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)

ANNUAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

RESULTS HIGHLIGHTS

– The Group's revenues increased by 3.4% during the financial year 2009 to approximately RMB1,309.6 million when compared with the corresponding period in the year 2008. The increase was mainly due to the strong growth in the optical components business.

– Profit attributable to owners of the Company increased by 17.3% to approximately RMB91.9 million when compared with the corresponding period in the year 2008.

– Basic earnings per share increased by 17.3% to approximately RMB0.09 when compared with the corresponding period in the year 2008.

– The Board of Directors has proposed a final dividend of RMB0.02 per share.

FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Sunny Optical Technology (Group) Company Limited (the "Company") is pleased to present the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2009, together with the comparative figures for the corresponding period in the year 2008 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	3	**1,309,565**	1,267,057
Cost of sales		**(1,035,611)**	(1,016,210)
Gross profit		**273,954**	250,847
Other income	4	**35,031**	41,164
Selling and distribution expenses		**(31,933)**	(30,950)
Research and development expenditure		**(75,929)**	(56,146)
Administrative expenses		**(93,829)**	(108,009)
Impairment loss on goodwill		**–**	(8,006)
Loss on partial disposal of interests in subsidiaries		**(5,754)**	(216)
Finance costs	5	**(1,850)**	(15)
Profit before tax		**99,690**	88,669
Income tax expense	6	**(12,755)**	(12,097)
Profit for the year	7	**86,935**	76,572
Other comprehensive income			
Exchange differences arising on translation		**2,467**	(285)
Fair value change on available-for-sale financial assets		**–**	1,638
Income tax relating to fair value change on available-for-sale financial assets		**–**	(603)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale financial assets		**–**	(4,964)
Income tax relating to reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale financial assets		**–**	741
Other comprehensive income (expense) for the year (net of tax)		**2,467**	(3,473)
Total comprehensive income for the year		**89,402**	73,099
Profit for the year attributable to:			
Owners of the Company		**91,934**	78,377
Minority interests		**(4,999)**	(1,805)
		86,935	76,572
Total comprehensive income attributed to:			
Owners of the Company		**93,455**	74,904
Minority interests		**(4,053)**	(1,805)
		89,402	73,099
Dividends	8	**20,000**	21,000
Earnings per share – Basic (RMB cents)	9	**9.19**	7.84

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**486,213**	496,579
Prepaid lease payments		**19,260**	19,762
Goodwill		**12,168**	12,168
Intangible assets		**14,946**	8,796
Deferred tax assets		**2,007**	1,432
Deposits for acquisition of property, plant and equipment		**3,210**	4,001
		537,804	542,738
CURRENT ASSETS			
Inventories		**148,431**	126,351
Trade and other receivables and prepayment	*10*	**375,574**	257,606
Prepaid lease payments		**502**	502
Tax recoverable		**–**	2,246
Amount due from a related party		**12**	–
Available-for-sale investments		**–**	4,000
Financial assets designated as at fair value through profit or loss		**–**	291,070
Pledged bank deposits	*11*	**19,185**	–
Bank balances and cash	*11*	**740,320**	387,536
		1,284,024	1,069,311
CURRENT LIABILITIES			
Trade and other payables	*12*	**294,027**	190,400
Amounts due to related parties		**6,765**	8,015
Amount due to a minority shareholder of a subsidiary		**519**	2,475
Tax payable		**3,816**	306
Borrowings		**28,888**	18,284
		334,015	219,480
NET CURRENT ASSETS		**950,009**	849,831
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,487,813**	1,392,569

	NOTES	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Borrowings		**27,011**	17,226
Deferred tax liabilities		**8,031**	7,996
Deferred income		**3,368**	1,023
		38,410	26,245
		1,449,403	1,366,324
CAPITAL AND RESERVES			
Share capital	*13*	**97,520**	97,520
Reserves		**1,318,654**	1,245,199
Equity attributable to owners of the Company		**1,416,174**	1,342,719
Minority interests		**33,229**	23,605
		1,449,403	1,366,324

1. GENERAL

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. Its ultimate holding and parent company is Sun Xu Limited, a private limited company incorporated in the British Virgin Islands. The address of the 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 is located at Nos. 66-68, Shunyu Road, Yuyao, Zhejiang Province, PRC.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) – Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning on or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments nor changes in the basis of measurement of segment profit or loss, but resulted in changes in the basis of measurement of segment assets and segment liabilities (see note 5).

New and revised HKFRSs affecting the reported results and/or financial position

HKAS 23 (Revised 2007) Borrowing Costs

In previous years, the Group expensed all borrowing costs that were directly attributable to the acquisition, construction or production of a qualifying asset when they were incurred. HKAS 23 (Revised 2007) removes the option previously available to expense all borrowing costs when incurred. The adoption of HKAS 23 (Revised 2007) has resulted in the Group changing its accounting policy to capitalise all such borrowing costs as part of the cost of the qualifying asset. The Group has applied the revised accounting policy to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009 in accordance with the transitional provisions in HKAS 23 (Revised 2007). As the revised accounting policy has been applied prospectively from 1 January 2009, this change in accounting policy has not resulted in restatement of amounts reported in respect of prior accounting periods.

The directors of the Company considered that the application of this revised standard did not have material impact for the current year on the consolidated financial statements.

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Rights Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amounts received and receivable for goods sold to outside customers, less returns and discount, if any, during the year.

The Group has adopted HKFRS 8 Operating Segments with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 nor the basis of measurement of segment profit or loss.

Specifically, segment information reported externally was analysed on the basis of the types of goods supplied provided by the Group's operating divisions, which is the same information reported to the chief operating decision maker. The Group's operating and reportable segments under HKFRS 8 are as follows:

1. Optical components
2. Optoelectronic products
3. Optical instruments

Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2009

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE					
External sales	**637,312**	**545,646**	**126,607**	**–**	**1,309,565**
Inter-segment sales	**78,427**	**1,672**	**116**	**(80,215)**	**–**
Total	**715,739**	**547,318**	**126,723**	**(80,215)**	**1,309,565**
Segment profit	**64,420**	**36,070**	**17,460**	**(585)**	**117,365**
Unallocated expenses					**(17,675)**
Profit before tax					**99,690**

For the year ended 31 December 2008

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
REVENUE					
External sales	579,953	557,105	129,999	–	1,267,057
Inter-segment sales	84,746	998	207	(85,951)	–
Total	664,699	558,103	130,206	(85,951)	1,267,057
Segment profit	55,869	34,130	11,357	(258)	101,098
Unallocated expenses					(12,429)
Profit before tax					88,669

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, and finance costs. There was asymmetrical allocations to reportable segments because the Group allocates interest income, depreciation and amortisation, loss on disposal of property, plant and equipment, gains or losses on financial assets as at FVTPL and available-for-sale investments to each segment without allocating the related bank balances, depreciable assets, property, plant and equipment, and those relevant financial instruments. 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.

