

# Sunny Optical Technology (Group) Company Limited

## 舜宇光學科技(集團)有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2382)

### RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

The board (the "Board") of Directors (the "Directors") of Sunny Optical Technology (Group) Company Limited ("Sunny" or the "Company") is pleased to present the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2007, along with the comparative figures for the corresponding period last year as follows:

#### UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

|  | Unaudited                |           |
|--|--------------------------|-----------|
|  | Six months ended 30 June |           |
|  | 2007                     | 2006      |
|  | RMB'000                  | RMB'000   |
| Revenue                                | 555,950                  | 387,251   |
| Cost of sales                          | (406,004)                | (275,924) |
| Gross profit                           | 149,946                  | 111,327   |
| Other income                           | 28,454                   | 4,483     |
| Selling and distribution expenses      | (12,652)                 | (7,743)   |
| Research and development expenditure   | (7,487)                  | (3,122)   |
| Administrative expenses                | (49,060)                 | (30,175)  |
| Finance costs                          | (1,951)                  | (1,778)   |
| Profit before taxation                 | 107,250                  | 72,992    |
| Income tax charge                      | (5,158)                  | (6)       |
| Profit for the period                  | 102,092                  | 72,986    |
| Attributable to:                       |                          |           |
| Equity holders of the Company          | 102,097                  | 37,232    |
| Minority interests                     | (5)                      | 35,754    |
|  | 102,092                  | 72,986    |
| Dividends                              | –                        | –         |
| Earnings per share – Basic (RMB cents) | 12.30                    | 7.82      |

## UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

|  | (unaudited)<br>As of<br>30 June<br>2007<br>RMB'000 | (audited)<br>As of<br>31 December<br>2006<br>RMB'000 |
|--|--|--|
| <hr/>  |  |  |
| <b>NON-CURRENT ASSETS</b>                            |  |  |
| Property, plant and equipment                        | 334,836  | 301,890  |
| Prepaid lease payments                               | 10,708   | 10,848   |
|  |  |  |
|  | <b>345,544</b>                                     | 312,738  |
| <hr/>  |  |  |
| <b>CURRENT ASSETS</b>                                |  |  |
| Inventories  | 112,501  | 108,342  |
| Trade and other receivables                          | 259,615  | 202,127  |
| Prepaid lease payments                               | 271  | 271  |
| Amounts due from related parties                     | 460  | 1,030  |
| Pledged bank deposits                                | 1,265  | 609  |
| Bank balances and cash                               | 797,154  | 160,275  |
|  |  |  |
|  | <b>1,171,266</b>                                   | 472,654  |
| <hr/>  |  |  |
| <b>CURRENT LIABILITIES</b>                           |  |  |
| Trade and other payables                             | 202,781  | 160,853  |
| Dividends payable                                    | –  | 236,009  |
| Amounts due to related parties                       | 2,654  | 33,648   |
| Tax payable  | 1,363  | –  |
| Bank borrowings – due within one year                | 147,724  | –  |
|  |  |  |
|  | <b>354,522</b>                                     | 430,510  |
| <hr/>  |  |  |
| <b>NET CURRENT ASSETS</b>                            | <b>816,744</b>                                     | 42,144   |
| <hr/>  |  |  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>         | <b>1,162,288</b>                                   | 354,882  |
| <hr/>  |  |  |
| <b>CAPITAL AND RESERVES</b>                          |  |  |
| Share capital  | 97,520   | 101  |
| Share premium and reserves                           | 1,064,768  | 354,776  |
|  |  |  |
| Equity attributable to equity holders of the Company | 1,162,288  | 354,877  |
| Minority interests                                   | –  | 5  |
|  |  |  |
|  | <b>1,162,288</b>                                   | 354,882  |

# NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended 30 June 2007

## A. BASIS OF PRESENTATION

The Company is a limited company incorporated in the Cayman Islands. The Company's registered office is located at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681 GT, George Town, Grand Cayman, British West Indies and its place of business in Hong Kong is located at Suite 3403, 34th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong. The Company is an investment holding company.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the ultimate holding company, as set out in "History, Reorganisation and Group Structure" in the prospectus issued by the Company, dated 4 June 2007 (the "Prospectus"). The Group resulting from the Group Reorganisation is regarded as a restructure of enterprises under common control. Accordingly, the unaudited condensed financial statements of the Group have been prepared on the basis as if the Company had always been the holding company of the Group.

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

## B. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared on the historical cost basis. The accounting policies adopted in the condensed consolidated financial statement are consistent with those followed in the preparation of the Accountants' Report as set out in Appendix I to the Prospectus.

