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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)**

### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2011**

#### **RESULT HIGHLIGHTS**

- The Group's revenue for the year ended 31 December 2011 was approximately RMB2,498.5 million, representing an increase of approximately 37.4% as compared with the corresponding period of the previous year. Main reasons accounted for such increase included sound operation of our two major business segments, namely optical components and optoelectronic products, especially the handset lens set and handset camera module businesses among them achieved considerable growth.
- The gross profit for the financial year 2011 was approximately RMB522.8 million, representing an increase of approximately 33.4% compared with the corresponding period of the previous year. The gross margin was approximately 20.9%.
- Profit for the year attributable to owners of the Company increased by approximately 49.7% to approximately RMB215.3 million as compared with the corresponding period of the previous year.
- Basic earnings per share increased by approximately 42.2% to approximately RMB0.209 when compared with the corresponding period of the previous year.
- The Board of Directors has proposed a final dividend of approximately RMB0.071 (equivalent to HK\$0.087) 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 consolidated results of the Company and its subsidiaries (collectively referred to as the "**Group**") for the year ended 31 December 2011, together with the comparative figures for the corresponding period in the year 2010 as follows:

**Consolidated Statement of Comprehensive Income**  
*For the year ended 31 December 2011*

	<i>NOTES</i>	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Revenue	3	<b>2,498,500</b>	1,818,067
Cost of sales		<b>(1,975,740)</b>	(1,426,090)
Gross profit		<b>522,760</b>	391,977
Other income	4(a)	<b>68,430</b>	42,637
Other gains and losses	4(b)	<b>(5,180)</b>	(2,319)
Selling and distribution expenses		<b>(58,813)</b>	(43,867)
Research and development expenditure		<b>(131,114)</b>	(99,575)
Administrative expenses		<b>(122,859)</b>	(106,655)
Impairment loss recognised on goodwill		<b>(4,071)</b>	(8,097)
Impairment loss recognised on intangible assets		<b>(14,531)</b>	–
Written off on intangible assets		<b>(3,761)</b>	–
Impairment losses recognised on property, plant and equipment		<b>(3,939)</b>	–
Share of result of an associate		<b>(4,357)</b>	(5,096)
Finance costs	5	<b>(2,982)</b>	(4,129)
Profit before tax		<b>239,583</b>	164,876
Income tax expense	6	<b>(37,838)</b>	(26,651)
Profit for the year	7	<b>201,745</b>	138,225
<b>Other comprehensive (expense) income</b>			
Exchange differences arising on translation		<b>(744)</b>	694
Reclassification of exchange differences to profit or loss upon disposal of a subsidiary		–	1,110
Other comprehensive income for the year		<b>(744)</b>	1,804
Total comprehensive income for the year		<b>201,001</b>	140,029
Profit for the year attributable to:			
Owners of the Company		<b>215,308</b>	143,826
Non-controlling interests		<b>(13,563)</b>	(5,601)
		<b>201,745</b>	138,225
Total comprehensive income attributed to:			
Owners of the Company		<b>215,156</b>	145,396
Non-controlling interests		<b>(14,155)</b>	(5,367)
		<b>201,001</b>	140,029
Earnings per share – Basic (RMB cents)	9	<b>20.90</b>	14.70
– Diluted (RMB cents)	9	<b>20.71</b>	14.63