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable segment:

As at 31 December 2009

	Optical components ***RMB'000***	**Optoelectronic products** ***RMB'000***	**Optical instruments** ***RMB'000***	**Total** ***RMB'000***
Assets				
Account receivables	**142,879**	**91,106**	**22,848**	**256,833**
Inventories	**62,600**	**63,393**	**22,438**	**148,431**
Segment assets	**205,479**	**154,499**	**45,286**	**405,264**
Unallocated assets				**1,416,564**
Total assets				**1,821,828**
Liabilities				
Segment liability – account payables	**120,204**	**66,610**	**25,439**	**212,253**
Unallocated liabilities				**160,172**
Total liabilities				**372,425**

As at 31 December 2008

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Total *RMB'000*
Assets				
Account receivables	96,424	66,781	15,760	178,965
Inventories	46,027	56,441	23,883	126,351
Segment assets	142,451	123,222	39,643	305,316
Unallocated assets				1,306,733
Total assets				1,612,049
Liabilities				
Segment liability - account payables	58,862	44,843	16,134	119,839
Unallocated liabilities				125,886
Total liabilities				245,725

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

- account receivables and inventories are allocated to respective reportable segments. All other assets are unallocated assets, which are not regularly reported to chief operating decision maker.
- account payables are allocated to respective reportable segments. All other liabilities are unallocated liabilities, which are not regularly reported to chief operating decision maker.

Other segment information

For the year ended 31 December 2009

Amounts included in the measure of segment profit or loss or segment assets:

	Optical components ***RMB'000***	**Optoelectronic products** ***RMB'000***	**Optical instruments** ***RMB'000***	**Total** ***RMB'000***
Amounts included in the measure of segment profit or loss:				
Depreciation and amortisation	**66,635**	**14,517**	**4,742**	**85,894**
Allowance for (reversal of allowance for) bad and doubtful debts	**534**	**140**	**(610)**	**64**
Loss on partial disposal of interest in subsidiaries	**1,814**	**–**	**3,940**	**5,754**
(Gain) loss on disposal of property, plant and equipment	**(212)**	**3**	**(95)**	**(304)**
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:				
Addition to non-current assets (note)	**58,223**	**18,941**	**2,215**	**79,379**

For the year ended 31 December 2008

	Optical components *RMB'000*	Optoelectronic products *RMB'000*	Optical instruments *RMB'000*	Total *RMB'000*
Amounts included in the measure of segment profit or loss:				
Depreciation and amortisation	58,843	9,561	4,677	73,081
Allowance for inventories	3,879	4,874	693	9,446
Allowance for bad and doubtful debts	101	2,501	180	2,782
Loss on partial disposal of interest in subsidiaries	216	–	–	216
Loss on disposal of property, plant and equipment	1,742	–	34	1,776
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:				
Addition to non-current assets *(note)*	109,250	25,333	6,071	140,654
Impairment loss on goodwill	–	–	8,006	8,006

Note: Non-current assets excluded deposits for acquisition of property, plant and equipment, assets acquired from business combination and through capital injection and deferred tax assets.

Revenue from major products and services

The following is an analysis of Group's revenue from its major products;

	2009 ***RMB'000***	2008 *RMB'000*
Mobile phone related products	**578,896**	664,988
Digital camera related products	**320,581**	244,808
Optical instruments	**109,750**	117,457
Digital video lens	**32,305**	52,283
Other lens sets	**75,154**	23,245
Other spherical lens and plane products	**37,033**	60,425
Industrial endoscope	**23,982**	16,295
Other products	**131,864**	87,556
	1,309,565	1,267,057

Geographical information

The Group's operations are located in the PRC, Korea, Japan and Singapore.

The Group's revenue from external customers based on their locations of goods physically delivered and information about its non-current assets by their geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC (excluding Hong Kong) (country of domicile)	**803,482**	718,369	**452,414**	491,831
Japan	**172,083**	108,009	**–**	–
Hong Kong	**171,081**	294,183	**–**	–
Korea	**62,892**	45,633	**82,907**	48,710
Taiwan	**19,902**	13,303	**41**	149
Others	**80,125**	87,570	**435**	616
	1,309,565	1,267,067	**535,797**	541,306

Note: Non-current assets excluded deferred tax assets.

Information about major customers

Revenues from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2009	2008
	RMB'000	*RMB'000*
Customer A, revenue from optical components	**149,474**	186,036

4. OTHER INCOME

	2009	2008
	RMB'000	*RMB'000*
Bank interest income	**19,686**	8,496
Government grants *(note)*	**10,754**	7,742
Gain on disposal of mould	**1,786**	2,384
Net gain on sales of scrap materials	**538**	588
Waiver of long outstanding payables	**–**	1,811
Subcontracting service income	**–**	1,193
Gain on disposal on property, plant and equipment	**304**	–
Others	**1,963**	658
Change in fair value of financial assets designated as at FVTPL	**–**	7,856
Change in fair value of financial assets classified as held for trading	**–**	7,248
Recycling of gain from equity on disposal of investments classified as available-for-sale investments	**–**	3,188
Total	**35,031**	41,164

Note: This relates to government grants received from the local government unconditionally in recognition of the eminence of development of new products and export business of the Group.

5. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on bank loans wholly repayable within five years	**1,850**	15

6. INCOME TAX EXPENSE

	2009	2008
	RMB'000	*RMB'000*
PRC Enterprise Income Tax		
Current tax	**12,855**	7,593
Underprovision in prior years	**440**	16
	13,295	7,609
Deferred tax	**(540)**	4,488
	12,755	12,097

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards, except as described below.

Sunny Optics and Ningbo Instruments were sino-foreign equity joint ventures of manufacturing nature established in coastal economic open zone in the PRC with applicable tax rate of 25%. Pursuant to the previous Foreign Enterprise Income Tax ("FEIT") Laws in the PRC, Sunny Optics and Ningbo Instruments were approved to be exempted from FEIT for two years starting from their first profit making year, followed by a 50% tax relief for the next three years ("Tax Holidays"). The PRC income taxes for these two entities were under 50% relief for both years ended 31 December 2009 and 2008.

Sunny Optics (Zhongshan) Co., Ltd. ("Sunny Zhongshan") and Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech") were established as sino-foreign equity joint ventures of manufacturing nature established in coastal economic open zone in the PRC with applicable tax rates of 25%. In accordance with FEIT Laws in PRC, Sunny Zhongshan and Sunny Opotech are also entitled to the Tax Holidays. Sunny Zhongshan was exempted from PRC income tax for the year ended 31 December 2008 and is under 50% relief for the year ended 31 December 2009 while Sunny Opotech is under 50% relief for both years ended 31 December 2009 and 2008.

Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping") was domestic limited liability company and approved as a Hi-Tech Enterprise of Shanghai, PRC with preferential tax rate of 15% for three years commencing on 1 January 2008.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the year can be reconciled to the profit per the consolidated statement of comprehensive income as follows:

	2009	2008
	RMB'000	*RMB'000*
Profit before tax	**99,690**	88,669
Tax at domestic income tax rate *(note 1)*	**24,923**	27,787
Tax effect of expenses not deductible for tax purpose	**992**	2,203
Tax concession and exemption of PRC subsidiaries	**(18,269)**	(26,582)
Tax effect of tax losses not recognised	**3,424**	2,753
Utilisation of tax losses not previously recognised	**(318)**	–
Tax effect of withholding tax on undistributable profits of PRC subsidiaries *(note 2)*	**413**	5,920
Withholding tax levied	**1,150**	–
Underprovision in prior years	**440**	16
Income tax expense for the year	**12,755**	12,097

Notes:

(1) The domestic income tax rate is standardised at 25%. In 2008, separate reconciliation using different tax rate in each individual tax jurisdiction have been aggregated.

(2) Under the new tax law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has been provided in respect of temporary differences attributable to undistributed profits of PRC subsidiaries during the year.

7. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging (crediting):

	2009	2008
	RMB'000	RMB'000
Directors' emoluments	**3,683**	2,420
Other staff's salaries and allowances	**195,277**	200,041
Other staff's discretionary bonuses	**27,987**	23,617
Other staff's contribution to retirement benefit scheme	**19,169**	19,527
Total staff costs	**246,116**	245,605
Auditor's remuneration	**2,003**	2,129
Depreciation of property, plant and equipment	**82,566**	72,976
Release of prepaid lease payments	**502**	502
Amortisation of intangible assets (included in research and development expenditure)	**3,328**	105
Allowance for inventories (included in cost of sales)	**–**	9,446
Net foreign exchange loss	**5,250**	1,755
Loss on disposal of property, plant and equipment	**–**	1,776

8. DIVIDENDS

	2009	2008
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
2008 final dividend RMB 0.020		
(2008: 2007 final dividend RMB0.021) per share	**20,000**	21,000

Subsequent to the end of reporting period, a final dividend of total amount of RMB20,000,000 and RMB0.020 per share (equivalent to approximately HK$0.0227 per share) (2008: RMB20,000,000 and RMB0.020 per share, equivalent to approximately HK$0.0220 per share) has been proposed by the directors and is subject to approval by the shareholders in the AGM. The final dividends proposed after the end of reporting period has not been recognised as a liability at the end of reporting period.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2009	2008
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share		
(Profit for the year attributable to owners of the Company)	**91,934**	78,377

	2009	2008
	'000	*'000*
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	**1,000,000**	1,000,000

No diluted earnings per share is presented as the Company did not have any potential ordinary shares in issue during both years or at the end of the reporting periods.

10. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**261,272**	184,552
Less: allowance for doubtful debts	**(4,439)**	(5,587)
	256,833	178,965
Bill receivables	**85,331**	45,440
Other receivables and prepayment	**33,410**	33,201
Total trade and other receivables and prepayment	**375,574**	257,606

The Group allows a credit period from 60 to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of reporting period.

	2009	2008
	RMB'000	*RMB'000*
0-90 days	**243,661**	165,830
91-180 days	**10,684**	12,220
Over 180 days	**2,488**	915
	256,833	178,965

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

	2009	2008
	RMB'000	*RMB'000*
0-90 days	**52,801**	42,155
91-180 days	**32,530**	3,285
	85,331	45,440

Before accepting any new customer, the Group has assessed the potential customer's credit quality and defined credit limits of the customer. Limits attributed to customers are reviewed once a year. 95% of the trade receivables that are neither past due nor impaired have the best credit attributes assessed by the Group.

The Group has made specific allowance for certain receivables which are past due but with ageing less than 365 days based on the evaluation of collectability of each accounts and provided fully for all receivables over 365 days because historical experience is such that receivables that are past due beyond 365 days are generally not recoverable.

After assessment of impairment on individual balances, included in the Group's trade receivables are debtors with aggregate carrying amount of RMB13,172,000 (2008: RMB13,135,000) which are past due at the reporting date for which was not impaired. The Group does not hold any collateral over these balances. The average age of these receivables is as follow.

Ageing of trade receivables which are past due but not impaired

	2009	2008
	RMB'000	*RMB'000*
91-180 days	**10,684**	12,220
Over 180 days	**2,488**	915
Total	**13,172**	13,135

Movement in the allowance for doubtful debts

	2009	2008
	RMB'000	*RMB'000*
Balance at beginning of the year	**5,587**	3,057
Impairment losses recognised on receivables	**674**	3,731
Amounts written off as uncollectible	**(1,212)**	(252)
Impairment losses reversed	**(610)**	(949)
Balance at end of the year	**4,439**	5,587

Included in the allowance for doubtful debts made for the year are individually impaired trade receivables with a balance of RMB4,439,000 (2008: RMB5,587,000) which have been in severe financial difficulties. The Group does not hold any collateral over these balances.

11. PLEDGED BANK DEPOSITS/BANK BALANCES

Bank balances, represent saving accounts and deposits, carry interest at market saving rates which range from 0.36% to 3.8% (2008: 0.5% to 1%) per annum while pledged bank deposits carry fixed interest rate of 2.25% (2008: nil) per annum. Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. Pledged bank deposits have been pledged to secure short-term bank loans and they are therefore classified as current assets and will be released upon the settlement of relevant bank borrowings.

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable presented based on the invoice date at the end of reporting period.

	2009	2008
	RMB'000	*RMB'000*
Trade payables		
Within 90 days	**204,052**	112,409
91 to 180 days	**7,971**	6,374
Over 180 days	**230**	1,056
Total trade payables	**212,253**	119,839
Payable for purchase of property, plant and equipment	**5,764**	5,137
Staff salaries and welfare payables	**47,414**	41,685
Advance from customers	**5,163**	6,896
Value added tax payables and other tax payables	**7,403**	7,190
Deferred income	**1,000**	–
Others	**15,030**	9,653
	81,774	70,561
	294,027	190,400

13. SHARE CAPITAL

	Number of shares	Amount	Equivalent to
		HK$'000	*RMB'000*
Authorised:			
Ordinary shares of HK$0.1 each as of 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	100,000,000,000	**10,000,000**	
Issued & fully paid:			
Ordinary shares of HK$0.1 each as of 1 January 2008, 31 December 2008, 1 January 2009 and 31 December 2009	1,000,000,000	**100,000**	97,520

Scope of work of Messrs. Deloitte Touche Tohmatsu

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2009 as set out in this Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

In 2009, the global economy displayed signs of recovery as a result of the aggressive fiscal and monetary policies adopted by governments all over the world.