In the current interim period, the Group has applied, for the first time, new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007. The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

|                    |  |
|--------------------|--|
| HKAS 23 (Revised)  | Borrowing Costs <sup>1</sup>                                 |
| HKFRS 8            | Operating Segments <sup>1</sup>                              |
| HK(IFRIC) - INT 11 | HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup> |
| HK(IFRIC) - INT 12 | Service Concession Arrangements <sup>3</sup>                 |

1 Effective for annual periods beginning on or after 1 January 2009

2 Effective for annual periods beginning on or after 1 March 2007

3 Effective for annual periods beginning on or after 1 January 2008

## C. REVENUE AND SEGMENTAL INFORMATION

### Business segments

For management purposes, the Group has organised its business operation into three segments, namely, optical components, optoelectronic products and optical instruments. These segments are the basis on which the Group reports its primary operating information.

|                           | <b>Six months ended 30 June</b> |                |
|---------------------------|---------------------------------|----------------|
|                           | <b>2007</b>                     | <b>2006</b>    |
|                           | <b>RMB'000</b>                  | <b>RMB'000</b> |
| <b>Revenue</b>            |                                 |                |
| – Optical components      | <b>189,661</b>                  | 114,841        |
| – Optoelectronic products | <b>307,206</b>                  | 211,999        |
| – Optical instruments     | <b>59,083</b>                   | 60,411         |
|                           | <b>555,950</b>                  | 387,251        |
| <b>Segment results</b>    |                                 |                |
| – Optical components      | <b>40,022</b>                   | 19,931         |
| – Optoelectronic products | <b>47,334</b>                   | 37,527         |
| – Optical instruments     | <b>15,098</b>                   | 16,689         |
|                           | <b>102,454</b>                  | 74,147         |
| Unallocated income        | <b>24,027</b>                   | 623            |
| Unallocated expenses      | <b>(17,280)</b>                 | –              |
| Finance costs             | <b>(1,951)</b>                  | (1,778)        |
|                           | <b>107,250</b>                  | 72,992         |
| Income tax charge         | <b>(5,158)</b>                  | (6)            |
|                           | <b>102,092</b>                  | 72,986         |

**D. OTHER INCOME**

|   | <b>Six months ended 30 June</b> |                |
|---|---------------------------------|----------------|
|   | <b>2007</b>                     | <b>2006</b>    |
|   | <b>RMB'000</b>                  | <b>RMB'000</b> |
| Bank interests income                           | 1,419                           | 623            |
| Interests income from share subscription (Note) | 20,408                          | –              |
| Government grants                               | 5,139                           | 521            |
| Net gain on sales of scrap materials            | 996                             | 2,286          |
| Others  | 492                             | 1,053          |
| <b>Total</b>                                    | <b>28,454</b>                   | <b>4,483</b>   |

Note: Interest income from share subscription represents deposit interest income arising from the Company's share application under the public offering which took place in June 2007.

**E. INCOME TAX CHARGE**

|  | <b>Six months ended 30 June</b> |                |
|--|---------------------------------|----------------|
|  | <b>2007</b>                     | <b>2006</b>    |
|  | <b>RMB'000</b>                  | <b>RMB'000</b> |
| PRC enterprise income tax calculated at the prevailing tax rates | 5,158                           | 6              |

**F. PROFIT FOR THE PERIOD**

|   | <b>Six months ended 30 June</b> |                |
|---|---------------------------------|----------------|
|   | <b>2007</b>                     | <b>2006</b>    |
|   | <b>RMB'000</b>                  | <b>RMB'000</b> |
| Profit for the period has been arrived at after charging (crediting): |                                 |                |
| Staff salaries and allowances   | 65,398                          | 45,495         |
| Staff contribution to retirement benefit scheme                       | 5,181                           | 2,962          |
| <b>Total staff costs</b>  | <b>70,579</b>                   | <b>48,457</b>  |
| Auditor's remuneration  | 711                             | 309            |
| Depreciation of property, plant and equipment                         | 20,370                          | 15,853         |
| Listing expenses  | 16,623                          | –              |
| Release of prepaid lease payments                                     | 136                             | 136            |
| Allowances for inventories  | 940                             | –              |
| Foreign exchange losses   | 3,271                           | 1,212          |
| Gain on disposal of property, plant and equipment                     | (147)                           | (44)           |

## G. DIVIDENDS

The Directors do not recommend any interim dividend for the six months ended 30 June 2007 (2006: nil).

