan Bao Shui Gang Qu Keyi Venture Capital Investment Partnership (Limited Partnership) ("Keyi"), an associate held by the Group with 80% equity interests, which was fully impaired at the end of year 2017 in the amount of RMB1,680,000, started the liquidation procedure since August 2017 and officially dissolved on 31 January 2018.

8. PROFIT FOR THE PERIOD

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging the following items:		
Auditor's remuneration	1,447	1,161
Depreciation of property, plant and equipment	348,665	222,839
Depreciation of investment properties	2,195	419
Release of prepaid lease payments	2,379	2,237
Amortisation of intangible assets	21,801	21,802
Allowance for inventories	8,678	33,912
	<u>8,678</u>	<u>33,912</u>

9. 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:

	For the six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	<u>1,179,794</u>	<u>1,159,246</u>
Number of shares	'000	'000
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,092,082	1,079,711
Effect of dilutive potential ordinary shares – restricted shares	<u>4,243</u>	<u>6,955</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,096,325</u>	<u>1,086,666</u>

10. DIVIDENDS

	For the six months ended 30 June	
	2018 RMB'000 (unaudited)	2017 RMB'000 (unaudited)
Dividends recognised as distribution during the period: Final dividend paid in 2018 for 2017 of Hong Kong Dollar ("HK\$") 81.20 cents per share, approximately RMB66.10 cents per share (2017: HK\$32.30 cents per share for 2016, approximately RMB29.00 cents per share)	<u>725,117</u>	<u>318,130</u>

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2018 (the corresponding period of 2017: Nil).

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

(a) Property, plant and equipment

During the current interim period, the Group acquired manufacturing equipment and incurred construction costs for manufacturing plants of approximately RMB1,025,161,000 (the corresponding period of 2017: RMB373,654,000) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed certain of its plants and equipment with a carrying amount of approximately RMB4,784,000 (the corresponding period of 2017: RMB4,998,000) which resulted in a loss of approximately RMB2,650,000 (the corresponding period of 2017: a loss of RMB420,000).

As at 30 June 2018, no buildings of the Group was pledged to secure bank borrowings granted.

(b) Prepaid lease payments

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Analysed for reporting purpose as:		
Current assets	5,461	4,515
Non-current assets	208,201	162,928
	213,662	167,443

During the current interim period, the Group acquired a piece of leasehold land located in the PRC amounting to RMB71,692,000 (the corresponding period of 2017: RMB3,464,000).

As at 30 June 2018, no leasehold lands of the Group was pledged to secure bank borrowings granted.

(c) Investment properties

During the current interim period, a depreciation charge of RMB2,195,000 (the corresponding period of 2017: RMB419,000) was recognised in profit or loss and the carrying value of investment properties was amounted to RMB51,885,000 as at 30 June 2018.

12. DEFERRED TAXATION

For the purpose of presentation in the condensed consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Deferred tax assets	(46,090)	(40,435)
Deferred tax liabilities	273,094	106,895
	227,004	66,460

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

	Withholding tax on distributed profit from the PRC RMB'000	Allowance for inventories and doubtful debts RMB'000	Deferred subsidy income RMB'000	Accelerated depreciation RMB'000 (Note)	Others RMB'000	Total RMB'000
At 1 January 2017 (audited)	5,595	(24,534)	(1,267)	28,269	(2,083)	5,980
Charge (Credit) to profit or loss	43,734	1,811	(5,758)	29,297	(8,604)	60,480
At 31 December 2017 (audited)	49,329	(22,723)	(7,025)	57,566	(10,687)	66,460
Effect arising from initial application of HKFRS 9	-	-	-	-	6,215	6,215
At 1 January 2018 (restated)	49,329	(22,723)	(7,025)	57,566	(4,472)	72,675
Charge (credit) to profit or loss (Note 6)	12,030	(3,328)	(828)	147,458	(1,499)	153,833
Charge to other comprehensive income	-	-	-	-	496	496
At 30 June 2018 (unaudited)	<u>61,359</u>	<u>(26,051)</u>	<u>(7,853)</u>	<u>205,024</u>	<u>(5,475)</u>	<u>227,004</u>

Note:

According to Caishui [2018] No.54 “Notice regarding to the deduction of business income taxes on equipments and devices established by the tax authority”, the equipment newly acquired by the Group from 1 January 2018 to 31 December 2020 with unit value of no more than RMB5,000,000, is allowed to be expensed all at once and deducted in the calculation of income tax expense during the relevant period. The Group recognised the deferred tax liability of accelerated depreciation amounting to RMB147,458,000 during the current interim period accordingly.

13. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

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

During the current interim period, the Group paid an amount of approximately RMB580,905,000 (the corresponding period of 2017: RMB512,409,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB479,898,000 (the corresponding period of 2017: RMB90,797,000) to property, plant and equipment.

14. DEBT INSTRUMENTS AT AMORTISED COST

In April 2018, the Group purchased debt instruments amounting to RMB101,079,000 carrying coupon rates ranging from 3.50% to 4.75% with the business model to collect contractual cash flows that are solely payments of principal and interest on the principal amount outstanding semi-annually according to the contract terms. Accordingly, these debt instruments were classified and subsequently measured at amortised cost, the carrying amount of the instruments is RMB105,044,000 as at 30 June 2018.

15. DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

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

	Assets		Liabilities	
	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Foreign currency forward contracts	14,987	–	5,006	28,788
Foreign currency options contracts	938	3,375	2,919	4,247
Total	15,925	3,375	7,925	33,035
Less: current portion				
Foreign currency forward contracts	10,135	–	1,261	–
Foreign currency options contracts	938	1,092	2,919	30,438
	11,073	1,092	4,180	30,438
Non-current portion	4,852	2,283	3,745	2,597

As at 30 June 2018, the Group had entered into the following foreign currency forward/options contracts.