**Consolidated Statement of Financial Position**  
At 31 December 2011

	<i>NOTES</i>	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		<b>489,290</b>	465,259
Prepaid lease payments		<b>18,256</b>	18,758
Goodwill		–	4,071
Intangible assets	<i>10</i>	<b>35</b>	19,313
Interest in an associate		<b>13,682</b>	14,954
Deferred tax assets		<b>1,137</b>	873
Deposit for acquisition of prepaid lease payment		<b>3,577</b>	–
Deposits for acquisition of property, plant and equipment		<b>27,075</b>	7,235
		<b>553,052</b>	530,463
<b>CURRENT ASSETS</b>			
Inventories		<b>472,339</b>	220,598
Trade and other receivables and prepayment	<i>11</i>	<b>627,226</b>	454,371
Entrusted loan receivables	<i>12</i>	<b>295,000</b>	585,000
Prepaid lease payments		<b>502</b>	502
Tax recoverable		<b>167</b>	195
Financial assets designated as at fair value through profit and loss	<i>13</i>	<b>84,080</b>	–
Amount due from a related party		<b>367</b>	926
Amount due from an associate		<b>1,832</b>	1,136
Pledged bank deposits		<b>50,020</b>	76,180
Bank balances and cash		<b>251,677</b>	188,278
		<b>1,783,210</b>	1,527,186
Asset classified as held for sale		<b>39,215</b>	–
		<b>1,822,425</b>	1,527,186
<b>CURRENT LIABILITIES</b>			
Trade and other payables	<i>14</i>	<b>598,670</b>	397,683
Amounts due to related parties		<b>4,665</b>	6,650
Amount due to a non-controlling interest of a subsidiary		<b>507</b>	487
Tax payable		<b>4,267</b>	3,545
Borrowings		<b>62,416</b>	87,548
		<b>670,525</b>	495,913
<b>NET CURRENT ASSETS</b>		<b>1,151,900</b>	1,031,273
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>1,704,952</b>	1,561,736
<b>NON-CURRENT LIABILITIES</b>			
Borrowings		<b>17,218</b>	25,412
Deferred tax liabilities		<b>5,595</b>	6,908
Deferred income		<b>1,035</b>	1,469
		<b>23,848</b>	33,789
		<b>1,681,104</b>	1,527,947
<b>CAPITAL AND RESERVES</b>			
Share capital	<i>15</i>	<b>97,520</b>	97,520
Reserves		<b>1,563,852</b>	1,398,415
Equity attributable to owners of the Company		<b>1,661,372</b>	1,495,935
Non-controlling interests		<b>19,732</b>	32,012
		<b>1,681,104</b>	1,527,947

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEAR ENDED 31 DECEMBER 2011

### Notes:

#### 1. CORPORATE INFORMATION AND SIGNIFICANT ACCOUNTING POLICIES

The Company was incorporated in the Cayman Islands on 21 September 2006 and its shares have been listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 15 June 2007.

The Company and its subsidiaries (the “Group”) is principally engaged in the business of designing, researching and developing, manufacturing and selling of optical and optical related products and scientific instruments.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial measurements that are measured at fair values.

#### 2. APPLICATION OF NEW AND REVISED HKFRSs

In the current year, the Group has applied the following new and revised HKFRSs issued by HKICPA.

Amendments to HKFRSs HKAS 24 (as revised in 2009)	Improvements to HKFRSs issued in 2010 Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

#### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets <sup>1</sup>
	Disclosures – Offsetting Financial Assets and Financial Liabilities <sup>2</sup>
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 10	Consolidated Financial Statements <sup>2</sup>
HKFRS 11	Joint Arrangements <sup>2</sup>
HKFRS 12	Disclosure of Interests in Other Entities <sup>2</sup>
HKFRS 13	Fair Value Measurement <sup>2</sup>
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income <sup>5</sup>
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets <sup>4</sup>
HKAS 19 (as revised in 2011)	Employee Benefits <sup>2</sup>
HKAS 27 (as revised in 2011)	Separate Financial Statements <sup>2</sup>
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>6</sup>
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>

- <sup>1</sup> Effective for annual periods beginning on or after 1 July 2011.
- <sup>2</sup> Effective for annual periods beginning on or after 1 January 2013.
- <sup>3</sup> Effective for annual periods beginning on or after 1 January 2015.
- <sup>4</sup> Effective for annual periods beginning on or after 1 January 2012.
- <sup>5</sup> Effective for annual periods beginning on or after 1 July 2012.
- <sup>6</sup> Effective for annual periods beginning on or after 1 January 2014.

### ***HKFRS 9 Financial Instruments***

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes requirements for classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 required all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate the adoption of HKFRS 9 in the future may have impact on amounts reported in respect of the financial assets and financial liabilities. Regarding the Group's financial assets and liabilities, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

### ***New and revised Standards on consolidation, joint arrangements, associates and disclosures***

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

#### ***Key requirements of these five standards are described below***

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the group's consolidated financial statements for the annual period beginning 1 January 2013.

Based on the existing group structure, the application of these five standards is not expected to have impact on amounts reported in the consolidated financial statement.

### ***HKFRS 13 Fair Value Measurement***

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of the other new and revised HKFRSs issued but not yet effective will have no material effect on results and financial position of the Group.

## **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.

Information reported to the Board of Directors of the Company, being the chief operating decision maker, for the purpose of resource allocation and assessment of segment performance focuses on types of goods delivered because the management has chosen to organise the Group around differences in products.