## H. BASIC EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2007 is based on the profit attributable to the equity holders of the Company and the weighted average number of 829,834,000 shares in issue. The weighted average number of shares has been adjusted to reflect 1,000,000,000 shares in issue which comprised 200,000,000 new shares issued to the public and were listed on the Stock Exchange.

The calculation of the basic earnings per share for the six months ended 30 June 2006 was based on the profit attributable to the equity holders of the Company and the weighted average number of 475,859,000 shares in issue.

## I. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 90 days to its trade customers. The following is an aging analysis of trade receivables at the balance sheet dates:

|                   | <b>30 June<br/>2007<br/>RMB'000</b> | 31 December<br>2006<br>RMB'000 |
|-------------------|-------------------------------------|--------------------------------|
| Trade receivables |                                     |                                |
| Within 90 days    | <b>185,585</b>                      | 133,788                        |
| 91 to 180 days    | <b>12,539</b>                       | 6,372                          |
| Over 180 days     | <b>809</b>                          | 2,607                          |
|                   | <b>198,933</b>                      | 142,767                        |
| Note receivables  |                                     |                                |
| Within 90 days    | <b>32,664</b>                       | 33,540                         |
| 91 to 180 days    | <b>7,670</b>                        | 6,100                          |
|                   | <b>40,334</b>                       | 39,640                         |
| Other receivables | <b>20,348</b>                       | 19,720                         |
|                   | <b>259,615</b>                      | 202,127                        |

## J. TRADE AND OTHER PAYABLES

The following is an aging analysis of trade and other payables at the balance sheet dates and the credit period taken for the trade purchases is typically within 90 days.

|  | <b>30 June<br/>2007<br/>RMB'000</b> | 31 December<br>2006<br>RMB'000 |
|--|-------------------------------------|--------------------------------|
| Trade payables   |                                     |                                |
| Within 90 days   | <b>129,672</b>                      | 102,233                        |
| 91 to 180 days   | <b>6,081</b>                        | 4,338                          |
| Over 180 days  | <b>128</b>                          | 252                            |
| Total trade payables                                   | <b>135,881</b>                      | 106,823                        |
| Payables for purchase of property, plant and equipment | <b>2,021</b>                        | 16,448                         |
| Accrued staff costs                                    | <b>24,431</b>                       | 18,831                         |
| Advance from customers                                 | <b>9,403</b>                        | 8,450                          |
| Value added tax payables and other tax payables        | <b>160</b>                          | 482                            |
| Others   | <b>30,885</b>                       | 9,819                          |
|  | <b>66,900</b>                       | 54,030                         |
|  | <b>202,781</b>                      | 160,853                        |

## K. BANK BORROWINGS

During the six months ended 30 June 2007, the Group obtained new bank loans of approximately RMB147.7 million. The proceeds were mainly used for financing the operations of the Group.

The loans were subsequently repaid in July 2007.

## L. SHARE CAPITAL

|  | Number of shares | Amount<br>HK\$ |
|--|------------------|----------------|
| Authorised:  |                  |                |
| Ordinary shares of HK\$1 each as of 1 January 2007 | 380,000          | 380,000        |
| Sub-division of shares (note)                      | 3,420,000        | –              |
| Increased on 25 May 2007 (note)                    | 99,996,200,000   | 9,999,620,000  |
| <hr/>  |                  |                |
| Ordinary shares of HK\$0.1 each as of 30 June 2007 | 100,000,000,000  | 10,000,000,000 |
| <hr/>  |                  |                |
| Issued & fully paid:                               |                  |                |
| Ordinary shares of HK\$1 each as of 1 January 2007 | 100,000          | 100,000        |
| Sub-division of share (note)                       | 900,000          | –              |
| Capitalisation issue (note)                        | 799,000,000      | 79,900,000     |
| Issue of new shares                                | 200,000,000      | 20,000,000     |
| <hr/>  |                  |                |
| Ordinary shares of HK\$0.1 each as of 30 June 2007 | 1,000,000,000    | 100,000,000    |
| <hr/>  |                  |                |
| Shown in the financial statements as               |                  | RMB97,520,000  |

Note: On 25 May 2007, resolutions of all the shareholders were passed pursuant to which each share of HK\$1.00 in the share capital of the Company was sub-divided into 10 shares so that the authorised share capital of the Company became HK\$380,000 divided into 3,800,000 shares and 100,000 issued shares of HK\$1.00 each became 1,000,000 issued shares and the authorised share capital of the Company was increased from HK\$380,000 to HK\$10,000,000,000 by the creation of additional 99,996,200,000 shares which rank pari passu in all respects with the shares then in issue. In addition, the Directors were also authorised to capitalise HK\$79,900,000 standing to the credit of the special reserve account of the Company by applying such sum in paying up in full at par 799,000,000 shares.