The shipment volume of global handset market increased slightly when compared with that of 2008. The smartphones staged favourable growth momentum in terms of shipments while handset camera modules increased its market penetration. The launch of 3G services in China has given initial impetus to the demand for handset lens sets and camera modules with high resolution. This trend is expected to continue in 2010.

There was also a slight increase in the global shipments of digital cameras with particularly strong growth in demand for Digital Single Lens Reflex ("DSLR"). Japanese manufacturers began to implement the strategy of sourcing in China. The increasing trend of demand for lenses is expected to continue in 2010.

The demand for optical instruments was undermined by the sluggish American and European markets and industrial sector. However, given the increased expenditure on medical and education by government, demand for such products continues to grow.

For other fields of the Group, such as security surveillance, vehicle imaging and infrared imaging, the demands recorded a rapid growth. It is expected that the comparatively fast growing trend will be sustained in the coming years.

The Group will closely observe the developments in the market and adopt effective and appropriate strategies in a timely manner so as to enhance the quality and profile of products, technologies, services and the enterprise value.

Business Review

For the year under review, the global economy was sluggish in the first half of the year due to the financial crisis. Against the adverse operational environment, the Group implemented a number of measures with an aim to maintain its profitability at certain level during the period, including aggressive expansion of customer base and tightening internal cost control. First half of the year was the most difficult period the Group ever experienced since its inception. However, driven by recovery of macro economy and coupled with improvement in the internal control measures including "Lean Production" promotion in the second half of the year, the Group's performance showed a strong rebound and recorded a profit growth for the whole year.

In 2009, the Group's revenue was approximately RMB1,309.6 million, representing an increase of approximately 3.4% as compared with the previous year. The increase was mainly due to the strong growth in the optical components business. The Group will grasp various opportunities with an aim to maintain the growth trend in the coming years. Specific strategies are detailed in the section "Outlook and Future Strategies".

Our three major business segments, namely optical components, optoelectronic products and optical instruments, have upgraded their respective existing products. These efforts strengthened our technological leadership in the industry of existing products. The research and developement ("R&D") of new products will also lay a solid foundation for broadening of the Group's revenue sources in the future. For optical components business segment, we have started the development of an 8-mega pixel 3X zoom handset lens set; two types of micro-projectors were awarded "Nation-Supported Development Projects" by the Korean government; a newly developed 2-light emitting-dioded ("LED") flash module has commenced batch delivery; a 12-mega pixel handset lens set with auto-focus function has accomplished its development process with a utility model patent obtained; Glass Molding Press ("GMP") projects have entered into small batch production process; a variety of infrared lens sets for vehicles have also accomplished their respective development process; great breakthrough has been made in automated production process, leading to further costs reduction. For optoelectronic products business segment, an 8-mega-pixel handset camera module has accomplished its development process; certain types of security surveillance cameras have accomplished their development process; the Group has established its Security Surveillance Business Unit which will focus on the marketing of security surveillance products; the development of medical endoscopes has been completed and a medical license from the State Food and Drug Administration ("SFDA") and a utility model patent have been obtained. The Group also made achievements in the development of optical instruments: the time-of-flight mass spectrometer, quadrupole mass spectrometer and SHP8400PMS automatic on-line mass analyzer have completed their research process. The latter has become China's first sampling and gas pressure mass analyzer within a wide range of pressure process, forwarding China's development and production of on-line mass analyzer to step further.

During the year under review, several of our newly established subsidiaries performed well. The Group's Korean subsidiary – Power Optics Co., Ltd. began generating profits while a domestic subsidiary – Ningbo Sunny Automotive Optech Co., Ltd. also started to generate profit. Ningbo Sunny Infrared Technologies Company Ltd. increased its sales gradually. Sunny Instruments Singapore PTE. Ltd. completed the research and development stage and began the production and sales of 3D optical vision measuring instrument and microscopic interferometer.

Optical Components

Thanks to the rapid growth of DSLR and the strategy of sourcing in China adopted by Japanese digital camera manufacturers, the revenue of optical components increased and contributed a sales income of approximately RMB637.3 million, representing an increase of approximately 9.9% as compared with the corresponding period of last year. This business division accounted for approximately 48.7% of the Group's revenue as compared with approximately 45.8% in the corresponding period of last year.

During the year under review, the Group successfully started mass production of 2-, 3- and 5-mega pixel handset lens sets with auto-focus function. These lens sets have enabled the Group to grasp opportunities present in the 3G and smartphone market effectively. Meanwhile, for spherical lens business, shipment for small and medium sized spheric lenses was surpassed by medium and large ones, most of which were applied in DSLR; the percentage of handset lens sets volume with 1.3 mega pixel resolution or above has increased to approximately 41.4%. We have strengthened the relationship with some of our existing major customers, such as Panasonic, Nikon and Samsung. We have also started the business relationship with a US customer which possesses an advanced solar energy generation technology to provide the coating of aspheric glass lenses and prisms during the year.

This business segment has obtained 17 patents, of which 9 are invention patents, 8 are utility model patents, and another 34 patents are in the process of application.

"Lean Production" was fully promoted in this business segment and was successful, which was substantial in increasing our gross margin.

This business segment flexibly reacted to market demands and secured 14 new reputable customers. In particular, Zhejiang Sunny Optics Co., Ltd. and Sunny Japan Co., Ltd. jointly won a number of customers, including Sharp. Sunny Optics (Zhongshan) Co., Ltd. had successfully entered into the Changwon LG supply chain, it also was listed as Olympus's first supplier in terms of lens and Nikon's first supplier in terms of DSLR lens.

Optoelectronic Products

Due to the decline in growth of demand and average selling prices of handsets, revenue from optoelectronic products business segment for the year ended 31 December 2009 amounted to approximately RMB545.6 million, representing a slight decrease of approximately 2.1% over the corresponding period of last year. Such decrease was mainly due to the fact that most of the Group's purchasers for handset camera modules were manufacturers of domestic brands, which are dominantly with camera modules of low resolution. Such products are under fierce competition, leading to a decrease in average selling prices and smaller shipment volume. This business segment accounted for approximately 41.7% of the Group's revenue compared with approximately 43.9% in the corresponding period of last year.