Specifically, the Group's operating segments under HKFRS 8 *Operating Segments* 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 operating and reportable segment.

**For the year ended 31 December 2011**

	Optical components <i>RMB'000</i>	Optoelectronic products <i>RMB'000</i>	Optical instruments <i>RMB'000</i>	Segment total <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>REVENUE</b>						
External sales	1,127,697	1,192,995	177,808	2,498,500	–	2,498,500
Inter-segment sales	144,391	4,427	383	149,201	(149,201)	–
Total	<u>1,272,088</u>	<u>1,197,422</u>	<u>178,191</u>	<u>2,647,701</u>	<u>(149,201)</u>	<u>2,498,500</u>
Segment profit	<u>164,341</u>	<u>80,964</u>	<u>32,218</u>	<u>277,523</u>	<u>–</u>	<u>277,523</u>
Share of result of an associate						(4,357)
Unallocated expenses						<u>(33,583)</u>
Profit before tax						<u>239,583</u>

**For the year ended 31 December 2010**

	Optical components <i>RMB'000</i>	Optoelectronic products <i>RMB'000</i>	Optical instruments <i>RMB'000</i>	Segment total <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>REVENUE</b>						
External sales	903,341	720,046	194,680	1,818,067	–	1,818,067
Inter-segment sales	101,000	4,261	163	105,424	(105,424)	–
Total	<u>1,004,341</u>	<u>724,307</u>	<u>194,843</u>	<u>1,923,491</u>	<u>(105,424)</u>	<u>1,818,067</u>
Segment profit	<u>134,208</u>	<u>37,427</u>	<u>34,188</u>	<u>205,823</u>	<u>(647)</u>	<u>205,176</u>
Share of result of an associate						(5,096)
Unallocated expenses						<u>(35,204)</u>
Profit before tax						<u>164,876</u>

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, certain non-recurring items, share of result of an associate and finance costs. There were asymmetrical allocations to operating segments because the Group allocates interest income, depreciation and amortisation and loss (gain) on disposal of property, plant and equipment to each segment without allocating the related bank balances, depreciable assets 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 2011

	Optical components <i>RMB'000</i>	Optoelectronic products <i>RMB'000</i>	Optical instruments <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Assets</b>				
Trade receivables	176,652	232,909	20,867	430,428
Inventories	154,992	286,119	31,228	472,339
Total segment assets	<u>331,644</u>	<u>519,028</u>	<u>52,095</u>	902,767
Unallocated assets				<u>1,472,710</u>
Consolidated assets				<u>2,375,477</u>
<b>Liabilities</b>				
Total segment liability – trade payables	<u>187,240</u>	<u>251,384</u>	<u>32,271</u>	470,895
Unallocated liabilities				<u>223,478</u>
Consolidated liabilities				<u>694,373</u>

As at 31 December 2010

	Optical components <i>RMB'000</i>	Optoelectronic products <i>RMB'000</i>	Optical instruments <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Assets</b>				
Trade receivables	168,693	111,421	21,890	302,004
Inventories	97,914	91,994	30,690	220,598
Total segment assets	<u>266,607</u>	<u>203,415</u>	<u>52,580</u>	522,602
Unallocated assets				<u>1,535,047</u>
Consolidated assets				<u>2,057,649</u>
<b>Liabilities</b>				
Total segment liability – trade payables	<u>164,828</u>	<u>101,961</u>	<u>33,744</u>	300,533
Unallocated liabilities				<u>229,169</u>
Consolidated liabilities				<u>529,702</u>

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

- trade receivables and inventories are allocated to respective operating segments. All other assets are unallocated assets, which are not regularly reported to chief operating decision maker.
- trade payables are allocated to respective operating 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 2011

	Optical components RMB'000	Optoelectronic products RMB'000	Optical instruments RMB'000	Unallocated RMB'000	Consolidated total RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	71,700	15,101	4,857	–	91,658
Allowance for (reversal of allowance for) bad and doubtful debts	903	(2,930)	(146)	–	(2,173)
Loss (gain) on disposal of property, plant and equipment	1,768	(32)	5	–	1,741
Impairment loss on property, plant and equipment	3,939	–	–	–	3,939
Impairment losses on intangible assets	9,140	5,391	–	–	14,531
Written off on intangible assets	3,761	–	–	–	3,761
Impairment loss on goodwill	–	–	4,071	–	4,071
Share award scheme expense	9,609	2,416	2,613	342	14,980
Bank interest income	(4,920)	(458)	(3,601)	–	(8,979)
Interest income from entrusted loan	(21,389)	(5,677)	(8,169)	–	(35,235)
Allowance for (reversal of) inventories	3,848	(273)	203	–	3,778
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to non-current assets ( <i>Note</i> )	<u>127,543</u>	<u>46,897</u>	<u>3,260</u>	<u>–</u>	<u>177,700</u>