## M. CAPITAL COMMITMENTS

|  | 30 June<br>2007<br>RMB'000 | 31 December<br>2006<br>RMB'000 |
|--|----------------------------|--------------------------------|
| Capital expenditure in respect of acquisition of property, plant and equipment | 41,988                     | 1,068                          |

## N. SUBSEQUENT EVENTS

There has been no material events subsequent to period end which requires adjustment of or disclosure in the interim report.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading integrated optical components and products manufacturer in terms of revenue and profitability in the PRC. The Group possesses strong design capabilities, manufacturing know-how and an efficient production process to offer a comprehensive range of optical and optical-related products through its ability to integrate optical, mechanical and electronic technologies. The Group also has the expertise to vertically integrate its principal business segments of optical components, optoelectronic products and optical instruments manufacturing.

## A. OPERATIONAL REVIEW

### Products

The Group is principally engaged in the design, research and development, manufacturing and sale of optical and optical-related products, which can be broadly classified into three categories, namely: (i) optical components, including glass/plastic lenses, plates, prisms and various lens sets, (ii) optoelectronic products, including mobile phone camera modules and other optoelectronic modules; and (iii) optical instruments, including microscopes, surveying instruments and other analytical instruments.

#### *Optical Components*

For the six months ended 30 June 2007, revenue from optical components reached approximately RMB189.7 million, representing a considerable growth of approximately 65.2% as compared with the corresponding period in 2006. The segment accounted for approximately 34.1% of the Group's revenue.

#### *Optoelectronic Products*

For the six months ended 30 June 2007, optoelectronic products remained as the primary revenue driver of the Group and accounted for approximately 55.3% of the Group's revenue. Revenue from this segment surged around 44.9% from approximately RMB212.0 million for the six months ended 30 June 2006 to approximately RMB307.2 million during the same period in 2007.

The increase in revenue was a result of the enhancement of the Group's product mix, with greater focus in optoelectronic products to capture the increase in demand for electronic consumer products, such as mobile phones with camera function, digital cameras and other consumer electronic products. The Group's strategy to focus on building stronger supplier relationships with PRC mobile phone manufacturers has paid-off, as the accelerated advancement of PRC's 3G technologies has led to greater demand for camera mobile phones and for the Group's camera modules. Such strategy has evidently led to the significant growth in revenue derived from optoelectronic products during the interim period.

#### *Optical Instruments*

While the Group has focused on product research and development during the interim period, revenue from this business segment has slipped by approximately 2.2% from approximately RMB60.4 million in 1H2006 to approximately RMB59.1 million, which accounted for 10.6% of total revenue generated. The Group intends to ramp up its marketing initiatives in the second half of the year to accelerate growth in the area.

#### *Production*

As of 30 June 2007, the Group's products were manufactured in its two production bases in Yuyao, Zhejiang, PRC and Zhongshan, Guangdong, PRC, respectively. The total operating site area owned and leased by the Group is approximately 105,261 square meters, of which approximately 87,512 square metres are owned by the Group.

## **Research & Development**

As of 30 June 2007, the Group had a dedicated team of 173 research staff to constantly review and improve the Group's production know-how, develop more advanced technologies and products. Currently, the Group is engaged in several major R&D projects applicable to each of its major product categories.

## **Public Offering**

As part of the expansion plan, the Group successfully listed its shares on the Main Board of the Stock Exchange on 15 June 2007. The public offering was well-received by both retail and institutional investors. The retail tranche registered an over-subscription rate of approximately 290.6 times and the placing tranche was very significantly over-subscribed. The listing has strengthened the Group's financial position, enlarged the shareholder base and enhanced the Group's brand recognition.

## **B. FINANCIAL REVIEW**

For the six months ended 30 June 2007, the Group has recorded strong growth in sales that is mainly attributable to the strong demand for various types of optical components and optical-related products in face of the prevalent trend of image digitisation.

### **Revenue**

For the six months ended 30 June 2007, the Group's revenue increased by approximately 43.6% from approximately RMB387.3 million in the same period of 2006 to approximately RMB556.0 million, mainly as a result of the increase in revenue from optoelectronic products by approximately RMB95.2 million and from optical components by approximately RMB74.8 million. The increase was mainly due to the rising demand for mobile phones with camera function as well as demand for other end products with optical-related applications.