Foreign currency forward contracts

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

	Receiving currency	Selling currency	Maturity date	Weighted average forward exchange rate
Contract S	USD20,000,000	RMB134,194,000	23 November 2018	USD:RMB at 1:6.71
Contract T	USD37,000,000	RMB244,396,000	14 June 2019	USD:RMB at 1:6.61
Contract U	USD40,000,000	RMB263,240,000	14 March 2019	USD:RMB at 1:6.58
Contract V	USD37,000,000	RMB244,400,000	14 March 2019	USD:RMB at 1:6.61
Contract Series W	USD112,500,000	RMB750,103,000	Since 18 July 2018 Semi-annually	USD:RMB from 6.40 to 6.99

Foreign currency options contracts

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

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

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

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

	Notional amount USD'000	Strike/barrier/ forward rates	Ending Settlement Date (Note 1)	
			30 June 2018	31 December 2017
Contract K (Note 2)	60,000	USD:RMB at 1:7.156	N/A	27 March 2018
Contract L (Note 2)	60,000	USD:RMB at 1:7.15	N/A	27 March 2018
Contract M	60,000	USD:RMB at 1:7.22	26 September 2018	26 September 2018
Contract N	60,000	USD:RMB at 1:7.20	26 September 2018	26 September 2018
Contract O	200,000	USD:RMB at 1:7.30	7 May 2019	7 May 2019
Contract P	200,000	USD:RMB at 1:7.28	7 May 2019	7 May 2019

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

Note 2: Both contract K and contract L were settled as a result of occurrence of trigger event on 26 March 2018.

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

16. INVENTORIES

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Raw materials	460,286	314,064
Work in progress	391,764	149,294
Finished goods	1,952,165	2,158,486
	<u>2,804,215</u>	<u>2,621,844</u>

17. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Current assets		
Trade receivables	5,500,314	4,546,193
Less: allowance for doubtful debts	(99,445)	(96,850)
	5,400,869	4,449,343
Bill receivables	489,258	796,945
Loan receivables	129,515	138,059
Other receivables and prepayment:		
Value added tax and other tax receivables	59,370	42,807
Individual income tax receivable from employees	–	45,890
Advance to suppliers	44,177	35,357
Interest receivables	21,930	10,714
Prepaid expenses	96,064	76,469
Rental and utilities deposits	56,709	55,133
Prepaid wages and advances to employees	5,595	3,586
Others	23,621	11,386
	307,466	281,342
Total trade and other receivables and prepayment	6,327,108	5,665,689

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

	30 June 2018	31 December 2017
	RMB'000	RMB'000
	(unaudited)	(audited)
Within 90 days	5,307,158	4,404,611
91 to 180 days	87,707	43,102
Over 180 days	6,004	1,630
	5,400,869	4,449,343

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

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Within 90 days	447,458	682,520
91 to 180 days	41,800	114,425
Total	<u>489,258</u>	<u>796,945</u>

Movement in the allowance for doubtful debts:

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Balance at 31 December 2017	96,850	141,827
Remeasurement of loss allowance under expected credit losses ("ECL")	1,966	–
Balance at 1 January 2018	98,816	141,827
Impairment losses recognised on receivables	8,308	18,735
Amounts written off as uncollectible	(769)	(2,076)
Impairment losses reversed	(6,910)	(61,636)
Balance at end of the reporting period	<u>99,445</u>	<u>96,850</u>

18. ASSETS CLASSIFIED AS HELD FOR SALE

On 20 May 2018, the Group resolved to dispose one small piece of the Group's land and above ground buildings to two independent third parties due to the limited use on the large scale expansion of capacity. According to the execution transfer agreement, the transaction date and price had been determined and the land along with above ground buildings were expected to be sold within six months from 30 June 2018 which should be classified as disposal assets held for sale and are separately presented in the condensed consolidated statement of financial position. As at 30 June 2018, the Group has received a deposit in advance amounting to RMB58,121,000 from the third party purchasers.

The sale proceeds are expected to exceed the net carrying amount of the relevant assets and, accordingly, no impairment loss has been recognised.

Major classes of the disposal assets as at the end of the current interim period are as follows:

	<i>RMB'000</i>
Properties	19,692
Prepaid lease payments	<u>23,094</u>
Total assets classified as held for sale	<u>42,786</u>

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.

	30 June 2018 RMB'000 (unaudited)	31 December 2017 RMB'000 (audited)
Current liabilities		
Trade payables		
Within 90 days	3,846,386	3,802,811
91 to 180 days	420,569	384,235
Over 180 days	4,482	2,402
Accrued purchases	440,164	350,351
	<hr/>	<hr/>
Total trade payables	4,711,601	4,539,799
	<hr/>	<hr/>
Note payables		
Within 90 days	552,946	614,156
91 to 180 days	13,320	34,371
	<hr/>	<hr/>
	566,266	648,527
	<hr/>	<hr/>
Other payables		
Payables for purchase of property, plant and equipment	129,089	133,647
Payable for acquisition of assets	–	3,520
Staff salaries and welfare payables	393,479	461,953
Advances from customers	–	76,050
Payable for acquisition of patents	40,681	40,224
Value added tax payables and other tax payables	36,195	171,324
Technology grant payables	–	25,832
Commission payables	8,742	11,078
Interest payable	67,716	3,314
Rental and utilities payable	11,913	15,017
Accrued research and development expenses	–	1,272
Deposit in advance (<i>Note 18</i>)	58,121	–
Others	23,168	51,245
	<hr/>	<hr/>
	769,104	994,476
	<hr/>	<hr/>
	6,046,971	6,182,802
	<hr/> <hr/>	<hr/> <hr/>
Non-current liability		
Long term payables		
Payable for acquisition of patent	362,852	347,294
	<hr/> <hr/>	<hr/> <hr/>

The credit period on purchases of goods is up to 180 days (2017: 180 days) and the credit period for note payables is 90 days to 180 days (2017: 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.

