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 2019

RESULT HIGHLIGHTS

The Group's unaudited consolidated revenue for the six months ended 30 June 2019 was approximately RMB15,574.9 million, representing an increase of approximately 30.0% 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 growth in the vehicle imaging and sensing fields.

The gross profit for the six months ended 30 June 2019 was approximately RMB2,864.0 million, representing an increase of approximately 23.4% as compared with the corresponding period of last year. The gross profit margin was approximately 18.4%.

The net profit for the six months ended 30 June 2019 increased by approximately 20.4% to approximately RMB1,432.4 million as compared with the corresponding period of last year. The net profit margin was approximately 9.2%.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**", each a "**Director**") 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 2019, together with the comparative figures for the corresponding period in the year 2018 as follows:

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**15,574,918**	11,976,354
Cost of sales		**(12,710,935)**	(9,656,294)
Gross profit		**2,863,983**	2,320,060
Other income	*4*	**187,044**	191,603
Other gains and losses	*5*	**(31,644)**	(173,722)
Impairment losses under expected credit loss model, net of reversal		**(15,534)**	(1,398)
Selling and distribution expenses		**(130,753)**	(95,454)
Research and development expenditure		**(826,538)**	(544,462)
Administrative expenses		**(257,386)**	(184,109)
Share of results of associates		**(2,192)**	(9,283)
Finance costs		**(126,396)**	(90,858)
Profit before tax		**1,660,584**	1,412,377
Income tax expense	*6*	**(228,157)**	(222,620)
Profit for the period	*7*	**1,432,427**	1,189,757
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		**–**	2,811
Items that may be reclassified subsequently to profit or loss:			
Exchange differences arising on translation of foreign operations		**520**	957
Other comprehensive income for the period		**520**	3,768
Total comprehensive income for the period		**1,432,947**	1,193,525

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
For the six months ended 30 June 2019

		For the six months ended 30 June	
		2019	2018
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Profit for the period attributable to:			
Owners of the Company		**1,431,175**	1,179,794
Non-controlling interests		**1,252**	9,963
		1,432,427	1,189,757
Total comprehensive income attributable to:			
Owners of the Company		**1,431,509**	1,183,341
Non-controlling interests		**1,438**	10,184
		1,432,947	1,193,525
Earnings per share – Basic (RMB cents)	*8*	**130.79**	108.03
– Diluted (RMB cents)	*8*	**130.65**	107.61

Condensed Consolidated Statement of Financial Position
At 30 June 2019

	NOTES	**30 June 2019 RMB'000 (unaudited)**	31 December 2018 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10(a)*	**5,176,835**	4,522,741
Right-of-use assets	*10(b)*	**405,027**	–
Prepaid lease payments		**–**	213,823
Investment properties	*10(c)*	**47,494**	49,689
Intangible assets		**477,128**	348,821
Interests in associates		**66,857**	100,808
Deferred tax assets	*11*	**60,700**	42,599
Deposits paid for acquisition of property, plant and equipment	*12*	**548,497**	401,342
Equity instruments at fair value through other comprehensive income ("**FVTOCI**")		**112,183**	106,583
Debt instruments at amortised cost		**27,077**	54,479
Financial assets at fair value through profit or loss ("**FVTPL**")	*13(a)(b)*	**234,323**	235,085
Derivative financial assets	*14*	**11,153**	7,799
Goodwill	*20*	**862**	–
		7,168,136	6,083,769
CURRENT ASSETS			
Inventories	*15*	**4,389,732**	3,073,922
Trade and other receivables and prepayment	*16*	**7,697,882**	6,231,486
Prepaid lease payments	*10(b)*	**-**	5,581
Tax recoverable		**54,669**	111,863
Derivative financial assets	*14*	**10,528**	38,986
Financial assets at fair value through profit or loss	*13(c)(d)*	**4,439,075**	4,759,582
Debt instruments at amortised cost		**82,940**	54,915
Amounts due from related parties		**–**	3,032
Pledged bank deposits		**12,241**	214,708
Short term fixed deposits		**20,000**	20,000
Bank balances and cash		**1,612,927**	2,254,299
		18,319,994	16,768,374

Condensed Consolidated Statement of Financial Position
At 30 June 2019

	NOTES	**30 June 2019 RMB'000 (unaudited)**	31 December 2018 RMB'000 (audited)
CURRENT LIABILITIES			
Trade and other payables	*17*	**8,886,450**	7,063,861
Amounts due to related parties		**6,372**	8,978
Derivative financial liabilities	*14*	**5,864**	741
Bank borrowings		**1,112,482**	1,482,405
Lease liabilities – current portion		**42,530**	–
Contract liabilities		**112,421**	110,281
Deferred income – current portion		**14,860**	11,175
		10,180,979	8,677,441
NET CURRENT ASSETS		**8,139,015**	8,090,933
TOTAL ASSETS LESS CURRENT LIABILITIES		**15,307,151**	14,174,702
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*11*	**535,317**	403,328
Derivative financial liabilities	*14*	**-**	2,682
Long term payables	*17*	**346,779**	330,452
Deferred income – non-current portion		**54,397**	70,113
Lease liabilities – non-current portion		**123,710**	–
Bonds payable		**4,091,169**	4,079,983
		5,151,372	4,886,558
NET ASSETS		**10,155,779**	9,288,144
CAPITAL AND RESERVES			
Share capital	*18*	**105,163**	105,163
Reserves		**9,886,745**	9,128,934
Equity attributable to owners of the Company		**9,991,908**	9,234,097
Non-controlling interests		**163,871**	54,047
TOTAL EQUITY		**10,155,779**	9,288,144

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL INFORMATION AND BASIS OF PRESENTATION

The Company was incorporated in the Cayman Islands on 21 September 2006 as an exempted company under the Companies Law Chapter 21 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands and its shares have been listed on the Stock Exchange of Hong Kong Limited with effect from 15 June 2007.

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**").

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

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.

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 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*

Excepted as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position as at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
	RMB'000	*RMB'000*	*RMB'000*
Non-current Assets			
Prepaid lease payments	213,823	(213,823)	–
Other receivables			
– Rental deposits	290	(53)	237
Right-of-use assets	–	347,745	347,745
Current Assets			
Prepaid lease payments	5,581	(5,581)	–
Current Liabilities			
Lease liabilities	–	38,666	38,666
Non-current Liabilities			
Lease liabilities	–	92,551	92,551
Capital and Reserves			
Reserves	9,128,934	(2,929)	9,126,005

3A. REVENUE FROM GOODS

Disaggregation of revenue

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Sales of optical and optical-related products		
Mobile phone related products	**13,420,582**	10,195,255
Other lens sets	**1,004,472**	778,577
Digital camera related products	**305,987**	411,163
Other spherical lens and plane products	**116,225**	57,298
Optical instruments	**81,689**	98,061
Digital video lens	**40,486**	35,263
Industrial endoscopes	**–**	5,566
Other products	**605,477**	395,171
Total	**15,574,918**	11,976,354