### **Gross profit and margin**

Gross profit increased by approximately 34.7% from around RMB111.3 million in the six months ended 30 June 2006 to approximately RMB149.9 million from the same period in 2007. The Group's revenue from optoelectronic products has increased significantly during the review period. While optoelectronic products have relatively lower profit margins, hence lowering the Group's overall gross margin. The effect has been partially offset by the increase in the revenue from optical components segment which possess higher gross margin than optoelectronic products. As such, the overall gross margin decreased slightly from approximately 28.7% in the six months ended 30 June 2006 to approximately 27.0% in 2007. In addition, there are signs indicating that the gross margin of optoelectronic products is improving with the margin in 2007 is higher than the average margin in 2006 and the demand for the products is on an upward trend.

### **Other income**

Other income increased significantly by approximately 533.3% from approximately RMB4.5 million for the six months ended 30 June 2006 to approximately RMB28.5 million from the same period in 2007. The increase was mainly due to the interest income from share application.

### **Selling and distribution expenses**

Selling and distribution expenses increased by approximately 64.9% from approximately RMB7.7 million for the six months ended 30 June 2006 to approximately RMB12.7 million from the same period in 2007. The significant increase was primarily due to the combination of increase in the costs for selling, marketing, and distribution personnel, and the increase in transportation fees and business development expenses arising from the growth in sales activities from the optoelectronic products segment.

## Research and development expenditure

Research and development expenditures increased from approximately RMB3.1 million for the six months ended 30 June 2006 to approximately RMB7.5 million from the same period in 2007. Such increase mainly represented the increase in salary expenses for the research and development team in respect of the Group's optoelectronic products business.

## Administrative expenses

Administrative expenses increased by approximately 62.6% from approximately RMB30.2 million for the six months ended 30 June 2006 to approximately RMB49.1 million from the same period in 2007. Such increase was mainly caused by the listing expenses which are in non-recurring nature, approximated to RMB16.6 million.

Moreover, administrative expenses included the increase in staff and administrative costs as well as depreciation expenses. Also given the increased headcounts, the related welfare costs increased accordingly.

## Income tax charge

Income tax increased from almost zero for the six months ended 30 June 2006 to approximately RMB5.2 million in the same period in 2007 due to the elapse of tax free periods available under the applicable laws in the PRC to some sino-foreign equity joint ventures and the jointly foreign owned enterprise arrangements of some Company's subsidiaries in the PRC.

PRC enterprise income tax for the Group under relevant laws is calculated based on applicable tax rates and profits before tax of the relevant subsidiaries of the Group and according to the tax benefits awarded by the PRC government. The effective tax rate for the Group for the six months ended of 30 June 2007 is approximately 4.8%.

Tax rate attributable to the Group's China subsidiaries are shown as follows:

|  | 2007  |
|--|-------|
| Zhejiang Sunny Optics Co., Ltd.          | 13.2% |
| Ningbo Sunny Instruments Co., Ltd.       | 13.2% |
| Sunny Optics (Zhongshan) Co., Ltd.       | —     |
| Ningbo Sunny Opotech Co., Ltd.           | —     |
| Sunny Infrared Technologies Company Ltd. | 33.0% |

## Profit for the period

Profit for the period increased by approximately 39.9% from approximately RMB73.0 million for the six months ended 30 June 2006 to approximately RMB102.1 million from the same period in 2007. Net profit margin decreased slightly from approximately 18.8% for the six months ended 30 June 2006 to approximately 18.4% for the same period in 2007. The increase in net profit was a combined effect of the increase in gross profit and the increase in interest income from the share application. The adjustment in net profit margin was mainly attributable to the slightly decline in gross profit margin.

## Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company increased by approximately 174.5% from approximately RMB37.2 million for the six months ended 30 June 2006 to approximately RMB102.1 million from the same period in 2007.

## **Dividends**

The Company declared dividends of approximately RMB103.2 million to equity holders of the Company for the year ended 31 December 2006. The payment of such dividend was made in April 2007.

## **Gearing ratio**

The Group financed its business mainly with internally generated resources and in some cases, short-term loans from banks. To meet additional working capital requirements for business expansion, the Group obtained bank loans in the second quarter of 2007 and resulted in the increased gearing ratio from zero as of 30 June 2006 to approximately 9.7% as of 30 June 2007.

Such loans were subsequently repaid in July 2007.

## **C. OUTLOOK AND FUTURE STRATEGIES**

Consumer electronic products such as camera mobile phones, digital still cameras and DVD players, have sustained continuous growth trends. With optical applications becoming more common in consumer electronic products, global demand for optical components and related products has continued to increase with substantial room for further growth. Since China has become the main global manufacturing base for consumer electronic products, these trends will continue to sustain immense opportunities for optical components manufacturers in the country. The Group, as a leading integrated optical components and products manufacturer, is well-poised to capture such opportunities.