20. BANK BORROWINGS

During the current interim period, the Group obtained new bank borrowings with amounts of approximately RMB923,964,000 (the corresponding period of 2017: RMB1,005,817,000). The proceeds were used to meet the working capital requirement and acquisitions of property, plant and equipment. Repayment of bank borrowings amounting to approximately RMB802,047,000 (the corresponding period of 2017: RMB453,570,000) were made in line with the relevant repayment terms.

As at 30 June 2018 and 31 December 2017, the borrowings with a total amount of approximately RMB886,624,000 (31 December 2017: RMB712,881,000) were denominated in United States Dollar. The Group's borrowings carried fixed-rate of 3.92% and variable-rate of 2.73% to 3.92% (31 December 2017: 3.92% and 2.26% to 3.92%) per annum.

As at 30 June 2018, no borrowings are secured by certain buildings and land of the Group.

21. BONDS PAYABLE

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

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

During the current interim period, interest expense of approximately RMB66,133,000 was recognised in condensed consolidation statement of profit or loss.

22. SHARE CAPITAL

Issued share capital as at 30 June 2018 amounted to HK\$109,700,000 (equivalent to approximately RMB105,177,000) with number of ordinary shares amounted to 1,097,000,000 of HK\$0.1 each. There were no movements in the issued share capital of the Company in the current interim period.

23. SHARE AWARD SCHEME

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

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

	Weighted average fair value (per share) HK\$	No. of Restricted Shares ('000)
At 1 January 2017 (audited)	14.402	12,722
Forfeited	26.719	(176)
Vested	13.065	(7,928)
Granted	74.904	1,443
At 31 December 2017 and 1 January 2018 (audited)	30.199	6,061
Forfeited	28.049	(166)
Vested	24.518	(2,563)
Granted (<i>Note</i>)	156.000	530
As at 30 June 2018 (unaudited)	51.338	3,862

The equity-settled share-based payments expense charged to profit or loss was approximately RMB45,040,000 for the current interim period (the corresponding period of 2017: RMB45,573,000).

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

Restricted Shares	Fair value (Per share) <i>HK\$</i>	Scale
530,440 shares	156.000	One-half

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

24. COMMITMENTS

	30 June 2018 <i>RMB'000</i> (unaudited)	31 December 2017 <i>RMB'000</i> (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	737,196	789,610

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a global leading integrated optical components and products manufacturer with more than thirty years of history. The Group is principally engaged in the design, research and development (the “**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) (the “**Optical Components**”), optoelectronic products (such as handset camera modules, three dimensional (the “**3D**”) optoelectronic products, security cameras and other optoelectronic modules) (the “**Optoelectronic Products**”) and optical instruments (such as microscopes, optical measuring instruments and intelligent equipment for testing, manufacturing and assembly) (the “**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 automated factories, which require the comprehensive application of 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 2017.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2018, the Group's revenue was approximately RMB11,976.4 million, representing an increase of approximately 19.4% or approximately RMB1,944.7 million as compared with the corresponding period of last year. The increase in revenue was mainly benefited from the Group's further development in smartphone related businesses and rapid development in the vehicle imaging field.

Revenue generated from the Optical Components business segment increased by approximately 40.1% to approximately RMB2,656.3 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, as well as the increase in the average selling price brought by the improvement of product mix of handset lens sets.

Revenue generated from the Optoelectronic Products business segment increased by approximately 14.6% to approximately RMB9,186.9 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 camera modules.

Revenue generated from the Optical Instruments business segment increased by approximately 8.7% to approximately RMB133.2 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the recovery of the market demands for industrial instruments and the increased revenue from intelligent equipments.

Gross Profit and Margin

The Group's gross profit for the six months ended 30 June 2018 was approximately RMB2,320.1 million and the gross profit margin was approximately 19.4%, which was approximately 1.2 percentage points lower than that for the corresponding period of last year. The decrease in gross profit margin was mainly due to the year-on-year decrease of gross profit margin of handset camera modules, mainly because (i) the Group was in the process optimization, production line layout adjustment and manufacturing personnel structure adjustment and other processes during the first half of this year, resulting in increased costs and reduced efficiency; and (ii) the new production base was put into operation and its utilization rate needs to be improved. The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 42.0%, 9.4% and 38.3%, respectively (corresponding period of 2017: approximately 43.7%, 12.7% and 42.2%, respectively).

Selling and Distribution Expenses

The Group's selling and distribution expenses for the six months ended 30 June 2018 decreased by approximately 8.8% or approximately RMB9.2 million to approximately RMB95.5 million as compared with the corresponding period of last year, accounting for approximately 0.8% of the Group's revenue, which was approximately 0.2 percentage point lower than that for the corresponding period of last year. The decrease in absolute amount was primarily attributable to the decreased sales commission.

R&D Expenditure

The Group's R&D expenditure for the six months ended 30 June 2018 increased by approximately 1.8% or approximately RMB9.4 million to approximately RMB544.5 million as compared with the corresponding period of last year, accounting for approximately 4.5% of the Group's revenue, which was approximately 0.8 percentage point lower than that for the corresponding period of last year. The increase in absolute amount was attributable to the Group's continuous investments in R&D activities and business development. The R&D expenditure was mainly used in the R&D of high-end handset lens sets and handset camera modules, innovative mobile terminal optoelectronic products, vehicle lens sets, infrared products, security surveillance system products, mid- to high-end optical instruments and intelligent equipments.

Administrative Expenses

The Group's administrative expenses for the six months ended 30 June 2018 increased by approximately 0.9% or approximately RMB1.7 million to approximately RMB184.1 million as compared with the corresponding period of last year, accounting for approximately 1.5% of the Group's revenue, which was approximately 0.3 percentage point lower than that for the corresponding period of last year. The increase in overall administrative expenses was mainly attributable to the increase in the headcount and remuneration of administrative staff, the grant of restricted shares and the corresponding increase of relevant fringe benefits cost.