### For the year ended 31 December 2010

	Optical components RMB'000	Optoelectronic products RMB'000	Optical instruments RMB'000	Unallocated RMB'000	Consolidated total RMB'000
Amounts included in the measure of segment profit or loss:					
Depreciation and amortisation	70,814	15,955	4,346	–	91,115
Allowance for (reversal of allowance for) bad and doubtful debts	162	620	(27)	–	755
(Gain) loss on disposal of property, plant and equipment	(655)	6	(50)	–	(699)
Impairment loss on goodwill	8,097	–	–	–	8,097
Share award scheme expense	4,817	1,361	1,481	272	7,931
Bank interest income	6,781	1,076	557	10	8,424
Interest income from entrusted loan	14,524	1,811	1,936	–	18,271
Allowance for (reversal of) inventories	277	1,402	594	–	2,273
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment assets:					
Addition to non-current assets ( <i>Note</i> )	<u>63,344</u>	<u>7,419</u>	<u>5,463</u>	<u>–</u>	<u>76,226</u>

*Note:* Non-current assets excluded deposits for acquisition of property, plant and equipment and deferred tax assets.

## Revenue from major products and services

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

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Mobile phone related products	<b>1,174,923</b>	708,806
Digital camera related products	<b>647,721</b>	493,380
Optical instruments	<b>152,468</b>	172,751
Digital video lens	<b>44,737</b>	50,381
Other lens sets	<b>165,150</b>	116,566
Other spherical lens and plane products	<b>49,609</b>	70,529
Industrial endoscope	<b>16,340</b>	12,331
Other products	<b>247,552</b>	193,323
	<b><u>2,498,500</u></b>	<b><u>1,818,067</u></b>

## Geographical information

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

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

	<b>Revenue from</b>		<b>Non-current assets</b>	
	<b>external customers</b>			
	<b>2011</b>	2010	<b>2011</b>	2010
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC (excluding Hong Kong) (country of domicile)	<b>1,737,402</b>	1,159,142	<b>534,311</b>	434,820
Japan	<b>279,310</b>	246,335	<b>7</b>	14
Hong Kong	<b>193,146</b>	184,244	<b>–</b>	–
Korea	<b>50,262</b>	79,051	<b>3,249</b>	78,842
Others	<b>238,380</b>	149,295	<b>666</b>	960
	<b><u>2,498,500</u></b>	<b><u>1,818,067</u></b>	<b><u>538,233</u></b>	<b><u>514,636</u></b>

*Note:* Non-current assets excluded deferred tax assets and interest in an associate.

## Information about major customers

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

	<b>2011</b> <i>RMB'000</i>	2010 <i>RMB'000</i>
Customer A, revenue from optical components ( <i>Note 1</i> )	–	156,527
Customer B, revenue from optoelectronic products ( <i>Note 2</i> )	<b><u>261,767</u></b>	<b><u>N/A</u></b>

*Note 1:* The revenue did not contribute over 10% of the total sales of the Group in 2011.

*Note 2:* The revenue did not contribute over 10% of the total sales of the Group in 2010.

**4(a). OTHER INCOME**

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Bank interest income	8,979	8,424
Government grants ( <i>Note</i> )	9,786	8,717
Income from sales of moulds	5,827	2,559
Income from sales of scrap materials	762	584
Interest income from entrusted loans	35,235	18,271
Rental income	2,072	1,131
Others	5,769	2,951
	<u>68,430</u>	<u>42,637</u>

*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.

