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SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED

舜宇光學科技（集團）有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 2382)

CONTINUING CONNECTED TRANSACTIONS

As disclosed in the Prospectus, the Group entered into the Product Sale Agreements with Xingbang on 1 January 2007, pursuant to which the Group has purchased from Xingbang raw materials such as glass and lenses since 1 January 2007.

Given its growth in business and policy of concentrating on core business of optical and optical-related products, the Group has purchased more raw materials than originally expected from Xingbang. As a result, during the period from 1 January 2007 to 31 October 2007, the Group's purchases from Xingbang had exceeded HK\$1,000,000 and it was estimated that annual purchases for each of the years ending 31 December 2009 would exceed HK\$1,000,000 but less than HK\$10,000,000. Accordingly, the transactions contemplated under the Product Sale Agreements would no longer be qualified as de minimis transactions under Rule 14A.33(3) of the Listing Rules.

As disclosed in the Prospectus, the Group leased the Facilities Properties for general commercial business and ancillary uses from Sunny Group pursuant to the Facilities Tenancy Agreements.

Upon Listing, the Stock Exchange had granted a waiver to the Company from strict compliance with the disclosure requirements by way of announcement under Rule 14A.42 of the Listing Rules for the Facilities Tenancy Agreements based on an annual cap of RMB2.2 million.

The Group has hired additional staff to meet its growth of business, and additional dormitory spaces have to be provided with the increased staff. In view of the proximity of the Dormitories with the offices of the Group in Yuyau City, the Group entered into the Dormitory Tenancy Agreements with Sunny Group to lease the Dormitories to satisfy the demand of its increased staff.

In view of the Dormitory Tenancy Agreements, the Board considers that, given the subject matters and the parties involved in the Dormitory Tenancy Agreements are similar to those in the Facilities Tenancy Agreements, it is necessary to aggregate the rents payable under the Dormitory Tenancy Agreements with the rents payable under the Facilities Tenancy Agreements for the purpose of continuing connected transactions, such that the annual cap for the Facilities Tenancy Agreements and the Dormitory Tenancy Agreements shall be increased from RMB2.2 million to RMB2.5 million for each of the two years ending 31 December 2009.

CONTINUING CONNECTED TRANSACTIONS

Background information

The Group is principally engaged in the design, research, development, manufacturing and sale of optical and optical-related products.

Business transactions with Xingbang

As disclosed in the Prospectus, the Group entered into the Product Sale Agreements with Xingbang on 1 January 2007, pursuant to which the Group has purchased from Xingbang raw materials such as glass and lenses since 1 January 2007. It was envisaged that the transactions contemplated under the Product Sale Agreements would be conducted on normal business commercial terms and conditions which should not be less favourable than those offered to independent third parties other than the Group and priced at market prices and the Directors (including the independent non-executive Directors) were of the opinion that the Product Sale Agreements were made on normal commercial terms in the ordinary and usual course of business of the Group and were in the best interests of the Company and the Shareholders as a whole and the terms and conditions, which were arrived at after arm's length negotiations between the parties involved, were fair and reasonable to the Company.

Xingbang is a limited company established in the PRC whose principal business activity is manufacturing and sale of parts for optical instruments. Xingbang is wholly-owned by a cousin of Mr. Wu and Mr. Wu, being an executive Director, is a connected person of the Company, accordingly, Xingbang is the associate of a connected person of the Company and any transactions between the Group and Xingbang shall constitute connected transactions under the Listing Rules.

Property leases in respect of ancillary facilities

As disclosed in the Prospectus, the Group leased the Facilities Properties (particulars of which are set out in the below table) for general commercial business and ancillary uses from Sunny Group pursuant to the Facilities Tenancy Agreements.