During the year, the Group had successfully commenced mass production of the 2-, 3- and 5-mega pixel camera modules for handset use with auto-focus function, which enhanced the Group's supply position in the eyes of domestic 3G handsets and smartphone manufacturers. The proportion of handset camera modules volume with 1.3-mega pixel or above increased to approximately 32.0%. The business relationship with our existing major customers, such as ZTE, Huawei, Lenovo, K-Touch and Yulong, was further strengthened. In addition, we have secured 4 new major customers, such as Sharp and Panasonic. At the same time, the Group has successfully developed extended depth-of-field ("EDOF") handset camera modules, which possess very similar functions but are more cost-effective as compared with ordinary auto-focus modules. Furthermore, reflow handset camera modules have been successfully developed. As high temperature resistance materials are applied to all components of reflow handset camera modules, handset manufacturers are allowed to directly weld such modules to the motherboard of handsets using surface mounted technology ("SMT"), leading to higher production efficiency, better quality and lower costs. The 3-mega pixel camera modules with auto-focus function, which was designed using chip on board ("COB") techniques, have been recognised by the Ministry of Science and Technology as one of the national key and new products. Such camera modules can be applied not only in the handset industry, but also in fields such as portable media play ("PMP") and household surveillance. Currently, the Company has mastered the relevant core technology of such modules and has commenced mass production.

This business segment has obtained 17 patents, of which 1 is invention patent, 13 are utility model patents and the remaining 3 are exterior design patents. Another 12 patents are in the process of application.

During the year under review, the handset camera modules and the visual doorphone modules of Ningbo Sunny Opotech Co., Ltd. became part of the supply chain of some internationally renowned brands such as Sharp and Panasonic and had maintained a steady monthly shipment volume.

Optical Instruments

Affected by the financial tsunami, the revenue from our optical instruments business segment further declined in 2009 to approximately RMB126.6 million, representing a slight decrease of approximately 2.6% over the corresponding period of last year. However, this business segment concentrated its efforts in exploring the domestic market during the year, and certain achievements were attained. It is expected that this business segment will achieve growth in domestic sales because there is a strong domestic demand on mid-and high-end instruments. This business segment accounted for approximately 9.6% of the Group's revenue compared with approximately 10.3% in the corresponding period of last year.

During the year, the Group completed the R&D of various mid to high-end optical instruments, including drugs detectors, time-of-flight mass spectrometers, quadrupole mass spectrometers, 3D optical vision measuring machines and microscopic interferometers, and some of these products have even entered to small batch production phase. At the "Annual Conference of China Scientific Instruments 2009", the AD04-03 detector for narcotic drugs and psychotropic substances, which was developed by Shanghai Sunny Hengping Scientific Instrument Co., Ltd. was recognised as an "Excellent New Product of Scientific Instruments for 2008". AD04-03 detector is able to complete on-site analysis within 5 minutes. It is designed with a number of core technologies owned by the Group and is protected by 3 patents. It is so far the first detector developed based on the micro multi-dimensional gas chromatography theory, and has reached a domestically leading and internationally advanced level. The widened product range will have a positive impact on the Group in the future.

This business segment has obtained 44 patents in total, of which 10 are utility model patents and 34 are exterior design patents, and another 9 patents are in the process of application.

Production

The Group currently operates four production bases in Yuyao city of Zhejiang Province, Zhongshan of Guangdong Province, Shanghai and Tianjin in the PRC respectively.

In May 2009, the Group invested RMB30.0 million for the establishment of Sunny Optics (Tianjin) Co., Ltd., its fourth production base, with a view to provide more convenient and superior services to its customers in Bohai Bay Area. In June 2009, Power Optics Co., Ltd., a subsidiary of the Group in Korea, completed the construction of its new building in Seoul. The new building has a floor area of 5,269.12 sq.m. with separate office and production areas. The construction of the new building will also facilitate the localized production of partial products to cater for the needs of the regional market.

Our manufacturing and production figures in 2009 are positioned amongst the leading companies in the sector. Production capacity attributable to each segment as follows:

	2009	2008	Change
Lenses	**185.0 mn units**	180.0 mn units	2.8%
Lens sets	**151.0 mn units**	144.0 mn units	4.9%
Optoelectronic products	**72.0 mn units**	72.0 mn units	0%
Optical Instruments	**199.2K sets**	199.2K sets	0%

Financial Review

Revenue

Revenue generated from optical components business segment increased by approximately 9.9% to approximately RMB637.3 million compared with the corresponding period of the previous year. The increase was a result of a significant growth in demand for lenses applied in DSLR. Revenue generated from optoelectronic products business segment decreased by approximately 2.1% to approximately RMB545.6 million compared with the corresponding period of the previous year. The decrease was mainly due to the fact that the shipment of low-resolution camera modules was depressed by fierce market competition, which in turn caused a decline in both the average selling prices and the shipment volume of handset camera modules. Revenue generated from optical instruments business segment decreased by approximately 2.6% to approximately RMB126.6 million compared with the corresponding period of the previous year. The decrease was a result of the decline in demand from American and European customers.

The Group's revenue for the year ended 31 December 2009 was approximately RMB1,309.6 million, representing an increase of approximately 3.4% or approximately RMB42.5 million compared with the corresponding period of the previous year.

Gross Profit and Margin

The gross profit for the financial year 2009 was approximately RMB274.0 million, an increase of approximately 9.2% compared to the corresponding period last year and the gross margin was approximately 20.9%. The increase was mainly due to improvement in our product mix and the positive efficiency resulted from our persistent promotion of "Lean Production".

Selling and Distribution Expenses

For the year ended 31 December 2009, selling and distribution expenses accounted for approximately 2.4% of the Group's revenue, increased by approximately 3.2% or approximately RMB1.0 million to approximately RMB31.9 million during the year under review. The increase was primarily due to the increase in costs of selling, marketing and distribution personnel arising from the growth in sales activities.

R&D Expenditure

R&D expenditure, which represented approximately 5.8% of the Group's revenue during the year under review, increased from approximately RMB56.1 million for the year ended 31 December 2008 to approximately RMB75.9 million for the corresponding period in 2009. The increase was due to the continuous investment in R&D activities and projects, including security surveillance systems, aspheric glass lenses, infrared products, mid and high-end new optical instruments and the upgrading of existing product categories.

Administrative Expenses

Administrative expenses, which represented approximately 7.2% of the Group's revenue during the period under review, decreased from approximately RMB108.0 million during the year ended 31 December 2008 to approximately RMB93.8 million for the corresponding period in 2009, representing a decrease of 13.1%. The decrease was mainly attributable to the strengthened budget management on administrative expenses by the Group.

Income Tax Expense

Income tax charge for the year ended 31 December 2009 increased to approximately RMB12.8 million from approximately RMB12.1 million for the year ended 31 December 2008. Such increase came from the elapse of tax free periods of the first 2 years that some of the Company's subsidiaries in the PRC had enjoyed in the previous years under the applicable laws of PRC as sino-foreign equity joint ventures and jointly foreign owned enterprises. The Group's effective tax rate for the year was approximately 12.8%.

In order to keep the effective tax rate steady, the Company has successfully applied as hi-tech enterprises for several PRC subsidiaries. Income tax for hi-tech enterprises is 15% according to the national policy.