**4(b). OTHER GAINS AND LOSSES**

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
(Loss) gain on disposal of property, plant and equipment	(1,741)	699
Net foreign exchange loss	(5,600)	(642)
Loss on deregistration of a subsidiary	-	(1,621)
Allowance for (reversal of allowance for) bad and doubtful debts	2,173	(755)
Others	(12)	-
	<u>(5,180)</u>	<u>(2,319)</u>

**5. FINANCE COSTS**

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	2,972	3,473
Bank borrowings not wholly repayable within five years	-	656
Amount due to a non-controlling interest of subsidiary	10	-
	<u>2,982</u>	<u>4,129</u>

**6. INCOME TAX EXPENSE**

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
PRC Enterprise Income Tax		
Current tax	39,741	26,430
(Overprovision) underprovision in prior years	(326)	210
	<u>39,415</u>	<u>26,640</u>
Deferred tax	(1,577)	11
	<u>37,838</u>	<u>26,651</u>

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.

Zhejiang Sunny Optics Co., Ltd. ("Sunny Optics") and Ningbo Sunny Instruments Co., Ltd. ("Ningbo Instruments") were approved as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% for three years with effect from 1 January 2010.

Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping") and Ningbo Sunny Automotive Opotech Co., Ltd. ("Sunny Automotive"), domestic limited liability companies, were approved as Hi-Tech Enterprises with preferential tax rate of 15% for three years commencing on 1 January 2011.

Sunny Optics (Zhongshan) Co., Ltd. ("Sunny Zhongshan") and Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech") were established as sino-foreign equity joint ventures with manufacturing operation and established in coastal economic open zone in the PRC with applicable EIT tax rate of 25%. Sunny Zhongshan and Sunny Opotech were approved to be exempted from EIT for two years starting from their first profit making year, followed by a 50% tax relief for the next three years ("Tax Holidays"). Sunny Zhongshan was under 50% relief for both years ended 31 December 2011 and 2010. Sunny Opotech was under 50% relief for year ended 31 December 2010. Sunny Opotech was approved by local tax authority as Hi-Tech Enterprises and entitled to a preferential tax rate of 15% for the year ended 31 December 2011.

No charges to Hong Kong Profits Tax for both years has been made in the consolidated financial statements as the Group has no assessable profit arising from Hong Kong for both years.

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 before tax per the consolidated statement of comprehensive income as follows:

	<b>2011</b>	2010
	<b>RMB'000</b>	RMB'000
Profit before tax	<b>239,583</b>	164,876
Tax at PRC EIT tax rate of 25%	<b>59,896</b>	41,219
Tax effect of share of result of an associate	<b>1,255</b>	1,274
Tax effect of expenses not deductible for tax purpose	<b>10,050</b>	2,818
Tax effect of income not taxable for tax purposes	<b>(166)</b>	-
Tax effect of concessionary tax rates under Tax Holidays	<b>(1,486)</b>	(9,674)
Tax effect of preferential tax rates for certain subsidiaries	<b>(39,172)</b>	(14,320)
Tax effect of tax losses not recognised	<b>4,659</b>	3,194
Utilisation of tax losses not previously recognised	<b>(649)</b>	(1,000)
Tax effect of withholding tax on undistributable profits of PRC subsidiaries	-	(738)
Withholding tax levied	-	738
Tax effect of different tax rates of subsidiaries operating in other jurisdictions	<b>3,777</b>	2,930
(Overprovision) underprovision in prior years	<b>(326)</b>	210
Income tax expense for the year	<b>37,838</b>	26,651

## 7. PROFIT FOR THE YEAR

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Directors' emoluments	6,017	6,491
Other staff's salaries and allowances	335,349	271,685
Other staff's discretionary bonuses	43,529	36,647
Other staff's contribution to retirement benefit scheme	23,032	19,698
Other staff's share award scheme expense	13,699	6,843
	<hr/>	<hr/>
Total staff costs	421,626	341,364
	<hr/>	<hr/>
Auditor's remuneration	2,389	2,441
Depreciation of property, plant and equipment	88,454	87,235
Release of prepaid lease payments	502	502
Amortisation of intangible assets (included in research and development expenditure)	3,204	3,880
Release of deferred income	(434)	(1,899)
Allowance for (reversal of) inventories (included in cost of sales) ( <i>Note</i> )	3,778	(2,273)
	<hr/> <hr/>	<hr/> <hr/>

*Note:* Reversal of allowance for inventories was recognised because of subsequent usage.