Address of property	Use	Term	Monthly Rent (including all other expenditures) (RMB)	Annual Rent (including all other expenditures) (RMB)
1. North of Nos. 66–68 Shunyu Road, Beijiao Village, Cheng District, Yuyao City, Zhejiang Province, the PRC	Dormitory in Yuyao City with 69 standard rooms	3 years from 1 January 2007 to 31 December 2009	10,350.00	124,200.00
2. West of Zhongjiang, Bus Station North, Cheng District, Yuyao City, Zhejiang Province, the PRC	Dormitory in Yuyao City with 229 standard rooms and 3 suites	3 years from 1 January 2007 to 31 December 2009	40,280.00	483,360.00
3. Nos. 66–68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	Waste water treatment facilities in Yuyao City	3 years from 1 January 2007 to 31 December 2009	1,503.00	18,036.00
4. Unit 20B, No. 252 Wenshan Road, Hangzhou City, Zhejiang Province, the PRC	Office in Hangzhou City	3 years from 1 January 2007 to 31 December 2009	14,580.60	174,967.20
5. No. 2, Level 9, Jinsong Court, No. 98 Qifeng Road, Cheng District, Dongguan, Guangdong Province, the PRC	Dormitory in Dongguan	3 years from 1 January 2007 to 31 December 2009	2,559.20	30,710.40
6. Nos. 66–68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	Office, eatery, etc. in Yuyao City	3 years from 1 January 2007 to 31 December 2009	107,126.66	1,285,519.92
Total :			<u>176,399.46</u>	<u>2,116,793.52</u>

Property leases in respect of manufacturing facilities

As disclosed in the Prospectus, the Group leased the Manufacturing Property (particulars of which are set out in the below table) on which its plant is situated.

Address of property	Use	Term	Monthly Rent (including all other expenditures) (RMB)
1. Nos. 66–68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	Manufacturing Facilities in Yuyao City	3 years from 1 January 2007 to 31 December 2009	178,639.44

Pursuant to a sale and purchase agreement dated 12 February 2007, the Manufacturing Property was transferred from Sunny Group to the Group on 20 August 2007 at a consideration of RMB28,000,000. The aggregate rents paid by the Group to Sunny Group amounted to RMB1,429,120 from 1 January 2007 up to 20 August 2007, which was within the cap as disclosed in the Prospectus.

Sunny Group is a limited company established in the PRC whose principal activity is investment holding and property leasing. Mr. Wang is the chairman of the Company, an executive Director and a deemed Substantial Shareholder under the SFO and thus a connected person of the Company. In addition, Mr. Wang is able to control approximately 40% equity interest in Sunny Group. Therefore, Sunny Group is the associate of a connected person of the Company under Rules 1.01 and 14A.11 of the Listing Rules and any transactions between the Group and Sunny Group shall constitute connected transactions under the Listing Rules.

Product Sale Agreements

Before Listing, it was anticipated that, for the transactions contemplated under the Product Sale Agreements, each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, on an annual basis, would be less than 0.1%, or more than 0.1% but less than 2.5% and the annual consideration would be less than HK\$1,000,000, therefore, the transactions would be qualified under Rule 14A.33(3) of the Listing Rules as de minimis transactions which would be exempt from reporting, announcement and independent shareholders' approval requirements.

Given its growth in business and policy of concentrating on core business of optical and optical-related products, the Group has purchased more raw materials than originally expected from Xingbang. As a result, during the period from 1 January 2007 to 31 October 2007, the Group's purchases from Xingbang had exceeded HK\$1,000,000 and it was estimated that the annual purchases for each of the three years ending 31 December 2009 would exceed HK\$1,000,000 but less than HK\$10,000,000 according to the following calculation:

Purchases from Xingbang for the year ended 31 December			Purchases from Xingbang for the 10 months ended 31 October 2007	Cap of purchases from Xingbang for the year ending 31 December		
2004	2005	2006	2007	2007	2008	2009
<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'000)</i>	<i>(RMB'million)</i>	<i>(RMB'million)</i>	<i>(RMB'million)</i>	<i>(RMB'million)</i>
295	301	87	1.09	2.2	9.4	9.4

The Directors are of the view that the annual cap for the purchases from Xingbang under the Product Sale Agreements is a reasonable estimate of the total future purchases from Xingbang as it was arrived at after due consideration of the Group's production forecast.