Tax rates attributable to the Group's subsidiaries in the PRC are shown as follows:

	2008	**2009**	**2010**	**2011**
*Zhejiang Sunny Optics Co., Ltd. ("Sunny Optics")	12.5%	12.5%	15.0%	15.0%
*Ningbo Sunny Instruments Co., Ltd. ("Sunny Instruments")	12.5%	12.5%	15.0%	15.0%
*Sunny Optics (Zhongshan) Co., Ltd. ("Sunny Zhongshan Optics")	–	12.5%	12.5%	12.5%
*Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech")	12.5%	12.5%	12.5%	15.0%
Ningbo Sunny Infrared Technologies Company Ltd. ("Sunny Infrared")	25.0%	25.0%	25.0%	25.0%
*Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping")	15.0%	15.0%	15.0%	25.0%
Ningbo Sunny Automotive Optech Co., Ltd. ("Sunny Automotive Optech")	25.0%	25.0%	25.0%	25.0%
Jiangsu Sunny Medical Instruments Co., Ltd. ("Sunny Medical")	25.0%	25.0%	25.0%	25.0%
Sunny Optics (Tianjin) Co., Ltd. ("Sunny Tianjin Optics")	25.0%	25.0%	25.0%	25.0%

* Companies were recognized as hi-tech enterprise and obtained the approvals before the end of reporting period

Profit for the Year and Margin

Profit for the year increased by approximately 13.5% from approximately RMB76.6 million for the year ended 31 December 2008 to approximately RMB86.9 million for the year 2009. The increase in net profit was mainly due to increased gross profit and decrease in administrative expenses. The net profit margin was approximately 6.6%.

Profit Attributable to the Owners of the Company

Profit attributable to the owners of the Company amounted to approximately RMB91.9 million, representing an increase of approximately RMB13.5 million or approximately 17.3% as compared with approximately RMB78.4 million in the corresponding period last year.

Final Dividend

For the year ended 31 December 2009, the dividend proposed by the Board was RMB0.02 (equivalent to approximately HK$0.0227) per share, with payout ratio approximately 21.8% of the profit attributable to the owners of the Company for the year.

Liquidity and Financial Resources

Cash Flows

The table below summaries the Group's cash flows for the years ended 31 December 2009 and 31 December 2008:

	For the year ended 31 December	
	2009	2008
	RMB million	*RMB million*
Net cash from operating activities	**130.6**	202.7
Net cash from (used in) investing activities	**228.6**	(354.6)
Net cash used in financing activities	**(7.2)**	(4.5)

The Group, being a self-sufficient company, derives its working capital mainly from net cash generated from operating and investing activities. The Directors expect that the Group will rely on net cash from operating activities and the net proceeds from the global offering of the Company's shares in the year 2007 ("Global Offering") to meet its working capital and other capital expenditure requirements in the near future. In the long run, the Group will be funded by net cash from operating activities and, if necessary, by additional equity financing or bank borrowings. During the year, there was no material change in the funding and treasuring policy of the Group.

The Group recorded a net increase in cash and cash equivalent of approximately RMB352.0 million for the year ended 31 December 2009.

Operating Activities

Cash inflow from operations is mainly derived from cash receipt from sales of the Group's products. Cash outflow from operations is principally generated for the purchase of raw materials, staff costs, selling and distribution expenses and administrative expenses. Net cash from operating activities was approximately RMB202.7 million and RMB130.6 million for the financial years 2008 and 2009 respectively. The decrease in net cash generated from operating activities was mainly because of the increased in trade receivables balance.

The trade receivable turnover increased from 52 days in 2008 to 72 days in 2009. The increase in trade receivable turnover days was mainly because of increased sales in Q4 contributed by the economic recovery when compared with the corresponding period last year. In addition, in order to raise the competitiveness, the Group has granted more favourable credit terms to certain international renowned customers.

The trade payable turnover increased from 43 days in 2008 to 75 days in 2009. The increase in trade payable turnover days was mainly because of a significant increase in purchases made near year end as compared with the corresponding period in previous year.

The inventory turnover increased from 45 days in 2008 to 52 days in 2009. The increase in inventory turnover day was mainly because significant purchases were made near year end, pulling up the inventory balance.

Investing Activities

The Group recorded a net cash inflow from investing activities of approximately RMB228.6 million for the financial year 2009, mainly for the proceeds on disposal of financial assets designated as at fair value through profit or loss.

Financing Activities

The Group also recorded a net cash outflow from financing activities of approximately RMB7.2 million for the financial year 2009. The inflow mainly came from new bank borrowings raised of approximately RMB46.9 million. Major outflows were the repayment of borrowings of approximately RMB30.3 million and dividend paid to shareholders of approximately RMB20.0 million as declared in the previous years.

Capital Expenditure

For the year ended 31 December 2009, capital expenditure of the Group amounted to approximately RMB75.7 million for the purchase of property, plant, equipment and other tangible assets. All of the capital expenditure was financed by internal resources.

Capital Structure

Indebtedness

Borrowings

Bank loans of the Group as of 31 December 2009 amounted to approximately RMB55.9 million (2008: approximately RMB35.5 million), all of which were secured bank loans. During the year, one of the loans in the amount of approximately RMB23.1 million bears a fixed interest rate of 2.90% and will be repayable in 2010. The proceed was used to finance the daily operation of the Group. Pledged bank deposit amounting to approximately RMB19.2 million was arranged in the year 2009.

As of 31 December 2009, among all of the bank loans, approximately RMB34.9 million were denominated in Korean Won, approximately RMB12.3 million were denominated in Hong Kong Dollars, approximately RMB5.0 million were denominated in Japanese Yen, while approximately RMB3.7 million were denominated in U.S. Dollars. The gearing ratio of the Group by reference to the total debt to total book capitalization ratio (with total book capitalization representing the sum of total liabilities and shareholders' equity) was approximately 3.1%, reflecting the Group's financial position was at a sound level.

Bank facilities

As of 31 December 2009, the Group had unutilized banking facilities of RMB250.0 million with Yuyao Branch of Agricultural Bank of China, RMB130.0 million with Yuyao Branch of China CITIC Bank and RMB55.0 million with Yuyao Branch of Bank of Ningbo.

Debt securities

As of 31 December 2009, the Group did not have any debt securities.

Contingent liabilities

As of 31 December 2009, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

The Group did not have any pledge or charge on assets as of 31 December 2009.

Capital Commitments and Contingencies

As of 31 December 2009, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental properties amounted to approximately RMB5.7 million (2008: approximately RMB7.7 million). The Group had capital commitment in respect of acquisition of equipment amounted to approximately RMB3.8 million (2008: approximately RMB22.9 million).

As of 31 December 2009, the Group had no other capital commitments save as disclosed herein.

Performance of Investments Made and Future Investments

The Group's investing activities mainly include the purchase of property, plant and equipment. During the year ended 31 December 2009, the Group used approximately RMB75.7 million in investing activities, mainly in relation to the purchase of plants and equipment and the setting up the capacities for new products and new projects. These investments enhance the Group's R&D capability and production efficiency, thereby enlarging the market share of existing products and penetrating into new markets, and thus broaden the revenue sources.