## 8. DIVIDENDS

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Dividends recognised as distribution during the year:		
2010 final dividend – RMB0.0435 (2010: 2009 final dividend – RMB0.0200) per share	43,500	20,000
	<hr/> <hr/>	<hr/> <hr/>

Subsequent to the end of reporting period, a final dividend of HK\$0.087 per share, equivalent to approximately RMB0.071 per share, amounting to a total of RMB71,000,000 (2010: HK\$0.051 per share, equivalent to approximately RMB0.0435 per share, amounting to a total of RMB43,500,000) has been proposed by the Directors and is subject to approval by the shareholders in the annual general meeting. 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 basic earnings per share for both periods is based on the profit for the year attributable to the owners of the Company and the weighted average number of shares of 965,377,000 (2010: 978,117,000). The number of shares for both years have been arrived at after eliminating the shares of the Company held under the share award scheme.

The calculation of diluted earnings per share is based on the profit for the year attributable to owners of the Company. The weighted average number of ordinary share for the purpose of diluted earnings per share for the current year increases by approximately 8,946,000 (2010: approximately 4,855,000) to approximately 974,323,000 (2010: 982,972,000). The calculation of diluted earnings per share for both years have included the effect of certain unvested awarded shares under the Company's share award scheme since their vesting would result in a decrease in earnings per share.

## 10. INTANGIBLE ASSETS

	<b>Development costs RMB'000</b>	<b>Patents RMB'000</b>	<b>Total RMB'000</b>
<b>COST</b>			
At 1 January 2010	2,439	15,941	18,380
Addition	8,312	–	8,312
Exchange realignment	(65)	–	(65)
	<hr/>	<hr/>	<hr/>
At 31 December 2010 and 1 January 2011	10,686	15,941	26,627
Addition	2,985	–	2,985
Written off	(3,761)	–	(3,761)
Exchange realignment	(770)	–	(770)
	<hr/>	<hr/>	<hr/>
At 31 December 2011	9,140	15,941	25,081
	<hr/>	<hr/>	<hr/>
<b>AMORTISATION AND IMPAIRMENT</b>			
At 1 January 2010	–	3,434	3,434
Charge for the year	–	3,880	3,880
	<hr/>	<hr/>	<hr/>
At 31 December 2010 and 1 January 2011	–	7,314	7,314
Charge for the year	–	3,204	3,204
Impairment loss recognised	9,140	5,391	14,531
Exchange realignment	–	(3)	(3)
	<hr/>	<hr/>	<hr/>
At 31 December 2011	9,140	15,906	25,046
	<hr/>	<hr/>	<hr/>
<b>CARRYING VALUES</b>			
At 31 December 2011	–	35	35
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2010	10,686	8,627	19,313
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Development costs are internally generated and the patents are purchased as part of business combinations.

Development costs will commence amortisation over its useful lives once the development costs are available for use in production while the patents have finite useful lives and are amortised on a straight-line basis over 3 to 8 years.

The development costs are attributable to the three projects regarding the development of new products carried out by a subsidiary, Power Optics Co., Ltd. (“Power Optics”). One of the projects has been completed during 2011. However, the potential buyer terminated the provisional sales contract of the relevant products with Power Optics in November 2011 and no new buyer could be identified by Power Optics subsequently. Therefore, the management assessed there is no future economic benefit generated from this project and the development cost of the project was fully written off by RMB3,761,000. At the end of year, the management conducted feasibility study for the remaining projects. The study showed that the future economic benefits generated from these projects are uncertain. Therefore, an impairment loss of RMB9,140,000 was made on the remaining development costs in the year ended.

During 2011, the Group recognised a full impairment loss of RMB5,391,000 (2010: nil) in relation to patent owned by a subsidiary, Jiang Su Sunny Medical Instruments Co., Ltd. The main factor contributing to the impairment of the intangible asset was that the sales of products related to the patent did not get satisfactory response from market and was below management’s expectation.

The recoverable amount of the cash generating unit containing the intangible asset has been determined based on a value in use calculation. That calculation uses cash flow projection based on financial budgets approved by management covering the period up to the useful life of the patent, and discount rate of 15.1% (2010: 14%). Other key assumptions for the value in use calculations relate to the estimation are based on the unit's past performance and management's expectations for the market development.

## 11. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade receivables	432,791	306,584
Less: allowance for doubtful debts	<u>(2,363)</u>	<u>(4,580)</u>
	430,428	302,004
Bill receivables	139,744	114,489
Other receivables and prepayment	<u>57,054</u>	<u>37,878</u>
Total trade and other receivables and prepayment	<u><u>627,226</u></u>	<u><u>454,371</u></u>

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.