Accordingly, the transactions contemplated under the Product Sale Agreements would no longer be qualified as de minimis transactions under Rule 14A.33(3) of the Listing Rules.

The transactions between Xingbang and the Group constitute connected transactions for the Company under the Listing Rules and will be subject to reporting and announcement requirements under Rule 14A.34 of the Listing Rules. The Company will comply with the reporting and announcement requirements set out in Rule 14A.45 to Rule 14A.47 of the Listing Rules.

Dormitory Tenancy Agreements

The Group entered into the Dormitory Tenancy Agreements with Sunny Group on 16 November 2007 with the following particulars :

Date of Agreements	:	16 November 2007
Landlord	:	Sunny Group
Tenant	:	Group
Term	:	Commencing from 16 November 2007 to 31 December 2009
Monthly rent	:	For Dormitory A: RMB150 per standard room For Dormitory B: RMB170 per standard room and RMB450 per suite
Payment term	:	Payable in arrears at the end of each calendar during the term

The monthly rents (on unit basis) under the Dormitory Tenancy Agreements are same as the monthly rents (on unit basis) under the relevant Facilities Tenancy Agreements, which were confirmed by DTZ Debenham Tie Leung Limited, a firm of independent property valuers as being prevailing market rates and fair and reasonable to the Group at the time when the Facilities Tenancy Agreements were signed.

Before Listing, it was anticipated by the Directors that the aggregate rents payable to Sunny Group for each of the three years ending 31 December 2009, based on the Facilities Tenancy Agreements, would not exceed RMB2.2 million, which would be less than 2.5% under the applicable percentage ratios on an annual basis, or more than 2.5% but less than 25% under the applicable percentage ratios on an annual basis and the annual consideration is less than HK\$10,000,000.

Waiver Granted by the Stock Exchange

Upon the Listing, the Stock Exchange had granted a waiver to the Company from strict compliance with the disclosure requirements by way of announcement under Rule 14A.42 of the Listing Rules for the Facilities Tenancy Agreements based on an annual cap of RMB2.2 million.

Reason for revising the annual cap

The Group has hired additional staff to meet its growth of business, and additional dormitory spaces have to be provided with the increased staff. In view of the proximity of the Dormitories with the offices of the Group in Yuyau City, the Group entered into the Dormitory Tenancy Agreements with Sunny Group to lease the Dormitories to satisfy the demand of its increased staff.

The Directors (including the independent non-executive Directors) are of the opinion that the Dormitory Tenancy Agreements are made on normal commercial terms in the ordinary and usual course of business of the Group and is in the best interests of the Company and the Shareholders as a whole and the terms and conditions, which were arrived at after arm's length negotiations between the parties involved, are fair and reasonable to the Company.

Proposed new annual cap

In view of the Dormitory Tenancy Agreements, the Board considers that, given the subject matters and the parties involved in the Dormitory Tenancy Agreements are similar to those in the Facilities Tenancy Agreements, it is necessary to aggregate the rents payable under the Dormitory Tenancy Agreements with the rents payable under the Facilities Tenancy Agreements for the purpose of continuing connected transactions, such that the annual cap for the Facilities Tenancy Agreements and the Dormitory Tenancy Agreements shall be increased from RMB2.2 million to RMB2.5 million for each of the two years ending 31 December 2009 calculated as follows:

	For the year ending 31 December		
	2007	2008	2009
	<i>(RMB)</i>	<i>(RMB)</i>	<i>(RMB)</i>
Original annual rent as contemplated under the Facilities Tenancy Agreements	2,116,793.52	2,116,793.52	2,116,793.52
Maximum annual rent as contemplated under the Dormitory Tenancy Agreements (commencing from 16 November 2007)	41,500	332,400	332,400
Total :	<u>2,158,293.52</u>	<u>2,449,193.52</u>	<u>2,449,193.52</u>
New annual cap for aggregate annual rent payable under the Facilities Tenancy Agreements and the Dormitory Tenancy Agreements	2.2 million	2.5 million	2.5 million

The Directors are of the view that the revised annual cap for the Facilities Tenancy Agreements and the Dormitory Tenancy Agreements is a reasonable estimate of the total future rents payable to Sunny Group in respect of properties as it was arrived at after due consideration of the Group's forecast of its labour demand.