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Geographical markets		
China	**12,454,138**	10,457,365
Asia (except China)	**2,329,467**	972,270
Europe	**413,098**	299,629
North America	**310,282**	225,412
Others	**67,933**	21,678
Total	**15,574,918**	11,976,354
Timing of revenue recognition		
At a point in time	**15,574,918**	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 2019

	Optical Components *RMB'000* (unaudited)	Optoelectronic Products *RMB'000* (unaudited)	Optical Instruments *RMB'000* (unaudited)	Segments' total *RMB'000* (unaudited)	Eliminations *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Revenue						
External sales	3,773,696	11,679,501	121,721	15,574,918	–	15,574,918
Inter-segment sales	988,224	126,533	39,012	1,153,769	(1,153,769)	–
Total	4,761,920	11,806,034	160,733	16,728,687	(1,153,769)	15,574,918
Segment profit	1,515,830	290,256	6,104	1,812,190	–	1,812,190
Share of results of associates						(2,192)
Unallocated income						18,157
Unallocated expenses						(167,571)
Profit before tax						1,660,584

As at 30 June 2019

	Optical Components *RMB'000* (unaudited)	Optoelectronic Products *RMB'000* (unaudited)	Optical Instruments *RMB'000* (unaudited)	Segments' total *RMB'000* (unaudited)	Unallocated *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Total assets	3,092,722	8,376,551	105,775	11,575,048	13,913,082	25,488,130
Total liabilities	1,396,476	6,263,147	80,198	7,739,821	7,592,530	15,332,351

For the six months ended 30 June 2018

	Optical Components RMB'000 (unaudited)	Optoelectronic Products RMB'000 (unaudited)	Optical Instruments RMB'000 (unaudited)	Segments' total RMB'000 (unaudited)	Eliminations RMB'000 (unaudited)	Total RMB'000 (unaudited)
Revenue						
External sales	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)	–
Total	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
Share of results of associates						(9,283)
Unallocated income						55,677
Unallocated expenses						(135,190)
Profit before tax						1,412,377

As at 31 December 2018

	Optical Components RMB'000 (audited)	Optoelectronic Products RMB'000 (audited)	Optical Instruments RMB'000 (audited)	Segments' total RMB'000 (audited)	Unallocated RMB'000 (audited)	Total RMB'000 (audited)
Total assets	2,641,818	6,144,552	83,043	8,869,413	13,982,730	22,852,143
Total liabilities	1,438,961	4,537,955	67,367	6,044,283	7,519,716	13,563,999

Segment profit represents the profit 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 and depreciation of right-of-use assets 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	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants	**35,244**	60,498
Interest income from short term fixed deposits and bank balances	**17,826**	12,595
Interest income from pledged deposits	**412**	1,084
Investment income from financial assets at FVTPL	**97,428**	89,618
Investment income from debt instruments	**6,479**	2,839
Interest income from loan receivables	**2,657**	3,668
Income from sales of moulds	**8,042**	3,330
Income from sales of scrap materials	**5,102**	4,369
Others	**13,854**	13,602
	187,044	191,603

5. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net foreign exchange loss	**(29,802)**	(201,046)
Gain (loss) on disposal of property, plant and equipment	**64**	(2,650)
(Loss) gain on changes in fair value of derivative financial instruments, net	**(27,545)**	37,660
Gain (loss) on changes in fair value of debt instruments equity investment and fund investments at FVTPL	**32,194**	(8,543)
Others	**(6,555)**	857
	(31,644)	(173,722)

6. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
– The People's Republic of China (the "**PRC**") Enterprise Income Tax	**111,451**	68,787
– Other Jurisdiction	**2,818**	–
	114,269	68,787
Deferred tax *(Note 11)*:		
– Current period	**113,888**	153,833
	228,157	222,620

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

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging the following items:		
Depreciation of property, plant and equipment	**528,845**	348,665
Depreciation of investment properties	**2,195**	2,195
Depreciation of right-of-use assets	**27,034**	–
Release of prepaid lease payments	**–**	2,379
Amortisation of intangible assets	**28,976**	21,801
Allowance for inventories	**10,816**	8,678

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:

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share	**1,431,175**	1,179,794
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,094,241**	1,092,082
Effect of dilutive potential ordinary shares – restricted shares	**1,202**	4,243
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,095,443**	1,096,325

9. DIVIDENDS

	For the six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period: Final dividend paid in 2019 for 2018 of Hong Kong Dollar ("**HK$**") 66.20 cents per share, approximately RMB56.80 cents per share (2018: HK$81.20 cents per share for 2017, approximately RMB66.10 cents per share)	**623,011**	725,117

The Directors of the Company do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (corresponding period of 2018: Nil).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS 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 RMB1,160,262,000 (corresponding period of 2018: RMB1,025,161,000) in order to upgrade its manufacturing capabilities and capacity expansion.

In addition, the Group disposed certain of its plants and equipment with a carrying amount of approximately RMB6,057,000 (corresponding period of 2018: RMB4,784,000) which resulted in a disposal gain of approximately RMB64,000 (corresponding period of 2018: a loss of RMB2,650,000).

As at 30 June 2019, no buildings of the Group were pledged to secure bank borrowings granted.

(b) Right-of-use assets

As stated in Note 2.1, the Group recognised right-of-use assets amounting to RMB347,745,000 as at 1 January 2019.

During the current interim period, the Group entered into some new lease agreements for the use of staff dormitory for a range of 3-10 years. On lease commencement, the Group recognised RMB60,459,000 of right-of-use assets relating to operating leases, and RMB60,302,000 of lease liabilities.

During the current interim period, the Group acquired a piece of leasehold land located in the PRC amounting to RMB23,857,000, which was also recoginsed as right-of-use assets on the commencement date (corresponding period of 2018: RMB71,692,000).

As at 30 June 2019, no leasehold lands of the Group were pledged to secure bank borrowings granted.

(c) Investment properties

During the current interim period, a depreciation charge of RMB2,195,000 (corresponding period of 2018: RMB2,195,000) was recognised in profit or loss and the carrying value of investment properties was amounted to RMB47,494,000 as at 30 June 2019.

11. 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 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Deferred tax assets	**(60,700)**	(42,599)
Deferred tax liabilities	**535,317**	403,328
	474,617	360,729

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

	Withholding tax on distributed profit from the PRC	**Allowance for inventories and doubtful debts**	**Deferred subsidy income**	**Accelerated depreciation**	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018 (audited)	49,329	(22,723)	(7,025)	57,566	(4,472)	72,675
Charge (credit) to profit or loss	31,530	(9,733)	(2,263)	256,927	13,001	289,462
Credit to other comprehensive income	–	–	–	–	(1,408)	(1,408)
At 31 December 2018 (audited)	80,859	(32,456)	(9,288)	314,493	7,121	360,729
Charge (credit) to profit or loss *(Note 6)*	(23,579)	(3,937)	1,805	137,196	2,403	113,888
At 30 June 2019 (unaudited)	57,280	(36,393)	(7,483)	451,689	9,524	474,617

12. 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 and other regions for the expansion of the Group's production plant.