The Group's goal is to become a leading integrated optical products manufacturer in the world. In order to achieve this goal, going forward, the Group will continue to:

- Enhance its R&D capability and develop more advanced and better quality products;
- Leverage its professional knowledge and core competencies to expand product sales;
- Strengthen and expand its supplier network;
- Retain and recruit more technical staff with industry experience.

The Group is confident that its business performance, in particular, revenue from optoelectronic products, will continue to be strong throughout the year of 2007 and provide our shareholders with fruitful returns.

## **D. LIQUIDITY AND FINANCIAL RESOURCES**

### **Cash flows**

During the six months ended 30 June 2007, the Group mainly funded its operations through internal funding and bank borrowings. The sources of the Group's major operating cash flows are sales receipts of its products.

The Group recorded a net increase in cash and cash equivalents of approximately RMB636.9 million for the six months ended 30 June 2007 and net decrease in cash and cash equivalents of approximately RMB43.8 million from the same period in 2006.

The Group recorded a net cash outflow from investing activities of approximately RMB66.8 million for the six months ended 30 June 2007, mainly for the purchase of property, plant and equipment. Approximately RMB28.0 million was paid in July 2007 for the acquisition of land and buildings erected thereon, which are currently leased by the Group for manufacturing and research and development of optical instruments.

The Group also recorded a net cash inflow from financing activities of approximately RMB598.7 million for the six months ended 30 June 2007. The inflow was mainly due to the inflow of the proceeds from the issue of new shares of approximately RMB745.1 million. Major outflow was the payment of dividend of approximately RMB236.0 million as declared in the previous years.

## **E. CAPITAL STRUCTURE**

### **Indebtedness**

#### *Borrowings*

As of 30 June 2007, total bank borrowings, primarily used as general working capital, amounted to approximately RMB147.7 million, in which approximately RMB20.0 million was secured by the property, plant and equipment of the Group. The average interest rate was approximately 5.1%. The borrowings were of short-term basis and were expected to be repaid within 6 months after the first drawdown.

Such loans were subsequently repaid in July 2007.

#### *Bank facilities*

As of 30 June 2007, the Group had unutilised banking facilities of approximately RMB330.0 million with Yuyao Branch of Agricultural Bank of China and Ningbo Branch of Pudong Development Bank.

## **F. PERFORMANCE OF INVESTMENTS MADE & FUTURE INVESTMENTS**

The Group's investing activities mainly include the purchase of property, plant and equipment.

During the six months ended 30 June 2007, the Group used approximately RMB68.0 million in investing activities, mainly in relation to the purchase of plant and equipment for the expansion of the production capacity for both optical components and optoelectronic products.

Sufficient capital expenditure investment will be fundamental to the Group's expansion plans in order to meet the expected increase in demand for optical components and optoelectronic products.

The Company intends to invest approximately RMB275.0 million from its global offering for the expansion of production capability and capacity; approximately RMB123.0 million for the enhancement of research and development activities and facilities; approximately RMB28.0 million for the acquisition of land and the buildings erected thereon, which are currently leased by Sunny Group Limited for the manufacture and research and development of optical instruments; approximately RMB25.0 million for the enhancement of information systems; approximately RMB130.0 million for the repayment of short-term bank loans for working capital. The remaining amount will provide funding for working capital and other general corporate purposes.

The proceeds from global offering were not used by the Company as of 30 June 2007.

To the extent that any part of the net proceeds to the Company from the global offering are not immediately used for the above purposes, the Directors may allocate such proceeds to short-term interest-bearing deposits and/or money-market instruments with authorised financial institutions and/or licensed banks in Hong Kong and/or China.

The Group did not have any significant investment position in stocks, bonds and other financial derivatives and there were no acquisition and disposal of subsidiaries and associates of the Group during the period covered by this interim report.

## **G. OFF-BALANCE SHEET TRANSACTIONS AND CONTINGENT LIABILITY**

As of 30 June 2007, the Group did not have any material off-balance sheet transactions.

## **H. 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 Group's expansion and for other uses. Upward fluctuations in interest rates increase the cost of both existing and new debt. During the six months ended 30 June 2007, the effective interest rate on bank loans was approximately 5.1% per annum. The Group has not entered into any type of interest rate agreements or derivative transactions to hedge against interest rate changes.