Income Tax Expense

The Group's income tax expense for the six months ended 30 June 2018 decreased by approximately 6.1% or approximately RMB14.4 million to approximately RMB222.6 million as compared with the corresponding period of last year. The decrease was mainly because the Company has obtained the Certification of Resident Status of Hong Kong Special Administrative Region and thus the amount of withholding income tax has been reduced. The Group's actual effective tax rate was approximately 15.8% during the period under review and it was approximately 17.0% for the corresponding period of last year.

Profit for the Period and Net Profit Margin

The Group's profit for the six months ended 30 June 2018 increased by approximately 2.5% or approximately RMB28.8 million to approximately RMB1,189.8 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 9.9% for the six months ended 30 June 2018 and was approximately 11.6% for the corresponding period of last year. The decrease in net profit margin was mainly due to (i) the year-on-year decrease in gross profit margin of handset camera modules; and (ii) net foreign exchange loss amounting to approximately RMB201.0 million resulting from the depreciation of RMB against USD, mainly caused by the USD600.0 million bonds issued on 23 January 2018.

Profit for the Period Attributable to Owners of the Company

The profit for the period attributable to owners of the Company for the six months ended 30 June 2018 increased by approximately 1.8% or approximately RMB20.5 million to approximately RMB1,179.8 million as compared with the corresponding period of last year.

Interim Dividends

For the year ended 31 December 2017, the dividends proposed by the Board was approximately RMB0.661 (being HK\$0.812) per share with a payout ratio of approximately 25.0% of the profit for the year attributable to owners of the Company and was paid in June 2018.

The Board does not recommend the payment of any interim dividends for the six months ended 30 June 2018 (corresponding period of 2017: nil).

BUSINESS REVIEW

Looking back to the first half of 2018, the global economy continued to recover and the overall economic indicators kept growing, but the overall economic expansion slowed down compared with last year. Trade friction within the global economy kept simmering, which aggravated the uncertainty of economic development. The global smartphone market was in the mature stage of industrial development, and the overall growth rate demonstrated downward trend as compared with previous years. Chinese local brand manufacturers completed their market layouts through constantly enhancing the technology research and development, extending usage scenario of smartphones, and strengthening collaborative upgrade of software and hardware, which would break through the homogeneous competition. However, as the differentiation of users' experience brought by product's technical parameters is not particularly obvious, consumers' willingness to purchase new phones is generally weak. Given that the competition in smartphone market remains fierce, the trend of industry concentration will continue to intensify. On the other hand, with the continuous development of vehicle internet industry, the increasing demand for active safety when driving and driven by laws and regulations in the United States, the European Union, Japan and other countries, the demand for vehicle lens sets has maintained a high-speed growth. Meanwhile, vehicle cameras played an important role in the application of advanced driver assistance systems ("ADAS") and self-driving technology. As the penetration rate of ADAS continued to increase, the vehicle lens sets, as one of the important components of vehicle imaging and sensing systems, maintained rapid growth in global market and realized a strong momentum. Overall, in spite of the complex and changing external environment, the Group still remained its leading position in the industry with its technical first-mover advantage and comprehensive competitive strength, and it realized a stable growth of overall performance.

During the first half of 2018, the global smartphone shipment volume reached approximately 676.3 million units (source: International Data Corporation ("IDC")). As the global smartphone market was in the steady growth period, consumers' replacement demands for purchasing new phones mainly come from appeals to superior product quality and better product performance. Therefore, all the major smartphone manufacturers started to focus on the upgrade of cameras, which was the key to seize the market. In addition to pixel promotion, more complicated with new specifications such as large aperture, wide angle, ultra-thin, dual-camera, optical zoom, biometric identification, and miniaturization and so on are also provided by smartphone manufacturers to meet customers' demands. In the meantime, while dual-camera has become a standard configuration for high-end smartphones, the trend of triple-camera is emerging. The increase in the number of cameras carried by smartphones and the upgrade and update of specification have driven the growth of industry, which will also put forward higher technical requirements for major handset lens set and handset camera module manufacturers. The Group, as a global leading supplier of handset lens sets and handset camera modules, will benefit from its strong capability of independent innovation, sound industrial integration and scale advantages.

Owing to the upgrade of intelligent high-end vehicles and driven by relevant laws and regulations, the demand for vehicle lens sets was still in the period of high-speed growth, and its penetration rate and adoption rate have also been further increased. On the one hand, not only have the United States, Europe and Japan introduced relevant laws and regulations, the PRC government has also accelerated the implementation of related policies on autonomous driving. In the 2018 New Car Assessment Programme (“NCAP”), China included for the first time multiple evaluation indicators of active safety needs. At the same time, the environment of China’s internet of vehicles has gradually been formed with tremendous market potential. With the increase in the penetration rate of ADAS, the market of vehicle cameras will gradually be extended to mid- to low-end vehicle models from purely for high-end vehicle models. Coupled with the coming of the era of semi-autonomous and fully autonomous driving, consumers will become more dependent on vehicle imaging and sensing systems, and the number of cameras installed on each vehicle will continue to increase and the specifications will become more complicated. At present, the Group steadily occupies the first place in the global market share of vehicle lens sets. It is believed that the Group will continue to benefit from the booming development of vehicle camera industry and further increase its market share.

For the optical instruments market, with the growing demand for downstream applications, as well as the development of electronic technology and computer industry, the whole instrument market showed positive momentum. In recent years, “Intelligently Manufactured in China” (“中國智造”) has become the direction of transformation for China’s manufacturing industry, which has led to increased market demand for relevant high-end instruments and equipment required in machine vision applications, automatic productions, and smart factories. Meanwhile, the demands from medical and educational fields for smart microscopes have increased continuously. The Group further optimized its configuration and integrated related technologies and resources to better address the opportunities and challenges of each market segment.