During the current interim period, the Group paid an amount of approximately RMB319,499,000 (corresponding period of 2018: RMB580,905,000) as the deposits for acquisition of property, plant and equipment and transferred an amount of approximately RMB172,344,000 (corresponding period of 2018: RMB479,898,000) to property, plant and equipment.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Non-current		
– Debt investments *(a)*	**138,917**	157,205
– Equity investments *(b)*	**95,406**	77,880
Total	**234,323**	235,085
Current		
– Fund investments *(c)*	**355,525**	327,512
– Unlisted financial products *(d)*	**4,083,550**	4,432,070
Total	**4,439,075**	4,759,582

(a) Debt investments

In 2018, the Group purchased several debt investments with carrying coupon rates ranging from 4.65% to 7.25%. These investments have certain features that cannot pass the testing of solely payments of principal and interest on the principal amount outstanding and thus were accounted for financial assets at FVTPL on the initial recognition. During the current interim period, the Group disposed one debt investment at the proceed of RMB19,454,000 with the disposal loss of RMB603,000 recognised in the profit or loss. The gain on the fair value change of the remaining debt investments amounting to RMB1,994,000 was recognised in the profit or loss in the current interim period.

(b) Equity investments

The Group's equity investments of 餘姚市陽明智行投資中心(有限合夥) ("**V Fund**") and another partnership enterprise in total amount of RMB70,932,000 (31 December 2018: RMB56,750,000) were classified as financial assets at FVTPL. During the current interim period, the Group further invested the remaining RMB14,790,000 into V Fund according to the investment agreement signed before. As at 30 June 2019, the fair value of all equity investments amounted to RMB95,406,000 (31 December 2018: RMB77,880,000) with a fair value gain of RMB2,736,000 recognised in the profit or loss during the current interim period.

(c) Fund investments

In 2018, the Group purchased fund units (the "**Fund**") with a financial institution, which were accounted for as financial assets as FVTPL on initial recognition. As at 30 June 2019, the fair value of the Fund was United States Dollar ("**US$**" or "**USD**") 51,715,000 per the investment statement of the financial institution, equivalent to RMB355,525,000. The fair value gain in the amount of RMB27,464,000 was recognised in the profit or loss in the current interim period.

(d) Unlisted financial products

During the current interim period, the Group entered into several contracts of unlisted financial products with banks. The unlisted financial products are managed by related banks in the PRC to invest principally in certain financial assets including bonds, trusts and cash funds, etc. The unlisted financial products have been accounted for as financial assets at FVTPL on initial recognition in which that the return of the unlisted financial products was determined by reference to the performance of the underlying investment assets and the expected return rate stated in the contracts ranges from 2.81% to 4.75% (31 December 2018: 1.30% to 5.30%) per annum.

In the opinion of the Directors of the Company, the fair value change of the unlisted financial products is insignificant in the current interim period.

14. 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 2019	31 December 2018	**30 June 2019**	31 December 2018
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(audited)	**(unaudited)**	(audited)
Foreign currency forward contracts	**18,777**	46,388	**–**	2,682
Foreign currency options contracts	**2,904**	397	**5,864**	741
Total	**21,681**	46,785	**5,864**	3,423
Less: current portion				
Foreign currency forward contracts	**7,624**	38,589	**–**	–
Foreign currency options contracts	**2,904**	397	**5,864**	741
	10,528	38,986	**5,864**	741
Non-current portion	**11,153**	7,799	**–**	2,682

As at 30 June 2019, 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 Series W	USD90,000,000	RMB605,488,500	Semi-annually till 18 January 2023	USD:RMB from 6.50 to 6.99

Foreign currency options contracts

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

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

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

Extracts of details of foreign currency options contracts from the respective contracts outstanding as at 30 June 2019 are as follow:

	Notional amount *USD'000*	Strike/barrier	Ending Settlement Date
Contract Q	30,000	USD:RMB at 1:6.9331	15 June 2020
Contract R	30,000	USD:RMB at 1:6.9330	15 June 2020
Contract S	30,000	USD:RMB at 1:6.9310	15 June 2020

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 condensed 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.

15. INVENTORIES

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Raw materials	**691,204**	529,233
Work in progress	**633,950**	276,104
Finished goods	**3,064,578**	2,268,585
	4,389,732	3,073,922

16. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Trade receivables	**7,028,879**	5,186,714
Less: allowance for credit losses	**(117,120)**	(101,586)
	6,911,759	5,085,128
Bill receivables	**273,557**	710,363
Loan receivables	**91,823**	107,731
Other receivables and prepayment:		
Value added tax and other tax receivables	**98,154**	88,061
Advance to suppliers	**120,916**	83,848
Interest receivables	**22,658**	38,349
Prepaid expenses	**109,863**	63,892
Utilities deposits and prepayment	**23,849**	19,206
Prepaid wages and advances to employees	**24,993**	14,283
Others	**20,310**	20,625
	420,743	328,264
Total trade and other receivables and prepayment	**7,697,882**	6,231,486

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

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Within 90 days	**6,594,783**	4,967,107
91 to 180 days	**316,238**	117,752
Over 180 days	**738**	269
	6,911,759	5,085,128

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

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Within 90 days	**217,946**	645,037
91 to 180 days	**55,611**	65,326
Total	**273,557**	710,363

Movement in the allowance for credit losses:

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *RMB'000* (audited)
Balance at 1 January 2019	**101,586**	96,850
Impairment losses recognised on receivables	**23,501**	12,036
Amounts written off as uncollectible	**–**	(1,066)
Impairment losses reversed	**(7,967)**	(6,234)
Balance at end of the reporting period	**117,120**	101,586

17. 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 2019	31 December 2018
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Current liabilities		
Trade payables		
Within 90 days	**5,800,227**	3,991,794
91 to 180 days	**466,131**	651,096
Over 180 days	**5,178**	3,362
Accrued purchases	**629,885**	428,089
Total trade payables	**6,901,421**	5,074,341
Note payables		
Within 90 days	**793,324**	948,474
91 to 180 days	**45,076**	21,468
	838,400	969,942
Other payables		
Payables for purchase of property, plant and equipment	**338,030**	195,588
Staff salaries and welfare payables	**410,995**	387,020
Labor outsourcing payables	**175,925**	129,430
Payable for acquisition of patents	**41,601**	41,134
Value added tax payables and other tax payables	**53,918**	150,001
Commission payables	**4,231**	11,262
Interest payable	**68,617**	70,062
Utilities payable	**13,473**	8,264
Others	**39,839**	26,817
	1,146,629	1,019,578
	8,886,450	7,063,861
Non-current liability		
Long term payables		
Payable for acquisition of patent	**346,779**	330,452

The credit period on purchases of goods is up to 180 days (2018: 180 days) and the credit period for note payables is 90 days to 180 days (2018: 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.