### **Foreign exchange rate fluctuation risk**

The Group exports a significant portion of its products to and makes purchases from international markets where transaction are denominated in U.S. dollars or other foreign currencies. To reduce the risk, the Group will consider to enter into certain foreign exchange trading facilities to hedge against its currency risks.

## **I. EMPLOYEES**

As of 30 June 2007, the Group had 6,548 full time employees. Their functions include management and administration, 244, production, 5,335, and supporting operations, 969. The remuneration package of the Group's employees includes salary, bonuses and allowances. The Group endeavours to provide training facilities for its employees. The scope of the induction and on-going training programmes includes management skill and technology training and other courses.

## **J. SHARE OPTION SCHEME**

On 25 May 2007, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Eligible participants of Scheme include, without limitation, employees, Directors and shareholders of the Group. Up to 30 June 2007, no share option has been granted or agreed to be granted to any person under the Scheme.

## OTHER INFORMATION

### **A. REPURCHASE OR REDEMPTION OF THE COMPANY'S SHARES**

The Company is empowered by the applicable Companies Law of the Cayman Islands and the Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange. The Group did not repurchase or redeem any of the Company's share during the six months ended 30 June 2007.

### **B. DISCLOSEURE OF INTEREST**

According to the Articles of the Association, if any Director is in any way, directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he will declare the nature of his interest to the Board at his earliest convenience. In addition, such Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving such contract or arrangement or other proposal in which he or any of his Associates is to his knowledge materially interested, and if he shall do so his vote shall not be counted (nor is he counted in the quorum for that resolution).

## C. DISCLOSURE OF INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As of 30 June 2007, so far as the Directors are aware, the following persons will have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance, Cap 571 of the Laws of Hong Kong ("SFO"), or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

| Name                               | Long/short position | Type of interest                     | Number of shares | Approximate percentage of voting power |
|------------------------------------|---------------------|--------------------------------------|------------------|--|
| Sun Xu Limited ("Sun Xu")          | Long position       | Beneficial owner                     | 418,729,060      | 41.87%                                 |
| Sun Ji Limited ("Sun Ji") (Note 1) | Long position       | Interest in a controlled corporation | 418,729,060      | 41.87%                                 |

| Name  | Long/short position | Type of interest   | Number of shares | Approximate percentage of voting power |
|---|---------------------|--|------------------|--|
| Mr. Wang Wenjian (Note 2)                       | Long position       | Interest in a controlled corporation, trustee of a trust and trustee and one of beneficiaries of a trust | 476,670,000      | 47.67%                                 |
| Summit Optical Holdings Inc ("Summit")          | Long position       | Beneficial owner   | 171,174,508      | 17.12%                                 |
| Chengwei Ventures Evergreen Fund, L.P. (Note 3) | Long position       | Interest in a controlled corporation   | 171,174,508      | 17.12%                                 |
| Sun Zhong Limited ("Sun Zhong")                 | Long position       | Beneficial owner   | 57,940,940       | 5.79%                                  |

Notes:

- (1) As Sun Ji owns more than one-third of the voting power of general meetings of Sun Xu, Sun Ji is deemed to be interested in the 418,729,060 shares held of and in the Company by Sun Xu under the provisions of SFO.
- (2) As Mr. Wang Wenjian is the sole shareholder of Sun Guang Limited and the trustee and one of the beneficiaries of the Sunny Employee Trust, Mr. Wang Wenjian is deemed to be interested in the 418,729,060 shares held by Sun Xu under the provisions of SFO. As Mr. Wang Wenjian is the trustee of the PRC Investor Trust, Mr. Wang Wenjian is deemed to be interested in the 57,940,940 shares held by Sun Zhong under the provisions of SFO.
- (3) As Chengwei Ventures Evergreen Fund, L.P. owns more than one-third of the voting power of general meetings of Summit, Chengwei Ventures Evergreen Fund, L.P. is deemed to be interested in the 171,174,508 shares held by Summit under the SFO.

**Definition of terms:**

- "PRC Investor Trust" refers to a trust established on 28 July 2006 on the entire issued share capital of Sun Zhong,
- "Sunny Employee Trust" refers a trust established on 28 July 2006 on the entire issued share capital of Sun Ji.
- "PRC Investors" refers the beneficiaries of the PRC Investor Trust.