To the extent that any part of the net proceeds to the Company from the Global Offering are not immediately utilized, the Directors may allocate such proceeds to short-term interest bearing deposits and/or money-market instruments with authorized financial institutions and/or licensed banks in the PRC and Hong Kong.

The proceeds from the Global Offering amounted to approximately RMB745.1 million, of which approximately RMB493.0 million had been used by the Company and the unutilized proceeds were placed with financial institutions as short term deposits. No intention for substantial acquisition and large investment plan is noted for the year of 2010.

Off-Balance Sheet Transactions and Contingent Liabilities

As of 31 December 2009, the Group did not enter into any material off-balance sheet transactions.

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 our expansion and for other uses. Upward fluctuations in interest rates increase the costs of both existing and new debts. For the year ended 31 December 2009, the effective interest rates on fixed-rate bank loans and variable-rate bank loans were approximately 2.90% and 5.50% per annum respectively. The Group has not entered into any types of interest rate agreements or derivative transactions to hedge against the changes in interest rates.

Foreign Exchange Rate Fluctuation Risk

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

Credit Risk

The Group's financial assets are bank balances and trade and other receivables, which represent the Group's maximum exposure to credit risk in relation to financial assets.

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

The Group has no significant concentration of credit risk for its trade receivables which spread over a large number of counterparties and customers.

The credit risk on liquid funds is limited because majority of the counter parties are banks with high credit-ratings assigned by international credit-rating agencies.

Cash Flow Interest Rate Risk

The Group's cash flow interest rate risk relates primarily to variable rates of bank deposits which are all short-term in nature. 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 adequate level of cash and cash equivalents by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Employee and Remuneration Policy

The Group had a total of 6,900 dedicated full time employees as of 31 December 2009, including 1,002 management and administrative staffs, 5,757 production staffs and 141 operation supporting staffs .

In line with the Group's and individual performance, a competitive remuneration package is offered to retain elite employees including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund scheme for employees in Hong Kong and state-managed retirement benefit scheme for employees in the PRC. The Group has also adopted a share option scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution. For the financial year ended 31 December 2009, no share option was granted or agreed to be granted by the Group under the scheme.

Dividend

The Directors recommended a payment from the distributable reserves of the Company a final dividend of RMB0.02 (equivalent to approximately HK$0.0227) per share in respect of the year ended 31 December 2009 to the shareholders whose names appear on the register of members of the Company at the close of business on 11 May 2010. The final dividend, payable on 25 May 2010, is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting ("AGM") to be held on 17 May 2010.

Outlook and Future Strategies

The economic environment in 2010 is still subject to uncertainties in spite of the improvement and stablisation since the second half of 2009. However, the Group is cautiously optimistic to its business in 2010. By leveraging on its advanced R&D capabilities, extensive client base and diversified product portfolio and product mix, the Group will continue to pursue its "Mingpeijiao" strategy and to achieve excellence in pragmatic manner.

1. ***Aggressively develop overseas markets and deeply exploit the domestic market***

   In 2010, handset related products will still contribute a larger proportion of sales to the Group. The Group will seize the opportunities brought by the launch of 3G services in China, strengthen the cooperation with well-known domestic handset manufacturers and focus on the promotion of high resolution handset camera modules and lens sets. At the same time, the Group will aggressively develop overseas markets for these products, striving to provide more handset lens sets and camera modules to world-renowned handset manufacturers.

   The sales of DSLR are expected to maintain a rapid increase momentum in 2010. The Group will conduct internal adjustment of production capacities and position the lenses of DSLR as flagship products among its spherical products. Meanwhile, the Group will commence mass production of aspheric glass lenses to meet the market demand.

   The Company will accelerate the commercial launch of security surveillance products and strive to become a leading supplier of mid and high-end security surveillance products. For vehicle lens sets, infrared materials and lens sets as well as mid and high-end optical instrument's markets, the Company will increase its investment and achieve higher profitability gradually.

2. ***Continue to strengthen R&D of products and technology, improve product mix and increase added value***

   In order to achieve mid and long-term development, the R&D team of the Group will conceive the roadmaps of the related products based on market conditions. The Group will vigorously boost the R&D of innovative optical application products and strengthen the R&D of existing products for purpose of upgrading and technology improvement. By doing so, the Group can enhance product values for customers more cost-effectively, expand product portfolio and enhance product mix.

3. ***Strengthen cost control and improve management***

   In 2010, the Group will remain exposed to cost pressure caused by labor shortage and exchange fluctuations. As chance of passing on the incremental costs is limited, the Group will further promote "Lean Production", carry out "Manufacturing Execution Systems" in every way supply and optimize chain, combine technique improvement with automatic progress to respond to such pressure, reduce costs and explore various opportunities.

   At the same time, the Group will aim to basically improve our management standard and form a management team marked with vigor capabilities and outstanding abilities; realise the transformation from "Quantity Expansion" to "Quality Improvements" in its objective system and the transformation from "Traditional" to "Innovative" in its resource allocation and operational mode. Moreover, the Group will show its concept of human resources management by exercising the "Human Oriented" philosophy, promote its corporate culture of "Create Together", motivate the employees' initiatives and explore employees' potentials so that they are dedicated to creating greater values for the Group.

In general, by pursuing the strategy of "Explore new sources and Cut cost, Speed up transformation, Obtain orders externally and Get refinement internally", the Group will further strengthen its competitiveness through market expansion, product research and development and cost control in 2010.

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 Company. Eligible participants of Scheme include, without limitation, employees, Directors and shareholders of the Group. Up to 31 December 2009, no share option has been granted or agreed to be granted to any person or exercised by any person under the Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company is empowered by the applicable Companies Law of the Cayman Islands and its Articles of the Association (the "Articles") 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 cancellation by the Company or any of its subsidiaries, of the Company's listed shares during the year ended 31 December 2009.

DISCLOSURE OF SUBSTANTIAL SHAREHOLDERS

As of 31 December 2009, so far as the Directors are aware, the following persons or institutions 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 SFO, Cap 571 of the Laws of Hong Kong, 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 Share	Approximate percentage of shareholding
Sun Xu Limited ("Sun Xu")	Long position	Beneficial owner	421,460,060	42.15%
Sun Ji Limited ("Sun Ji") *(Note 1)*	Long position	Interest in a controlled corporation	421,460,060	42.15%
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	467,556,060	46.76%
Mr. Ye Liaoning *(Note 3)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Mr. Wu Jinxian *(Note 4)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Mr. Sun Yang *(Note 5)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Summit Optical Holdings Inc ("Summit")	Long position	Beneficial owner	171,174,508	17.12%
Chengwei Ventures Evergreen Fund, L.P. *(Note 6)*	Long position	Interest in a controlled corporation	207,715,208	20.77%
Sun Zhong Limited ("Sun Zhong") *(Note 7)*	Long position	Beneficial owner	46,096,000	4.61%

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 421,460,060 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 421,460,060 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 46,096,000 shares held by Sun Zhong under the provisions of 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. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Ye Liaoning is deemed to be interested in 421,460,060 shares under the SFO.