18. SHARE CAPITAL

Issued share capital as at 30 June 2019 amounted to HK$109,684,970 (equivalent to approximately RMB105,163,000) with number of ordinary shares amounted to 1,096,849,700 of HK$0.1 each. There were no movements in the issued share capital of the Company in the current interim period.

19. 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 2018 (audited)	30.199	6,061
Forfeited	23.822	(212)
Vested	23.345	(4,421)
Granted	156.898	1,085
At 31 December 2018 and 1 January 2019 (audited)	97.508	2,513
Forfeited	103.925	(80)
Vested	56.940	(1,022)
Granted *(Note)*	100.900	1,746
As at 30 June 2019 (unaudited)		3,157

The equity-settled share-based payments expense charged to profit or loss was approximately RMB55,785,000 for the current interim period (corresponding period of 2018: RMB45,040,000).

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)** *HK$*	**Scales**
829,117 shares	100.900	One-third
916,455 shares	100.900	One-half

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

20. ACQUISITION OF A SUBSIDIARY

On 31 January 2019, the Company, through its wholly-owned subsidiary, Sunny Group Company Limited, entered into an equity transfer agreement with several equity investors of Wuxi Wissen Intelligent Sensing Technology Co., Ltd. ("**Wuxi Wissen**") to acquire an additional 13.96% equity interests of Wuxi Wissen at a cash consideration of RMB17,071,000 (the "**Acquisition**"). Immediately after the Acquisition, the Group's total equity interests in Wuxi Wissen increased from 46.11% to 60.07% and Wuxi Wissen has become a consolidated subsidiary of the Group thereafter.

Wuxi Wissen was established in the PRC and it is a professional enterprise on automotive safety sensing system and automotive camera modules. The Directors of the Company considered that the Acquisition was beneficial to the Group by strengthening the Group's business layout of advanced driving assistant system in automobile industry.

Consideration transferred

	31 January 2019 *RMB'000*
Cash	17,071
Plus: fair value of amounts previously held as interests in associate	108,677
Consideration transferred	125,748

Assets acquired and liabilities recognised at the date of Acquisition (determined on a provisional basis)

	31 January 2019 *RMB'000*
Current assets	
Cash and cash equivalents	11,895
Trade and other receivables	27,410
Inventories	19,974
Tax recoverable	3,591
Non-current assets	
Property, plant and equipment	28,714
Intangible assets	157,283
Other non-current assets	98
Current liabilities	
Trade and other payables	(22,703)
Non-current liabilities	
Deferred tax liabilities	(18,372)
	207,890

Non-controlling interests

The non-controlling interest of 39.93% in Wuxi Wissen recognised at the Acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Wuxi Wissen and amounted to RMB83,004,000.

Net cash inflows arising on Acquisition

	RMB'000
Consideration paid in cash	(17,071)
Less: cash and cash equivalent balances acquired	11,895
	(5,176)

Goodwill arising on the Acquisition (determined on a provisional basis)

	31 January 2019 *RMB'000*
Consideration transferred	125,748
Plus: non-controlling interests	83,004
Less: recognised amount of identifiable net assets acquired	(207,890)
Goodwill arising on Acquisition	862

Impact of Acquisition on the results of the Group

Acquisition-related costs recognised as an expense in the current period were insignificant.

Included in the profit for the interim period is loss of RMB17,417,000, arising from Wuxi Wissen. Revenue for the current period includes RMB7,585,000 attributable to Wuxi Wissen.

Had the Acquisition of Wuxi Wissen been effected at the beginning of the interim period, the total amount of revenue of the Group from continuing operations for the six month ended would have been RMB15,588,454,000, and the amount of the profit for the interim period from continuing operations would have been RMB1,430,207,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the Acquisition been completed on 1 January 2019, nor is it intended to be a projection of future results.

In determining the 'pro-forma' revenue and profit of the Group had Wuxi Wissen been acquired at the beginning of the interim period, the Directors of the Company calculated depreciation and amortisation of property, plant and equipment and intangible assets based on the recognised amounts at the date of the Acquisition respectively.

As at 30 June 2019, the Group is still in the process of evaluating the purchase price allocation for Wuxi Wissen, goodwill of approximately RMB862,000 was recognised based on the preliminary assessment of management which may be subject to adjust upon the completion of evaluation.

21. COMMITMENTS

	30 June 2019 *RMB'000* **(unaudited)**	31 December 2018 *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	**1,228,107**	880,876

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, vehicle camera modules, security cameras and other optoelectronic modules) (the "**Optoelectronic Products**") and optical instruments (such as microscopes and intelligent equipment for testing) (the "**Optical Instruments**"). The Group focuses on the application fields of optoelectronic-related products, such as handsets, digital cameras, vehicle imaging and sensing systems, security surveillance systems and automated factories, which require the comprehensive applications 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 event affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2018.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2019, the Group's revenue was approximately RMB15,574.9 million, representing an increase of approximately 30.0% or approximately RMB3,598.6 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 growth in the vehicle imaging and sensing fields.

Revenue generated from the Optical Components business segment increased by approximately 42.1% or approximately RMB1,117.4 million to approximately RMB3,773.7 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the sound development of handset lens sets and vehicle lens sets businesses.

Revenue generated from the Optoelectronic Products business segment increased by approximately 27.1% or approximately RMB2,492.6 million to approximately RMB11,679.5 million as compared with the corresponding period of last year. The increase in revenue was mainly attributable to the growth in the shipment volume of handset camera modules.

Revenue generated from the Optical Instruments business segment decreased by approximately 8.6% or approximately RMB11.4 million to approximately RMB121.7 million as compared with the corresponding period of last year. The decrease in revenue was mainly attributable to the weak market demand for optical instruments.

Gross Profit and Margin

The gross profit of the Group for the six months ended 30 June 2019 was approximately RMB2,864.0 million, which was approximately 23.4% higher as compared with the corresponding period of last year. The gross profit margin was approximately 18.4%, which was approximately 1.0 percentage point lower compared to that of the corresponding period of last year. The decrease in gross profit margin was mainly attributable to the fact that the gross profit margin of handset camera modules under Optoelectronic Products business segment decreased from approximately 9.4% in the corresponding period of last year to approximately 5.9%. The main reasons for the decline in gross profit margin of this product were as below.

(i) The production lines of handset camera modules were still in the process of optimisation and further improvement of automation level, which hindered the production efficiency and led to an increase in production costs;

(ii) A variety of high-end handset camera modules launched in smartphone market in the first half of 2019. In the early stages of mass production, the yield rates and the production efficiency of these new products were in the process of further improvement.

The gross profit margins of the Optical Components business segment, the Optoelectronic Products business segment and the Optical Instruments business segment were approximately 44.1%, 5.9% and 41.2%, respectively (corresponding period of 2018: approximately 42.0%, 9.4% and 38.3%, respectively).