## D. DISCLOSURE OF INTERESTS OF DIRECTORS

As of 30 June 2007, so far as the Directors are aware, the interests and short positions of the Directors and chief executive of the Company in the shares of the Company, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which will have to be notified to the Company and The Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interest and short positions which they have taken or deem to have taken under the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or will be required pursuant to section 352 of the SFO to be entered in the register of interests referred to therein, will be as follows:

| Director         | Name of Corporation | Long/short position | Capacity/Nature of interest                 | Approximate Name of |                            |
|------------------|---------------------|---------------------|---|---------------------|----------------------------|
|                  |                     |                     |   | Number of shares    | percentage of shareholding |
| Mr. Wang Wenjian | The Company         | Long position       | Trustee (Note 1)                            | 57,940,940          | 5.79%                      |
|                  | The Company         | Long position       | Trustee and Beneficiary of a trust (Note 2) | 418,729,060         | 41.87%                     |
| Mr. Ye Liaoning  | The Company         | Long position       | Beneficiary of a trust (Note 3)             | 23,986,481          | 2.40%                      |
| Mr. Wu Jinxian   | The Company         | Long position       | Beneficiary of a trust (Note 4)             | 10,846,895          | 1.08%                      |

Notes:

- (1) Mr. Wang Wenjian is the trustee of the PRC Investor Trust. The PRC Investor Trust is a trust on the entire issued share capital of Sun Zhong, which in turn owns 5.79% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 57,940,940 shares under the SFO.
- (2) Mr. Wang Wenjian is the trustee and one of the beneficiaries of the Sunny Employee Trust. The Sunny Employee Trust is a trust on the entire issued share capital of Sun Ji. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 41.87% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 418,729,060 shares under the SFO.
- (3) Mr. Ye Liaoning is a beneficiary under the Sunny Employee Trust, under which he is entitled to 6.20% of the beneficial interest. Sun Ji owns 92.32% equity interest in Sun Xu, which in turns own 418,729,060 shares. Accordingly, Mr. Ye Liaoning is interested in 23,986,481 shares.
- (4) Mr. Wu Jinxian is a beneficiary under the Sunny Employee Trust, under which he is entitled to 2.81% of the beneficial interest. Sun Ji owns 92.32% equity interest in Sun Xu, which in turns own 418,729,060 shares. Accordingly, Mr. Wu Jinxian is interested in 10,846,895 shares.

## E. DIRECTORS AND KEY EXECUTIVES OF THE COMPANY

The Board comprises 10 Directors, including 4 Independent Non-executive Directors. Directors who are either well-educated, having extensive experience in different areas or professionals and appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions. The Board acts collectively by majority decisions in accordance with the Articles and the laws, and no single Director is supposed to have any decision-making unless authorised by the Board.

The key executives of the Company include Mr. Wang Wenjian, Executive Director and Chairman of the Board, Mr. Ye Liaoning, Executive Director and Chief Executive Officer of the Company, Mr. Xie Minghua, Executive Director and Mr. Wu Jinxian, Executive Director.

## **F. INTERIM DIVIDEND**

For the six months ended 30 June 2007, the Group decided not to declare any interim dividend.

## **G. AUDIT COMMITTEE**

The Company established an audit committee in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The audit committee consists of 4 members, namely, Mr. Zhang Yuqing and Dr. Liu Xu (both are Independent Non-executive Directors), and Mr. Li Tyson Sandy Ying Lun and Mr. Shao Yang Dong (both are Non-executive Directors). Mr. Zhang Yuqing was appointed as the chairman of the audit committee. The audit committee and the Company's external auditors have reviewed and discussed matters relating to auditing, internal controls and financial statement, including a review of the unaudited financial statement for the six months ended 30 June 2007.

## **H. CORPORATE GOVERNANCE**

### **Code of Corporate Governance Practices**

The Group is committed to ensure high standards of corporate governance in the interest of its shareholders.

The Group has adopted and complied with the code provisions as set out in the Code of Corporate Governance Practices as stated in Appendix 14 to the Listing Rules for the six months ended 30 June 2007.

### **Code of Conduct Regarding Securities Transactions by Directors**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they complied with the required standard set out in the said Model Code from the listing date to 30 June 2007.

By order of the Board of  
Sunny Optical Technology (Group) Company Limited  
Wang Wenjian  
Chairman

China, 28 August 2007

*As at the date of this announcement, the Board comprises Mr. Wang Wenjian, Mr. Ye Liaoning, Mr. Xie Minghua and Mr. Wu Jinxian, who are Executive Directors, and Mr. Shao Yang Dong and Mr. Li Tyson Sandy Ying Lun, who are Non-executive Directors, and Dr. Chang Mei Dick, Mr. Koji Suzuki, Dr. Liu Xu, Mr. Zhang Yuqing, who are independent Non-executive Directors.*