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
0-90 days	418,385	289,114
91-180 days	9,873	12,001
Over 180 days	<u>2,170</u>	<u>889</u>
	<u><u>430,428</u></u>	<u><u>302,004</u></u>

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
0-90 days	136,720	92,367
91-180 days	<u>3,024</u>	<u>22,122</u>
	<u><u>139,744</u></u>	<u><u>114,489</u></u>

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. 97% (2010: 96%) 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 RMB12,043,000 (2010: RMB12,890,000) which are past due at the end of the reporting period but not considered 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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
91-180 days	9,873	12,001
Over 180 days	2,170	889
Total	<u>12,043</u>	<u>12,890</u>

### Movement in the allowance for doubtful debts

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Balance at beginning of the reporting period	4,580	4,439
Impairment losses recognised on receivables	1,192	863
Amounts written off as uncollectible	(44)	(614)
Impairment losses reversed	(3,365)	(108)
Balance at end of the reporting period	<u>2,363</u>	<u>4,580</u>

Included in the allowance for doubtful debts made for the year are individually impaired trade receivables with a balance of RMB2,363,000 (2010: RMB4,580,000) which might be in financial difficulties. The Group does not hold any collateral over these balances.

## 12. ENTRUSTED LOAN RECEIVABLES

During the year, the Group entered into entrusted loan arrangements with banks, in which the subsidiaries acted as the entrusting parties to provide funding to specified borrowers. All of the entrusted loans are current and due within one year, bearing fixed interest rates ranged from 5.5% to 12.0% (2010: 4.6% to 17.5%) per annum.

At 31 December 2011 and 2010, no entrusted loan receivables have been past due or impaired. In the opinion of the directors, the entrusted loan borrowers have good credit quality and accordingly, no impairment is made.

The entrusted loan receivables of RMB150,000,000 and RMB50,000,000 (2010: RMB510,000,000 and nil) are secured by pledges of lands and bills receivables which have been endorsed by the borrowers to the Group respectively. The remaining receivables of RMB95,000,000 (2010: RMB75,000,000) are covered by guarantees made by the related companies of the borrowers. At the date the consolidated financial statements are authorised for issue, nil (2010: approximately RMB275,000,000) has been repaid.

## 13. FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

During the year ended 31 December 2011, the Group entered into several contracts of structured deposits with banks. The structured deposits contain embedded derivatives which were not closely related to the host contract. The entire combined contracts have been designated as at financial assets at FVTPL on initial recognition. The return and principal were not guaranteed by the relevant banks and the return was determined by reference to the performance of certain government debt instruments and treasury notes. The expected return rate stated in the contracts were ranged from 2.3% to 5.1% per annum.

In the opinion of the Directors, the fair value of the structured deposits at 31 December 2011 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. All the structured deposits have been settled after the reporting period ended 31 December 2011 at their principal amounts together with returns which approximated the expected return.



#### 14. TRADE AND OTHER PAYABLES

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

	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Trade payables		
Within 90 days	447,662	283,481
91 to 180 days	22,636	16,397
Over 180 days	597	655
	<u>470,895</u>	<u>300,533</u>
Total trade payables		
	<u>470,895</u>	<u>300,533</u>
Payable for purchase of property, plant and equipment	2,515	3,769
Staff salaries and welfare payables	73,408	62,673
Advance from customers	13,061	9,227
Value added tax payables and other tax payables	12,675	5,404
Deferred income	–	1,000
Others	26,116	15,077
	<u>127,775</u>	<u>97,150</u>
	<u>598,670</u>	<u>397,683</u>

#### 15. SHARE CAPITAL

	Number of shares	Amount <i>HK\$'000</i>	Equivalent to <i>RMB'000</i>
Authorised:			
Ordinary shares of HK\$0.1 each as of			
1 January 2010 and			
31 December 2011	<u>100,000,000,000</u>	<u>10,000,000</u>	
Issued & fully paid:			
Ordinary shares of HK\$0.1 each as of			
1 January 2010 and			
31 December 2011	<u>1,000,000,000</u>	<u>100,000</u>	<u>97,520</u>

#### 16. EVENTS AFTER THE REPORTING PERIOD

At 7 February 2012, assets classified as held for sales were disposed to a third party at consideration of RMB39,215,000.