Selling and Distribution Expenses

The selling and distribution expenses of the Group for the six months ended 30 June 2019 increased by approximately 37.0% or approximately RMB35.3 million to approximately RMB130.8 million as compared with the corresponding period of last year. It accounted for approximately 0.8% of the Group's revenue during the period under review, which was the same as compared with the corresponding period of last year. The increase in absolute amount was primarily attributable to the increase in the costs of selling, marketing and distribution personnel resulted from the increased sales activities.

R&D Expenditure

The R&D expenditure of the Group for the six months ended 30 June 2019 increased by approximately 51.8% or approximately RMB282.1 million to approximately RMB826.5 million as compared with the corresponding period of last year. It accounted for approximately 5.3% of the Group's revenue during the period under review, compared to approximately 4.5% for the corresponding period of last year. The increase in overall R&D expenditure was attributable to the Group's continuous investment in R&D projects and business development. The R&D expenditure was mainly used in the upgrade of existing products and the R&D of the products related to the emerging business.

Administrative Expenses

The administrative expenses of the Group for the six months ended 30 June 2019 increased by approximately 39.8% or approximately RMB73.3 million to approximately RMB257.4 million as compared with the corresponding period of last year. It accounted for approximately 1.7% of the Group's revenue during the period under review, compared to approximately 1.5% for the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in the headcount and remuneration of administrative staff, the grant of restricted shares and the corresponding increase in relevant fringe benefits.

Income Tax Expenses

The Group's income tax expenses for the six months ended 30 June 2019 increased by approximately 2.5% or approximately RMB5.5 million to approximately RMB228.2 million as compared with the corresponding period of last year. The increase in absolute amount was mainly attributable to the increase in profit before tax. The Group's actual effective tax rate was approximately 13.7% during the period under review and it was approximately 15.8% 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 2019 increased by approximately 20.4% or approximately RMB242.7 million to approximately RMB1,432.4 million as compared with the corresponding period of last year. The increase in net profit was mainly attributable to the increase in gross profit. The net profit margin was approximately 9.2% for the six months ended 30 June 2019 and was approximately 9.9% for the corresponding period of last year.

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 2019 increased by approximately 21.3% or approximately RMB251.4 million to approximately RMB1,431.2 million as compared with the corresponding period of last year.

Interim Dividends

For the year ended 31 December 2018, the dividends proposed by the Board was approximately RMB0.568 (equivalent to HK$0.662) 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 2019.

The Board does not recommend the payment of any interim dividends for the six months ended 30 June 2019 (corresponding period of 2018: nil).

BUSINESS REVIEW

Looking back to the first half of 2019, the global economic growth slowed down dramatically. Although China's economy has made steady progress, the downward pressure increased in face of the complex and changing external environment, especially the uncertainties surrounding the Sino-US trade dispute. The entire consumer electronics market was weak. In particular, the overall sales volume of the smartphone market was still in a slump due to the lack of clear stimulators. However, it was gratifying to note that several major local smartphone brand manufacturers in China had seized opportunities to boost technological innovation, accelerate product upgrade and seek product differentiation and customisation to cater for the needs of consumers, and carried out global channel expansion. Thus, they captured part of the mid- to high-end market successfully and further enhanced their market positions. Meanwhile, as many countries and regions continued to promote the commercialisation of advanced driver assistance systems ("**ADAS**") and even autonomous driving and along with the development of global intelligent networking technologies, the vehicle cameras, as one of the important components of vehicle imaging and sensing systems, maintained a strong momentum for rapid growth. In general, in spite of the challenges, the Group maintained its leading position in the industry and realised a stable growth of its overall performance by leveraging on its technical first mover advantage and strong comprehensive competitive strength.

During the first half of 2019, the global smartphone shipment volume reached approximately 646,100,000 units (source: International Data Corporation ("**IDC**"), representing a decrease of approximately 4.5% as compared with 676,300,000 units in the corresponding period of last year. To win favour from consumers in the saturated smartphone market, each smartphone brand manufacturer invested a lot of resources to upgrade the camera function of their smartphones, which boosted the rapid development of handset camera technologies, such as ultra-high pixel, large image size, large aperture, ultra-wide angle, long focal length, ultra-miniaturisation, multi-camera, time of flight ("**TOF**"), etc, in order to meet the requirements of optical zoom, infinity screen, 3D and other diversified user experiences. The continuous upgrade of handset camera specifications raised higher requirements for the suppliers of handset lens sets and handset camera modules in terms of R&D and manufacturing process. As a world-leading supplier of handset lens sets and handset camera modules, the Group benefited from its leading R&D technological advantages and the synergies brought by Optical Components and Optoelectronic Products business segments.

With the development of intelligent driving, the improvement of consumers' awareness of driving safety and the maturity of ADAS technology, the demand for vehicle cameras remained strong. Currently, the governments have gradually concurred with the view that intelligent driving technologies can improve traffic safety and have put efforts to increase the penetration rate of intelligent driving, especially in the field of active safety, by the way of encouraged and mandatory installation. For example, the National Highway Traffic Safety Administration of the United States of America (the "**USA**") suggested that ADAS should be installed mandatorily in new vehicles in the USA by 2022. The European Union has agreed to reach a consensus to jointly sign the guidance documents on autonomous driving and incorporate exemption procedures for autonomous driving into new regulations. The Ministry of Land, Infrastructure, Transport and Tourism of Japan declared that it would take measures to promote the application of autonomous driving technology with an aim to achieve level 3 of autonomous driving for expressways by about 2020, implement driverless mobile services in designated areas by the end of 2020 and increase the adoption rate of automatic braking in new passenger vehicles to more than 90% by the end of 2020.

In China, the government also declared that it would speed up the development and promulgation of the relevant laws and regulations in respect of autonomous driving. Driven by policy, cross-border internet competition, consumers' needs and other factors, the penetration rate of ADAS increased rapidly. In addition, with the further development of the driverless vehicle market, the application demands for LIDAR, smart headlights, night vision cameras and other related products will be increased continuously. The Group continued to leverage on its pioneer advantages in the vehicle field to further enhance its technical capabilities, explore application demands for its products and make micro-innovations in its design, material selection, processing technologies, testing and management processes, so as to further improve its market share and consolidate its number one position in the global market.

In the optical instruments market, due to the transformation and upgrade of the domestic traditional manufacturing industry, the demands for intelligent machines and equipment from the fields of automated production and intelligent factories were increasing. In respect of pathological examination, the rise of artificial intelligence raised the demands for pathological diagnosis assisted by artificial intelligence. The use of relevant equipment and image analysis system as an auxiliary means by pathologists improved the accuracy and speed of examination. It also effectively alleviated the challenge caused by the shortage of pathologists. As a result, these equipment and system gained increasing acceptance in the market with a promising prospect. The Group made proactive efforts to keep pace with the trend of technological development and further integrated its internal and external resources to develop key markets, with an aim to seize new opportunities for business development.