(4) Mr. Wu Jinxian is a beneficiary under the Sunny Employee Trust, under which he is entitled to 2.81% of the beneficial interest. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Wu Jinxian is deemed to be interested in 421,460,060 shares under the SFO.

(5) Mr. Sun Yang is a beneficiary under the Sunny Employee Trust, under which he is entitled to 0.84% of the beneficial interests. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Sun Yang is deemed to be interested in 421,460,060 shares under the SFO.

(6) CWI Optical Holdings, Inc. ("CWI") is interested in 36,540,700 shares. As Chengwei Ventures Evergreen Fund, L.P. owns more than one-third of the voting power of general meetings of each of CWI and Summit, Chengwei Ventures Evergreen Fund, L.P. is deemed to be interested in the 207,715,208 shares held by CWI and Summit in aggregate under the SFO.

Chengwei Ventures Evergreen Management, LLC is the general partner of Chengwei Ventures Evergreen Fund, L.P., accordingly, Chengwei Ventures Evergreen Management, LLC is deemed to be interested in 207,715,208 shares under the SFO.

EXL Holdings, LLC owns more than one-third of the voting power of general meetings of Chengwei Ventures Evergreen Management, LLC and EXL Holdings, LLC is a company controlled by Mr. Li Eric Xun, accordingly, each of EXL Holdings, LLC and Mr. Li Eric Xun is deemed to be interested in 207,715,208 shares under the SFO.

(7) Pursuant to an agreement entered into in November 2009, Sun Zhong had sold certain shares in the Company to third parties, resulting in a reduction of shareholding interests in the Company from 5.79% to 4.61%.

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 to a trust established on 28 July 2006 on the entire issued share capital of Sun Ji

– "PRC Investors" refers to the beneficiaries of the PRC Investor Trust

Save as disclosed above, as of 31 December 2009, no other shareholder of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN SHARES

As of 31 December 2009, the interests and short positions of the Directors and the chief executives in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

Name of Director	Name of Corporation	Long/short position	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Wenjian	The Company	Long position	Trustee *(Note 1)*	46,096,000	4.61%
	The Company	Long position	Trustee and Beneficiary of a trust *(Note 2)*	421,460,060	42.15%
Mr. Ye Liaoning	The Company	Long position	Beneficiary of a trust *(Note 3)*	421,460,060	42.15%
Mr. Wu Jinxian	The Company	Long position	Beneficiary of a trust *(Note 4)*	421,460,060	42.15%
Mr. Sun Yang	The Company	Long position	Beneficiary of a trust *(Note 5)*	421,460,060	42.15%

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 4.61% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 46,096,000 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 42.15% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 421,460,060 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. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Ye Liaoning is deemed to be interested in 421,460,060 shares under the SFO.

(4) Mr. Wu Jinxian is a beneficiary under the Sunny Employee Trust, under which he is entitled to 2.81% of the beneficial interest. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Wu Jinxian is deemed to be interested in 421,460,060 shares under the SFO.

(5) Mr. Sun Yang is a beneficiary under the Sunny Employee Trust, under which he is entitled to 0.84% of the beneficial interests. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Sun Yang is deemed to be interested in 421,460,060 shares under the SFO.

Other than as disclosed above, none of the Director and chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as of 31 December 2009.

DIRECTORS AND KEY EXECUTIVES

The Board comprises 11 Directors, including 4 independent non-executive Directors. The Directors are all well-educated, have extensive experience in different areas and professionals and are appointed pursuant to the requirements under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (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 make important decisions unless authorised by the Board.

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

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference. The Group's audited final results for the year ended 31 December 2009 were reviewed by all the Audit Committee members, namely, Mr. Zhang Yuqing (Chairman of the Audit Committee), Dr. Chang Mei Dick, Dr. Liu Xu, Mr. Michael David Ricks and Mr. Shao Yang Dong.

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee with written terms of reference. The Remuneration Committee comprises of 3 members, namely, Mr. Koji Suzuki and Mr. Zhang Yuqing (both are independent non-executive Directors) and Mr. Shao Yang Dong (who is a non-executive Director). Mr. Koji Suzuki was appointed as the Chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Nomination Committee, with written terms of reference, is comprised of 3 members, namely, Dr. Chang Mei Dick and Dr. Liu Xu (both are independent non-executive Directors) and Mr. Wang Wenjian (an executive Director). Dr. Chang was appointed as the Chairman of the Nomination Committee.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Company complied with all the principles and code provisions and most of the recommended best practices of the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 to the Listing Rules for the year ended 31 December 2009, save and except as discussed below.

Provision A.2.1 of the Corporate Governance Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual but Mr. Wang Wenjian currently assumes both roles of the Chairman and the Chief Executive Officer of the Company.

During the year under review, Mr. Wang Wenjian, the Chairman and an Executive Director of the Company, is re-designated as Chief Executive Officer on 21 July 2009 while remaining as the Chairman of the Company. He has been directing the strategic growth and development of the Group, with the responsibility of reviewing the implementation of the Board's policies and decisions. Given the expertise and experience of Mr. Wang, the Board believes that vesting the roles of both Chairman and Chief Executive Officer in him provides the Company with strong and consistent leadership, efficient usage of resources and allows for effective planning, formulation and implementation of the Company's business strategies which could assist to alleviate the impacts of the current economic conditions on the developments of the Company and better sustain the Group's development.

There are 4 independent non-executive Directors in the Board, all of whom possess adequate independence and therefore the Board considers that the current structure will not impair the balance of power and authority between the Board and the management of business of the Group.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, and after having made specific enquiry with regard to securities transactions after the Global Offering by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the year ended 31 December 2009.

ANNUAL GENERAL MEETING

The AGM of the Company will be held on 17 May 2010. A notice of the AGM will be published on the Company's website at www.sunnyoptical.com and the Stock Exchange of Hong Kong Limited's website at www.hkex.com.hk, on or about 13 April 2010 and will be dispatched to the shareholders together with the Company's annual report 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 12 May 2010 to 17 May 2010, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, and be eligible to attend and vote at the forthcoming AGM of the Company, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration not later than 4:30 p.m. on 11 May 2010.

APPRECIATION

On behalf of the Board of Directors, I would like to express my gratitude to our shareholders, distributors, customers and various co-organizers for their continued support, and to our employees for their dedication and hard work.

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

China, 22 March 2010

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