The transactions between Sunny Group and the Group under the Dormitory Tenancy Agreements constitute connected transactions for the Company under the Listing Rules and will be subject to reporting and announcement requirements under Rule 14A.34 of the Listing Rules. The Company will comply with the reporting and announcement requirements set out in Rule 14A.45 to Rule 14A.47 of the Listing Rules.

DEFINITIONS

In this announcement, unless the context otherwise requires, the below expressions shall have the following meanings:

- “associate(s)” has the meaning ascribed thereto under the Listing Rules;
- “Board” means the board of Directors;
- “Company” means Sunny Optical Technology (Group) Company Limited, a company incorporated in the Cayman Islands with limited liability on 21 September 2006 whose shares are listed and traded on the Main Board of the Stock Exchange;
- “connected person(s)” has the meaning ascribed thereto under the Listing Rules;
- “Director(s)” means director(s) of the Company;
- “Dormitories” means (A) not more than 92 standard rooms in the building at north of Nos. 66–68 Shunyu Road, Beijiao Village, Cheng District, Yuyao City, Zhejiang Province, the PRC and (B) not more than 50 standard rooms and 12 suites in the building at West of Zhongjiang, Bus Station North, Cheng District, Yuyao City, Zhejiang Province, the PRC, both of which are adjacent to Facilities Properties numbered 1 and 2;
- “Dormitory Tenancy Agreements” means the tenancy agreements dated 16 November 2007 entered into between the Group and Sunny Group, pursuant to which the Group leased from Sunny Group the Dormitories from 16 November 2007 to 31 December 2009;
- “Facilities Properties” means the properties leased from Sunny Group, particulars of which are set out in the table under the paragraph headed “Background information” in this announcement, and where the context otherwise requires, shall include the Dormitories;
- “Facilities Tenancy Agreements” means the tenancy agreements all dated 1 January 2007 entered into between the Group and Sunny Group in respect of the Facilities Properties;
- “Group” means the Company and its subsidiaries;
- “HK\$” means Hong Kong dollars, the lawful currency of Hong Kong;
- “Hong Kong” means the Hong Kong Special Administrative Region of the PRC;
- “Listing” means listing of the shares of the Company on the Main Board of the Stock Exchange on 15 June 2007;
- “Listing Rules” means the Rules Governing the Listing of Securities on the Stock Exchange;

“Manufacturing Property”	means the property on which the Group’s plant is situated and leased from Sunny Group before 20 August 2007, particulars of which are set out in the table under the paragraph headed “Background information” in this announcement;
“Mr. Wang”	means Mr. Wang Wenjian, the chairman of the Company and an executive Director;
“Mr. Wu	means Mr. Wu Jinxian, an executive Director;
“PRC” or “China”	means the People’s Republic of China;
“Product Sale Agreements”	means the product sale agreements dated 1 January 2007 entered into between the Group and Xingbang;
“Prospectus”	means prospectus of the Company dated 4 June 2007;
“RMB”	means Renminbi, the lawful currency of the PRC;
“SFO”	means Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shareholder(s)”	means shareholder(s) of the Company;
“Stock Exchange”	means the Stock Exchange of Hong Kong Limited;
“Substantial Shareholder”	means substantial shareholder of the Company, which has the meaning ascribed thereto under the Listing Rules;
“Sunny Group”	means 舜宇集團有限公司 (Sunny Group Limited), a limited company established in the PRC;
“Xingbang”	means 餘姚市興邦光電儀器有限公司 (Yuyao City Xingbang Optoelectronic Instruments Company Limited), a limited company established in the PRC;
“%”	means per cent.

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

China, 22 November 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. Michael David Ricks, 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.