In addition, the Group further expanded into other emerging business areas. In the application field of unmanned aerial vehicle ("**UAV**"), the Group launched a series of lens sets products which were mainly characterised by low distortion, high pixel and wide angle for global sales. The Group also made active efforts in exploring innovative applications including augmented reality ("**AR**"), virtual reality ("**VR**"), 3D technologies and so on in various mobile terminals. With the improvement of technologies, the decrease in costs and the further enrichment of contents, the VR/AR industry will surely have greater development in the future. The issuance of 5G commercial licences in June 2019 marked the official arrival of the 5G era. In the 5G era, more VR/AR application scenarios will emerge in video, games, engineering, education, medical, real estate, retail and other fields. The Group will keep up with the development of the times by expanding into related fields and making technological preparation in advance in order to occupy a seat in the development of these new fields in the future.

During the period under review, facing the fierce market competition and complex external environment, the Group established a market-oriented technological innovation system that combined its production, learning and research efforts to improve its independent innovation capabilities. The Group also endeavoured to upgrade the existing products and develop new products of its three major business segments, namely, Optical Components, Optoelectronic Products and Optical Instruments. Meanwhile, the Group continued to optimise its manufacturing management process and organisational structure, further boosted refined management, made continuous upgrade and innovations in its production technologies and accelerated its automation transformation in order to improve its production efficiency. In addition, the Group made proactive efforts in patent layout by taking more effective preventive measures to mitigate the operational risks relating to intellectual property rights in the future. During the period under review, the Group acquired 305 new patents. As at 30 June 2019, the Group had 1,263 granted patents, including 342 invention patents, 867 at utility model patents and 54 exterior design patents. Besides, 2,080 patents are pending for approval.

Optical Components

Benefiting from the development of the mid- to high-end handset cameras and the rapid growth in the field of vehicle cameras, as well as the great efforts made by the Optical Components business segment in developing key technologies, enhancing management capabilities, reinforcing R&D capabilities and expanding segmental markets, this business segment achieved satisfactory results. During the period under review, the revenue from the Optical Components business segment amounted to approximately RMB3,773.7 million, representing an increase of approximately 42.1% as compared with the corresponding period of last year. This business segment accounted for approximately 24.2% of the Group's total revenue as compared with approximately 22.2% in the corresponding period of last year.

During the period under review, the shipment volume of handset lens sets of the Group increased by approximately 37.8% compared to that of the corresponding period of last year, and the proportion of shipment volume of 20-mega pixel and above products reached approximately 13.7%. In addition, the Group also paid great attention to the investment in the R&D of new specifications and the improvement of its technological innovation capabilities, especially in new specifications such as high magnification optical zoom, large aperture, ultra-miniaturisation, ultra-wide angle, etc. During the period under review, the Group has successfully completed the R&D of a number of products with new specifications, including 64-mega pixel large image size (1/1.7") handset lens sets and ultra-macro shooting (3cm) handset lens sets. Meanwhile, 16-mega pixel ultra-wide angle (120°) handset lens sets, ultra-large aperture (FNo.1.4) handset lens sets with 7 pieces plastic lenses ("**7P**"), ultra-miniaturised head (head size 2.65mm) handset lens sets and 16-mega pixel ultra-thin handset lens sets have been commenced mass production successfully. Furthermore, with its extensive experience and leading technological advantages in the optical field, the Group actively promoted the design and development of semiconductor optical and micro-nano optical products. At the same time, the Group developed a wide range of lenses and lens sets applied to VR/AR, biological recognition, motion tracking, optical communication, distance sensors and other fields. Some of these products have commenced mass production and achieved further breakthroughs in sales, resulting in considerable economic benefits.

During the period under review, the shipment volume of vehicle lens sets of the Group increased by approximately 24.8% compared to that of the corresponding period of last year, maintaining its ranking as the global number one in the industry. The Group also achieved significant technological breakthroughs in the field of vehicle lens sets. The 2-mega pixel and above vehicle lens sets used in ADAS as self-developed by the Group entered into the batch supply stage. During the period under review, the Group has also made breakthroughs in the technology of automotive LIDAR components and achieved delivery of optical components in small batches. At the same time, the Group has successfully mass produced the key optical components applied to the vehicle's head up display ("**HUD**") and completed the R&D of the smart headlight prototype.

Optoelectronic Products

Under the multifaceted pressure of decrease in the shipment volume of the global smartphone market, intensified market competition and the volatile Sino-US trade situation, the Optoelectronic Products business segment still could capture the wave of technology upgrades in the mid- to high-end smartphone market. Through the breakthroughs in core technologies, strengthening the supply chain management, improving the ability in production processing and expanding the construction of manufacturing system, the sales of this business segment have achieved a considerable growth. During the period under review, the revenue from the Optoelectronic Products business segment amounted to approximately RMB11,679.5 million, representing an increase of approximately 27.1% as compared with the corresponding period of last year. This business segment accounted for approximately 75.0% 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 shipment volume of handset camera modules of the Group increased by approximately 20.7% compared to that of the corresponding period of last year. Triple-camera has become a popular configuration for high-end smartphones. There are even quadruple-camera and quintuple-camera products in the market. At the same time, the demand for high-magnification optical zoom products is strong and the Group has successfully mass produced the periscope-style handset camera modules with 5-time optical zoom function. In addition, as consumers' requirements for smartphone image performance is getting higher and higher, the demand for large-aperture technology is also stronger. The Group has been the first mover to mass produce the handset camera modules with ultra-large aperture (FNo.1.4) during the period under review. Meanwhile, the advent of 5G era further promoted the development of 3D sensing and the demand for TOF technology from smartphone brand manufacturers was particularly strong. The Group has mass produced TOF related products in large amounts. In terms of technological innovation, the Group continued to innovate in high-precision alignment technology and self-developed the third-generation active alignment ("**AA**") technology. In terms of production line processing, the Group has firstly developed the on-line assembly ("**OLA**") production line, which uses fully automated loading and unloading and material transfer method to achieve automatic production from chip on board ("**COB**") to AA. In addition, the Group also firstly launched the ultra-thin semiconductor packaging technology (IOM), which could reduce the module size and improve the precision and strength of the module.

With the gradual landing and clarification of 3D vision-related market applications, TOF products and technical solutions of the Group can be applied to robot vision, face recognition payment, smart retail, smart logistics and other various fields. Meanwhile, the Group has focused on the field of robot vision in terms of its market strategic positioning. Taking the sweeping robot vision module as an entry point, the Group cooperated with well-known customers on the basis of independent R&D to optimise new technologies of TOF products in the applications of simultaneous localisation and mapping and obstacle avoidance.

During the period under review, the Group's vehicle camera module business has made breakthrough progress through market-oriented application, integration of various resources, consideration of key technologies for typical new products in a systematic way, as well as forward-looking technology pre-research and reserve. The Group continued to mass produce high-definition surrounding view vehicle camera modules for an internationally renowned tier-one client. In addition, the Group has completed the R&D of 8-mega pixel front view vehicle camera module applied to ADAS and has successfully passed the key process feasibility verification. At the same time, the Group has built a basic environment for software development and management with the software operation and maintenance platform, which is an important step for the Group in the development of software and hardware integrated products.