For the other areas in which the Group has been engaging, such as unmanned aerial vehicle (“UAV”), augmented reality (“AR”), virtual reality (“VR”), 3D and a various of other emerging fields, there is huge potential for future growth although currently they are still at the early stage of development. According to the Guide on Global Semi-Annual Augmented Reality and Virtual Reality (《全球半年度增強現實和虛擬實境指南》) issued by IDC, the output value of products and services of AR and VR in 2018 increased by approximately 95.0% compared with that in 2017, and the compound annual growth rate is expected to reach approximately 98.8% in the coming years. To achieve considerable economic benefits, the Group will continue to increase investment in R&D, promote technological innovation, proactively explore the market, and strengthen cooperation with the world’s top-tier hi-tech companies, laying a solid foundation for the Group’s mid- to long-term development in the future.

During the period under review, driven by R&D investment, improved the construction of R&D organization, increased the investment in core technologies, consolidated core manufacturing resources, the Group conducted R&D to upgrade and make innovations in the existing products and production techniques in three major business segments, namely Optical Components, Optoelectronic Products and Optical Instruments. The Group kept innovating in the emerging optical application fields and optoelectronic modules, and further boosted the process automation and “Lean Production”, which further consolidated the technological advantages for the existing products in the industry and established a first-mover advantage in emerging technologies and products. In addition, the Group has been actively making patent layout. The Group had acquired 123 new patents during the period under review. As of the first half of 2018, the Group had been granted 757 patents, including 174 invention patents, 539 utility model patents, 44 exterior design patents and another 1,348 patent applications pending approval.

The Group received numerous honours during the period under review. For the Optical Components business segment, Zhejiang Sunny Optics Co., Ltd. was awarded the “Six Anniversary Commemoration of Cooperation”, “Innovation Award” and “Quality Award” by Vivo Communication Technology Co. Ltd. (“Vivo”). Xinyang Sunny Optics Co., Ltd. was awarded the “Excellent Supplier Award” in 2017 by Panasonic Avc Networks Xiamen Co., Ltd.. For the Optoelectronic Products business segment, Ningbo Sunny Opotech Co., Ltd. was awarded the “Excellent Quality Award” by Huawei, Zhejiang Sunny Optical Intelligence Technology Co., Ltd. was awarded the “Top Partner Award” in 2017 by Company T and “Best Collaboration Award” by Panasonic (Vietnam) System Technology Co., Ltd., a subsidiary of Panasonic in Japan. These awards showed the excellent performance of the Group in scientific and technological innovation and also indicated that the Group’s product quality, services, and delivery have been highly recognized and approved by customers. In addition, the Group topped the table on the Institutional Investor, an US magazine regarding “Best Investor Relations Program” of Technology/Hardware companies in Asia, and was ranked Top three among the lists of “Best CEO”, “Best CFO”, “Best Investor Relations Professional”, and “Best Analyst Day” for three consecutive years. The Group also won the first place in the magazine’s new selection of “Best Corporate Governance” and “Best Environmental, Social and Governance Series Metrics” in 2018. Meanwhile, the Company also received the title of the “Most Honored Company” for three consecutive years. The Group was again awarded many prizes by Institutional Investor, manifesting the excellent ability of strategic decision and the level of corporate governance of its management team, as well as demonstrating the recognition of the professional level of investor relationship management by capital cycle, which certainly motivates the Company to reach ever higher goals courageously.

Optical Components

Benefiting from the continuous growth in mid- to high-end smartphone market and vehicle imaging field, the Group’s active response to market changes, as well as the breakthrough of key technology, enhancement of R&D ability, market expansion and improvement of the production efficiency of Optical Components business segment, this business segment achieved satisfactory results. During the period under review, the revenue from Optical Components business segment amounted to approximately RMB2,656.3 million, representing an increase of approximately 40.1% as compared with the corresponding period of last year. This business segment accounted for approximately 22.2% of the Group’s total revenue as compared with approximately 18.9% 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 53.6% in shipment volume. Meanwhile, the proportion of shipment volume of 10-mega pixel above products increased from approximately 42.9% of first half of last year to approximately 51.6%. In addition, the Group also paid great attention to investment in the R&D of products, especially in new specifications such as large aperture, miniaturization and ultra-wide angle. During the period under review, the Group has successfully completed the R&D of multiple products, primarily including 16-mega pixel ultra-wide angle handset lens sets, handset lens sets with ultra-high aperture (FNo.1.5) and variable aperture, and handset lens sets with ultra-high aperture (FNo.1.4) and 7 pieces plastic aspheric lenses (“7P”). 24-mega pixel miniaturized head handset lens sets have achieved mass production. Meanwhile, the Group has advanced layout on a variety of telephoto handset lens sets for dual- and triple-camera in advance. In respect of 3D field, the 3D collimating lens sets have achieved mass production. Furthermore, in addition to continued mass production of the high-end handset lens sets with 10-mega pixel above for Korean customers and a Japanese customer, the Group has also provided more and more high resolution handset lens sets with differentiated functions and high specification to famous domestic smartphone brand manufacturers, which has further improved the Group’s share in domestic market. Besides, the Group has developed a wide range of products applied in emerging fields such as lenses and lens sets used in VR/AR, biological recognition, motion tracking, 3D and so on. Thanks to its profound accumulation of experience in the field of optics and leading edge in technology, some of the products have commenced mass production.

During the period under review, the shipment volume of vehicle lens sets of the Group increased by approximately 17.9% as compared with the corresponding period of last year. The Group also continued to maintain global No.1 position in the industry.

The Group has achieved favorable performance in the future new product fields, which further strengthened its leading position in segment market. During the period under review, the Group successfully developed the key optical components products of vehicle's head-up display (“HUD”) and made a breakthrough in the market. Meanwhile, the Group launched the R&D and industrial chain layout of the key optical components of lidar, so as to expand the applications of vehicle optical products.

Optoelectronic Products

Benefiting from the growth of mid- to high-end smartphone market in the PRC, the rise of the domestic brands and the development of other mobile device products, the Optoelectronic Products business segment recorded a stable growth. During the period under review, the revenue from the Optoelectronic Products business segment amounted to approximately RMB9,186.9 million, representing an increase of approximately 14.6% 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 79.9% in the corresponding period of last year.