Optical Instruments

During the period under review, with the weak market demand for optical instruments, the revenue from the Optical Instruments business segment amounted to approximately RMB121.7 million, representing a decrease of approximately 8.6% as compared with the corresponding period of last year. This business segment accounted for approximately 0.8% of the Group's total revenue as compared with approximately 1.1% in the corresponding period of last year.

During the period under review, the Group continued to make efforts in transforming to the role of instrument system solution integrator. The microscopes and intelligent equipment businesses made certain progress. The Group has completed the development of the first domestic microscopic interactive teaching system based on the Internet of Thing ("**IoT**"). This system can realise high-definition microscopic image teaching in pure wireless environment, reaching the domestic leading level in terms of color reproduction, image definition and imaging speed. Meanwhile, in response to the demand for multiple people to observe tissue slices simultaneously, the Group completed the development of the 10-person view microscope, which could improve users' visual experience and communication efficiency among team members. Meanwhile, the Group has completed the development of pathological section scan-imaging analysis system that uses the Group's latest computational optics technology including microscopic super depth of field and industrial automation motion and control technology to form clear and bright digital pathological slices quickly. Therefore, it could achieve the goal of assisting doctors' diagnosis and facilitate remote pathological and digital pathological storage. Such product has been certified by China Food and Drug Administration. In addition, the Group will further enhance the R&D and market investments in high-end optical instruments of the industrial, educational and medical fields to maintain the mid- to long-term stable development of the Group.

OUTLOOK AND FUTURE STRATEGIES

During the period under review, under the multiple pressures of changing global political and economic environment, intensified market competition and the volatile Sino-US trade situation, the leaders of the Group led all employees to work together and face the challenges so that the principal businesses of the Group continued to develop steadily. Looking forward to the second half of 2019, the Group will remain to monitor the global political and economic changes and the industrial development trends closely, seize the opportunities arising from its business transformation and upgrade, leverage on its advantages on scale and technologies and also implement the development strategies formulated at the beginning of the year on a consistent basis in order to consolidate the Group's leading market position.

1. **Further improve the Group's competitiveness in the market by increasing R&D investment and enhancing the added value of its products and services**

   The Group's research institute will continue to work together with its subsidiaries to proactively explore new markets, integrate new technologies, develop new products (especially products combining hardware and software) and develop new businesses. At the same time, the institute will also cooperate with its subsidiaries in the R&D of key technical elements. These technical elements are important for the Group to meet customer needs, enhance the value added to the products and gain competitive advantages in the industries.

2. **Strengthen the manufacturing capabilities and enhance the value added to the manufacturing**

   The Group is currently in the process of transition from manufacturing to R&D. The value added to the manufacturing will still be a key factor of the Group's growth in the foreseeable future. Even if the transformation is completed, high-end manufacturing is indispensable. Strengthening manufacturing capabilities provides an important guarantee for an enterprise to maintain its industrial competitiveness.

   The Group will continue to optimise the processes of manufacturing management and the system of organisational structure to further boost the refined management. Meanwhile, in order to accelerate the implementation of automated manufacturing and inspection, the Group will make innovation in process technologies continuously. Besides, the Group integrates the Enterprise Resources Planning ("**ERP**") system, the Manufacturing Execution System ("**MES**") and the processes of manufacturing management to assure the manufacturing process in a timely and accurate manner. Through these efforts, the Group will further improve the manufacturing yield rates and efficiency, ensure the product quality and enhance the value added to the manufacturing.

3. Reduce operating costs and improve overall competitive strength

Even for high-tech products, the period during which sales can be made at a premium is getting shorter and shorter, and the cost-effectiveness is still the determinant factor to win in the competition. Therefore, the cost reduction must be carried out in every step of the Group's operations. Other than the control of the raw materials costs, the new product costs must be must be taken into consideration since the R&D stage based on the demand from the market and customers, which can avoid the erosion of the value added to the technology by the high cost. Besides, the R&D of new process technologies must be focused on improving manufacturing efficiency, product quality and yield rates.

In order to enhance the advantages on supply chain, the Group must further strengthen the management of the supply chain and optimise the suppliers and channels. At the same time, the Group will continue to enhance the technical marketing and value marketing capabilities, simplify and standardise the management process and improve the management system to increase the management efficiency.

4. Strengthen team building and cultural construction to provide important guarantee for sustainable development in the future

In the rapid development of an enterprise, talent reserve is important and the talent development should align with the enterprise's development. Talent development is reflected in terms of headcount increase and capability cultivation and improvement. Therefore, the Group will continue to strengthen talent cultivation and team construction by means of encouraging practice, guidance and care, optimisation and update of knowledge structure and construction of enterprise culture.

The Group will further promote the school-enterprise cooperation. For example, the Group and Zhejiang University ("**ZJU**") have jointly set up the "ZJU-Sunny Photonics Innovation Center" and carried out the research on cutting-edge technology of digital photon.

LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summarises the Group's cash flows for the six months ended 30 June 2019 and 30 June 2018:

	For the six months ended 30 June	
	2019	2018
	RMB million	*RMB million*
Net cash from operating activities	**1,158.4**	599.6
Net cash used in investing activities	**(574.3)**	(3,495.3)
Net cash (used in) from financing activities	**(1,226.0)**	3,137.9

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 in the short run to meet its working capital and other capital expenditure requirements. In the long run, the Group will be funded by net cash from operating activities and, if necessary, by additional bank borrowings, debt financing or equity financing. There were no material changes in the funding and financial policy of the Group for the six months ended 30 June 2019.

The Group's balance of cash and cash equivalents was approximately RMB1,612.9 million as at 30 June 2019, representing a decrease of approximately RMB641.4 million when compared to the balance of the end of last year.

Capital Expenditure

For the six months ended 30 June 2019, the Group's capital expenditure amounted to approximately RMB1,188.8 million, which was mainly used for the purchases of property, plant and equipment, acquisition of land use right and purchases of 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 2019 amounted to approximately RMB1,112.5 million (31 December 2018: approximately RMB1,482.4 million). As at 30 June 2019 and 31 December 2018, no bank borrowing was secured by certain buildings and land of the Group.

Bank facilities

As at 30 June 2019, the Group had bank facilities of RMB2,615.0 million with Yuyao Branch of Agricultural Bank of China Limited, RMB893.0 million with Yuyao Branch of Bank of China Limited, RMB700.0 million with Ningbo Branch of The Export-Import Bank of China, RMB600.0 million with Yuyao Branch of Ningbo Bank Co., Ltd., RMB200.0 million with Yuyao Branch of Bank of Communication Co., Ltd., RMB80.0 million with Ningbo Branch of Huaxia Bank Co., Ltd., RMB60.0 million with Xinyang Pingzhong Street Branch of Industrial and Commercial Bank of China Limited, USD90.0 million with BNP Paribas Hong Kong Branch, USD30.0 million with BNP Paribas (Shanghai) Limited, USD60.0 million with The Hongkong and Shanghai Banking Corporation Limited Hong Kong Branch and USD30.0 million with Ningbo Branch of HSBC Bank (China) Co., Ltd.

Debt securities

As at 30 June 2019, the Group had debt securities of approximately RMB4,091.2 million.

The Group's gearing ratio of approximately 20.4% refers to the ratio of total borrowings to total capital (total capital is the sum of total liabilities and total equity), reflecting the Group's stable financial position.

Contingent liabilities

As at 30 June 2019, 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 will review its bank borrowings and debt securities regularly to achieve a sound financial position.

PLEDGE OF ASSETS

As at 30 June 2019, the Group did not have any pledge or charge on assets, except for the pledged bank deposits of approximately RMB12.2 million.

COMMITMENTS

As at 30 June 2019, the capital expenditure of the Group in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements amounted to approximately RMB1,228.1 million (31 December 2018: approximately RMB880.9 million).

As at 30 June 2019, the Group had no other capital commitments save as disclosed above.

OFF-BALANCE SHEET TRANSACTIONS

As at 30 June 2019, the Group did not enter into any material off-balance sheet transactions.

PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS PLAN

The Group's investing activities primarily include the purchases and release of unlisted financial products, placement and release of pledged bank deposits, placement and withdrawal of short term fixed deposits and purchases of property, plant and equipment. In particular, such financial assets at fair value through profit or loss include: debt investments, equity investments, fund investments and unlisted financial products. Among them, the fund investments are managed by relevant financial institutions, mainly investing in debt securities linked to the performance of related senior debts while unlisted financial products are managed by relevant banks in China, mainly investing in certain financial assets such as bonds, trusts and cash funds, and their investment incomes are determined based on the performance of relevant government debt instruments and treasury bills. For the six months ended 30 June 2019, such unlisted financial products mainly involved unlisted financial products with Agriculture Bank of China Limited of a maximum of approximately RMB2,594.4 million. During the period under review, the unlisted financial products with Agriculture Bank of China Limited subscribed by the Company through its subsidiaries did not exceed the subscription cap of RMB3,000.0 million which was determined and approved by the resolutions of the Board on 19 March 2019. The Board considers that the terms of such unlisted financial products are on normal commercial terms, fair and reasonable and in the interests of the Company and its shareholders as a whole. Such investment activities were funded primarily by the idle self-owned funds of the Group. Going forward, the Group will continue to diversify its investments among different banks to lower the concentration risk and will closely monitor the performance of investments made and future investments plan in accordance with its prudent policy to utilise and to increase the yield of the idle funds of the Group while maintaining a high level of liquidity and a low level of risk. Such investment activities were made and will be made on the premises that it would not adversely affect the working capital of the Group or the operation of the Group's principal business.

For the six months ended 30 June 2019, the Group's investments amounted to approximately RMB1,188.8 million, which was primarily for the purchases of property, plant and equipment, as well as the initial production settings for new products, acquisition of land use right and the necessary equipment configurations for new projects. These investments enhanced the Group's R&D and technological application capability and production efficiency, and thus expanded the sources of revenue.

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

Going forward, the Group intends to make further investments in enhancing its competitiveness.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Interest Rate Risk

The Group is exposed to interest rate risks arising from its bank borrowings for working capital and capital expenditures that are associated with the expansion of the Group and for other uses. The rising of interest rates increases the costs of both existing and new debts. As at 30 June 2019, the effective interest rate on fixed-rate bank borrowings was approximately 2.77% per annum, while the effective interest rate of variable-rate bank borrowings was approximately 2.92% to 3.70% per annum.

Foreign Exchange Rate Fluctuation Risk

The Group exports a portion of its products to and purchases a considerable amount of products from international markets where transactions are denominated in USD or other foreign currencies. For details of the Group's foreign currency forward contracts and foreign currency options contracts, please refer to Note 14 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 FVTPL, trade and other receivables, amounts due from related parties, 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 minimise the credit risk in relation to trade receivables, the management has delegated a team which is responsible for the determination of credit limits, credit approvals and other monitoring procedures to ensure that appropriate follow-up actions are taken to recover overdue debts. The Group also has insurance policies in place relating to trade receivables. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Therefore, the Directors consider that the Group's credit risk is significantly reduced. The amounts presented in the condensed consolidated statement of financial position are net of allowance for credit losses, estimated by the management based on prior experience, their assessment of the current economic environment and the discounted cash flows to be received in future.

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

Cash Flow Interest Rate Risk

The Group's cash flow interest rate risk relates primarily to variable rates applicable to short term bank deposits. Therefore, any future variations in interest rates will not have any significant impact on the results of the Group.

Liquidity Risk

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

OTHER INFORMATION

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

The Company is empowered by the applicable Cayman Islands Companies Law and the Company's Articles of 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 (the "**Stock Exchange**"). There was no purchase, sale, redemption or writing-off by the Company, with the exception of the trustees of the restricted share award scheme ("**Restricted Share Award Scheme**"), of the Company's listed shares for the six months ended 30 June 2019.

B. 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 19 of the notes to the condensed consolidated financial statements of this announcement.

C. 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 2019, the Company complied with all of the code provisions of and adopted most of the recommended best practices of the Corporate Governance Code (the "**Corporate Governance Code**", applicable to financial reports for the periods subsequent to 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

Internal Controls and Risk Management

The internal audit department of the Group should ensure that the Company maintains sound and effective internal controls to safeguard the shareholders' investments and the Group's assets. The main functions of the internal audit department are to audit the operating efficiencies of each of the operating units, to carry out audit upon resignation of any key management personnel, to assist the Board in reviewing the effectiveness of the internal control system of the Group and to review internal control of business processes and project based auditing (such as auditing of trade receivables and issuance of commodities auditing report). Evaluation of the Group's internal controls covering financial, operational compliance controls and risk management functions will be conducted annually by the Board.

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.

The Company has built an enterprise risk management ("**ERM**") system and team with a view to enhancing the risk management and corporate governance practice, and improving the effectiveness and efficiency of internal control systems across the whole Group.

Securities Transactions by Directors

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (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 2019.

D. 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 the Company's external auditor, has reviewed and discussed about relevant issues such as audition, internal control and financial statements, which include review of the Interim Report of 2019 and the unaudited condensed consolidated financial statements for the six months ended 30 June 2019. Members of the Audit Committee agree with the accounting treatments adopted in the preparation of the condensed consolidated financial statements.

E. 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 the Group's website.

The Company makes voluntary announcement of the shipment volume of each major product every month, so as to improve the transparency. Immediately after its publication of annual results in March 2019, the Company has held an investor presentation of annual results in Hong Kong, and has attended a number of investor meetings around the world, which include an Investor Day event, 6 non-deal roadshows and other types of communication activities, so as to keep close contact with the investors.

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

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

Hong Kong, 13 August 2019

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.