During the period under review, the handset camera modules of the Group recorded a year-on-year growth of approximately 16.3% in the shipment volume. Meanwhile, the proportion of shipment volume of 10-mega pixel above products increased from approximately 64.1% of first half of last year to approximately 78.1%. During the period under review, dual-camera modules have become the mainstream with triple-camera modules emerged and the demand for higher magnification optical zoom was strong at the same time. The Group has successfully developed triple-camera modules of 10-mega pixel above with 5 times magnification optical zoom functions, and has established good and long-term cooperation relationships with mainstream customers. In addition, with the higher requirement for image performance of smartphones, the demand for large aperture technology is getting stronger. The Group has completed the R&D on 10-mega pixel above handset camera modules with FNo.1.4. Meanwhile, the vehicle camera modules for a world well-known Tier 1 customer have commenced mass production. In respect of 3D technology, the Group also carried out an overall layout. Modules based on depth vision have achieved mass production in unmanned retail areas. At the same time, the Group has launched continuous R&D and innovation on new patented packaging process technology, and has developed brand new packaging technology, so as to meet users' demand for larger screen occupancy ratio of smartphone. This will not only immensely improve the production efficiency, but also facilitate the promotion and expansion of businesses of multi-camera modules and 3D modules.

Optical Instruments

During the period under review, benefiting from the recovery of macroeconomic environment and the increased demand for the entire electronic market for relevant instruments and equipment because of its recovery, the revenue from the Optical Instruments business segment amounted to approximately RMB133.2 million, representing an increase of approximately 8.7% over the corresponding period of last year. This business segment accounted for approximately 1.1% of the Group's total revenue as compared with approximately 1.2% in the corresponding period of last year.

During the period under review, the Group continued to deepen the role transformation of instrument system solution integrators, and has achieved growth and breakthroughs in each of the two business segments, namely microscopic instruments and intelligent equipment. As for the microscopic instruments business segment, the Group focused on the R&D and promotion of products and further strengthened its marketing capabilities with the product structure experiencing continued improvement. The objective lens with 20 times extra-large field of view, which was first applied to the field of gene sequencing in China, has commenced mass production. As for the intelligent equipment business segment, the chip camera modules focus tester and mycobacterium tuberculosis microscopy scanning system independently developed by the Group have commenced mass production. In addition, the Group will also continue to enhance investments in the R&D and marketing of high-end optical instruments in industrial, educational and medical fields to maintain the mid-to long-term stable development of the Group.

OUTLOOK AND FUTURE STRATEGIES

Adhering to the mission of ensuring the continuous improvement and expansion of the Group, the management team of the Group led all staff to persevere and strove to make further progress with constant exploration and innovation. As a result, all aspects of business of the Group has achieved a sound development. During the period under review, the Group had a satisfactory performance. Although the global economic growth remains uncertain, the Group still holds the fundamentally optimistic attitude towards its full-year operations as it was in the beginning of the year. The Group has been accelerating the transformation and upgrade of its various businesses, and has been continuing to implement its development strategies decided at the beginning of the year.

1. Continue to consolidate the Group's leading position in the market by improving and expanding its existing advantageous businesses and further improving its competitiveness in the market

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

- unswervingly intensifying the R&D of and investment in key technologies to maintain its leadership in product performance and thus to build technological competitiveness;
- promoting the development and optimisation of manufacturing process practically, speeding up and improving the process of production line automation to ensure production efficiency and product quality and thus to build manufacturing competitiveness;
- keeping propelling lean manufacturing management and optimising management functions and processes so as to improve production line flexibility and product delivery ability and thus to build management competitiveness;
- enhancing supply chain construction constantly and improving purchase efficiency significantly so as to reduce purchase cost effectively and thus to build competitiveness of supply chain.

By building aforesaid competitiveness in several aspects, the Group will further form an overall competitive edge and improve its market position.

2. Continue to deepen “Two Transformations” and accelerate the incubation and growth of existing new businesses to provide customers with better product portfolios

The Group will speed up the R&D and business growth of existing new products in the markets such as AR/VR, 3D structured-light and key optical components of vehicle HUD. Leveraging its technological advantages and industry foundation in early stage, the Group will take the lead in launching mature products to gain market share and achieve industry leadership. In addition, the Group will further integrate its advantageous resources and focus on key market segments. Based on its in-depth analysis and understanding of market demands, the Group will strive to develop generic and extensible products that are in demand in the industry. In the meantime, the Group needs to actively develop the marketing modes for existing new business fields, make its organizational structure and staffing more suitable for new business development in the new markets, and achieve major breakthroughs and substantial growth in key market segments.

3. Continue to take customers’ needs as the center and technology as the guide to explore new fields and cultivate new growth points of businesses for the Group

In the second half of 2018, the research institute of the Group will actively explore new technologies and new fields as a technology leader to implement more new technologies and lead the R&D capability of the Group to a new level, so as to grasp new trends and open new markets for the Company. To this end, the research institute of the Group will practically strengthen the communication and cooperation with marketing and R&D departments of various business units. At the same time, it will keep enhancing the communication and cooperation with external enterprises and institutions to achieve advantageous complementation and promote the transformation of R&D achievements into reliable products and launch them in the markets, so as to cultivate new growth points of businesses for the Company.

4. Continue to improve talent introduction and cultivation mechanism, actively promote enterprise culture construction and provide an important guarantee for sustainable development in the future

The development of enterprises is inseparable from talents. The Group will continue to strengthen the introduction of high-level talents, especially the top talents including industry leaders and technological leaders. In the meantime, the Group will also enhance the employment and reserve of fresh graduates to build a talent cultivation system which features a smoother growth, more scientific mechanism and sounder management through further improvement of the talent cultivation mechanism to keep consolidating the talent base of the Group continuously. Meanwhile, all the staff will continue to take the opportunity of in-depth study of “Practice and Exploration” to continue to promote the unified understanding of “Prevention of Slackness and Keeping Motivated”. By exchanging, understanding, implementing and executing the Group’s culture at a deeper level, deficiencies which are often associated with large enterprises such as organisational rigidity and departmental estrangement bred in enterprise development will be effectively prevented and thus the health and vitality of Sunny Optical as an organism will be ensured.

In addition, the Group continued to actively promote the building of school-enterprise cooperation. In the afternoon of 23 June 2018, the establishment ceremony of the Intelligent Optical Joint Research Center of Zhejiang University and Sunny Optical was ceremoniously held in the Group. In the future, the two parties will jointly build a world-class base of scientific research, talent cultivation and technology radiation.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2018 and 30 June 2017:

	For the six months ended 30 June	
	2018	2017
	<i>RMB million</i>	<i>RMB million</i>
Net cash from operating activities	599.6	578.5
Net cash used in investing activities	(3,495.3)	(524.8)
Net cash from financing activities	3,137.9	144.1

The Group derives its working capital mainly from cash on hand and net cash generated from operating activities. The Board expects that the Group will rely on net cash generated from operating activities, bank borrowings and debt financing to meet its working capital and other capital expenditure requirements in the short run. In the long run, the Group will be funded by net cash from operating activities, and if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policies of the Group for the six months ended 30 June 2018.

The Group's balance of cash and cash equivalents was approximately RMB1,497.2 million as at 30 June 2018, representing an increase of approximately RMB270.3 million when compared to the beginning of this year.

Capital Expenditure

For the six months ended 30 June 2018, the Group's capital expenditure amounted to approximately RMB1,092.0 million, which was mainly used for the purchases of property, plant and equipment, acquisition of land use right, purchase of intangible assets and other tangible assets. All of the capital expenditure was financed by internal resources, debt financing and bank borrowings.

CAPITAL STRUCTURE

Indebtedness

Bank borrowings

Bank borrowings of the Group as at 30 June 2018 amounted to approximately RMB1,486.6 million (31 December 2017: approximately RMB1,347.9 million). As at 30 June 2018, no building of the Group was pledged to secure bank borrowings granted (31 December 2017: Nil).

As at 30 June 2018, all bank borrowings were denominated mainly in U.S. Dollars and Renminbi.

Bank facilities

As at 30 June 2018, the Group had bank facilities of RMB2,626.0 million with Yuyao Branch of Agriculture Bank of China Limited, RMB901.0 million with Yuyao Branch of Bank of China Limited, RMB700.0 million with Ningbo Branch of The Export-Import Bank of China, RMB500.0 million with Yuyao Branch of Bank of Ningbo Co., Ltd., RMB200.0 million with Yuyao Branch of Bank of Communication Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Limited, RMB50.0 million with Xinyang, Pingzhong Street Branch of Industrial and Commercial Bank of China Limited, RMB20.0 million with Zhongshan Branch of China Construction Bank Corporation, USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas (Shanghai) Limited, USD60.0 million with The Hong Kong and Shanghai Banking Corporation Limited, Hong Kong Branch, USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Limited and USD50.0 million with Overseas-Chinese Banking Corporation Limited, Hong Kong Branch.

Debt Security

As at 30 June 2018, the debt security of the Group amounted to approximately RMB3,931.2 million.

The Group issued USD600.0 million bonds on 16 January 2018. For details, please refer to Note 21 of the notes to the condensed consolidated financial statements of this Announcement.

The gearing ratio of the Group by reference to the total debt to total book capitalisation ratio (total book capitalisation means the sum of total liabilities and shareholders' equity) was approximately 26.7%, reflecting that the Group's financial position was at a sound level.

Contingent liabilities

As at 30 June 2018, the Group did not have any material contingent liabilities or guarantees.

Funding and treasury policies and objectives

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

PLEDGE OF ASSETS

As at 30 June 2018, the Group did not have any pledge or charge on assets, except for the pledged bank deposits of approximately RMB355.3 million.

COMMITMENTS

As at 30 June 2018, the capital expenditure of the Group in respect of purchases of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements amounted to approximately RMB737.2 million (31 December 2017: approximately RMB789.6 million).

As at 30 June 2018, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2018, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS PLAN

The Group's investing activities mainly include the purchase and redemption of financial assets designated as at fair value through profit or loss, placement and withdrawal of pledged bank deposits, placement and withdrawal of short-term fixed deposits and purchases of property, plant and equipment. For the six months ended 30 June 2018, the Group's investments amounted to approximately RMB1,092.0 million, which mainly involves the purchases of machinery and equipment, as well as the initial production settings of new products, acquisition of land use rights, purchase of intangible assets and necessary equipment configurations of new projects. These investments enhanced the Group's R&D and technology application capabilities and production efficiency, and thus expanded the sources of revenue.

The Group adopts prudent financial policies, having its investment projects mostly capital-protected with fixed income, so as to strive for a stable and healthy financial position while improving the returns. The Group did not and has no plan to use any financial instrument for hedging purposes and will continue to fund its future investments from its own financial resources.

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

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks on its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. The rising of interest rates increases the costs of both existing and new debts. For the six months ended 30 June 2018, the effective interest rate on fixed-rate bank borrowings was approximately 3.92% per annum, while the effective interest on variable-rate bank borrowings was approximately from 2.73% to 3.92% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in U.S. dollars or other foreign currencies. Please refer to the information of the Group's foreign currency options contracts and foreign currency forward contracts at Note 15 of the notes to the condensed consolidated financial statements of this Announcement. Except certain investments which are in line with the Group's business and which are denominated in foreign currencies, the Group did not and has no plan to make any foreign currency investment.

Credit Risk

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

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

The Group has no significant credit concentration risks since its trade receivables are dispersed to a large number of counterparties and customers. The credit risk on liquidity is limited because majority of the counterparties of the Group are banks with high credit-ratings as rated by international credit-rating agencies.

OTHER INFORMATION

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

The Company is empowered by the applicable Cayman Islands Companies Law and the Company's Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by The Stock Exchange of Hong Kong Limited ("**Stock Exchange**"). There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries, with the exception of the trustees of the Restricted Share Award Scheme ("**Restricted Share Award Scheme**"), of the Company's listed shares during the six months ended 30 June 2018.

B. SHARE OPTION SCHEME

On 25 May 2007, the Company adopted the share option scheme (the "**Scheme**") for the purpose of providing incentives and rewards to eligible participants who have made great contribution to the success of the Company. Eligible participants of the Scheme include, without limitation, employees, Directors and shareholders of the Group. There was no share option of the Group exercised from the beginning and until the end of the period under review. For the six months ended 30 June 2018, no share option (i) has been granted or agreed to be granted to any person; (ii) has been exercised by any person; (iii) has been cancelled; and (iv) forfeited under the Scheme.

C. RESTRICTED SHARE AWARD SCHEME

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

For the six months ended 30 June 2018, details of movements of the shares under the Restricted Share Award Scheme were as follows:

Date of grant	Fair value of each share (Note 1) HK\$	As at 1 January 2018	Number of Shares			As at 30 June 2018	Vesting period
			Granted during the period	Vested during the period	Forfeited during the period		
7 May 2010	1.64	-	-	-	-	-	From 6 May 2014 to 6 May 2015
14 March 2011	2.67	-	-	-	-	-	From 13 March 2014 to 13 March 2015
18 August 2011	1.64	-	-	-	-	-	From 17 August 2014 to 17 August 2015
14 March 2012	2.70	-	-	-	-	-	13 March 2016
17 August 2012	3.08	-	-	-	-	-	From 16 August 2015 to 16 August 2017
21 December 2012	5.12	-	-	-	-	-	20 December 2016
9 March 2013	8.10	-	-	-	-	-	8 March 2017
13 August 2013	8.69	-	-	-	-	-	From 12 August 2016 to 12 August 2017
22 October 2013	7.79	-	-	-	-	-	21 October 2017
11 March 2014	7.19	852,125	-	(767,125)	(85,000)	-	10 March 2018
15 August 2014	9.74	880,600	-	-	(30,000)	850,600	From 14 August 2017 to 14 August 2018
21 October 2014	12.46	55,000	-	-	-	55,000	20 October 2018
9 March 2015	14.30	523,000	-	(261,500)	-	261,500	8 March 2019
26 May 2015	17.28	-	-	-	-	-	25 May 2017
24 August 2015	12.26	780,500	-	-	-	780,500	23 August 2019
15 November 2015	17.76	189,005	-	-	-	189,005	From 14 November 2017 to 14 November 2018

Date of grant	Fair value of each share (Note 1) HK\$	As at 1 January 2018	Number of Shares			As at 30 June 2018	Vesting period
			Granted during the period	Vested during the period	Forfeited during the period		
15 April 2016	24.25	1,007,750	-	(1,004,181)	(3,569)	-	14 April 2018
15 November 2016	37.45	361,056	-	-	(16,683)	344,373	From 14 November 2018 to 14 November 2019
18 April 2017	55.20	1,065,459	-	(529,160)	(14,533)	521,766	17 April 2019
30 June 2017	70.00	203,994	-	-	(2,215)	201,779	29 June 2020
15 November 2017	140.10	142,666	-	(1,331)	(4,994)	136,341	14 November 2019
16 April 2018	156.00	-	530,440	-	(8,880)	521,560	15 April 2020
		<u>6,061,155</u>	<u>530,440</u>	<u>(2,563,297)</u>	<u>(165,874)</u>	<u>3,862,424</u>	

Note:

- (1) The fair value of the shares was calculated based on the closing price per share on the date of grant.
- (2) According to the Group's internal policy, the shares which have been granted to the employees (to be promoted later) but not yet vested, will remain unvested during the promotion year and be carried forward to the next year after promotion.

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

D. RISK MANAGEMENT, INTERNAL CONTROL AND CORPORATE GOVERNANCE

Code of Corporate Governance Practices

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

For the six months ended 30 June 2018, the Company complied with all code provisions and adopted most of the recommended best practices of the Code on Corporate Governance ("Corporate Governance Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

Internal Controls and Risk Management

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

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

Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. After having made specific enquiries to all Directors with regard to the securities transactions, all Directors have confirmed their compliance with the requirements set out in the Model Code regarding Directors' securities transactions throughout the six-month period ended 30 June 2018.

E. AUDIT COMMITTEE

The Company's audit committee consists of three independent non-executive Directors (namely Mr. Zhang Yuqing (committee chairman), Mr. Feng Hua Jun and Mr. Shao Yang Dong) ("Audit Committee"). The Audit Committee, together with our external auditor, has reviewed and discussed about relevant issues such as audition, internal control and financial statements, among which includes review of unaudited condensed consolidated financial statements for the six months ended 30 June 2018. Members of the Audit Committee agree with the accounting treatments adopted in the preparation of the condensed consolidated financial statements.

F. INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

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

The Company provides investors with its communications every month, so as to improve the transparency of the Group. Immediately after its publication of annual results in March 2018, the Company has held an investor presentation of annual results in Hong Kong, and has attended a number of one-on-one investor meetings around the world, among which includes 1 reverse roadshow, 5 non-deal roadshows, 9 investors' forums and conferences, and received 40 investor visits in Yuyao headquarters, so as to keep close contact with the investors.

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

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

Hong Kong, 13 August 2018

As at the date of this announcement, the Board comprises Mr. Ye Liaoning, Mr. Sun Yang and Mr. Wang Wenjie, who are executive Directors; Mr. Wang Wenjian, who is non-executive Director, and Mr. Zhang Yuqing, Mr. Feng Hua Jun and Mr. Shao Yang Dong, who are independent non-executive Directors.