##### 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 2011 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

### BUSINESS REVIEW

In 2011, the global economy was facing mounting uncertainties triggered by the European debt crisis. However, the Company is pleased with the fact that the market demand for consumer electronic products remained strong and the market in China showed robust performance. Benefiting from the sustainable development of Digital Single Lens Reflex (“DSLR”) and the rapid growth of the smartphones, the optical components and optoelectronic products business segments of the Group performed remarkably well, especially the businesses of handset lens sets and camera modules achieved rapid growth. In view of the foregoing, the Company kept up with market demand closely, implemented its development strategy of “Dedicated to and Focused on Existing Industries” and “Transformation and Upgrading”, so as to accelerate the development of the existing and new businesses. Meanwhile, the Company also made great efforts to enhance the operating standards of its three major businesses and enhanced market development efforts, by capitalizing on the existing industry advantages. As a leading enterprise in the optical industry of China, the Group was well prepared in the year to meet the challenges and opportunities in 2012.

The Group took further development in customers and markets. Currently, the Group has not only successfully entered into Nokia’s supply chain, but has also become a preferred supplier to a number of well-known handset manufacturers in China. With its existing channel advantages, the Group will lay a solid foundation for its rapid development under the accelerating penetration rate of smartphones in China in the next two to three years. In addition, the Group also focuses on the global market and will set up a US subsidiary in the second quarter of 2012 as well as enhancing the marketing function of Taipei office.

Our three major business segments, namely optical components, optoelectronic products and optical instruments, accounted for approximately 45.1%, 47.8% and 7.1% of our revenue respectively. Through incessant products and technology upgrade in its three major business segments, the Group strengthened its market competitiveness soundly and established its market leadership position in the respective high-end products. Meanwhile, the Group secured a sound development in its new businesses. During the year, the Group’s security surveillance products and mid- to high-end optical analytical instruments have started their typical sales. Both of its infrared imaging business and vehicle lens set business made further improvement.

During the year, the Group achieved a favorable performance through the combined efforts of its well-trained and diligent staff. Although the macro-economic environment was full of uncertainties, the speedy development of smartphones brought new development opportunities for the optical industry. The Group well equipped itself with sufficient resources and strengths in the past two years. During the year, the Group further integrated its advantageous resources, seized market opportunities and improved customer base and product mix, resulting in an excellent performance and a favorable improvement.

The Group’s revenues increased by approximately 37.4% during the financial year 2011 to approximately RMB2,498.5 million. Profit for the year attributable to owners of the Company increased by approximately 49.7% to approximately RMB215.3 million, while basic earnings per share increased by approximately 42.2% to approximately RMB0.2090. The Board has proposed a final dividend of approximately RMB0.071 (equivalent to HK\$0.087) per share.

Through adhering to our transformation and upgrade idea “Transformation from Quantity Expansion to Quality Improvement”, the Group dedicated to specialisation and quality and strived to improve its products and services, through which it obtained high recognition from the industry and received positive feedbacks from all segments of the society. The Group was among “Ningbo Top 100 Enterprises” in 2011 for seven consecutive years jointly issued by the Ningbo Enterprises Association, the Entrepreneurs Association, and the Federation of Industry and Economy, ranking seventy-eighth of “Top 100 Integrated Enterprises” and thirty-seventh of “Top 100 Manufacturing Enterprises” respectively. In addition, the Group was honored with the title of “Pioneering and Innovative Complex Model Enterprise” in the 2010 Ningbo Ranking for pioneering and innovative enterprises, which was described as the “Oscar” selection for Ningbo economy.

Zhejiang Sunny Optics Co., Ltd., was awarded as “Zhejiang Delicacy Management Model Enterprise” by the Economic and Information Technology Commission of Zhejiang Province and with “Xiamen Panasonic 2010 Outstanding Cooperative Manufacturer Award” at the Suppliers Conference of Panasonic Avc Networks Xiamen Co., Ltd, being the only award-winning supplier of optical products. Ningbo Sunny Optotech Co., Ltd. was granted with the “Yulong Coolpad Excellent Supplier” at the Yulong Coolpad Excellent Suppliers Conference and the “Win-win Corporation Supplier” at the Lenovo’s MIDH Core Supplier Conference and the title of “Huawei Core Suppliers” at “Huawei’s Global Core Suppliers Conference in 2011” respectively. All these awards further strengthened the Group’s confidence in speeding up “Transformation and Upgrading”.

## **OUTLOOK AND FUTURE STRATEGIES**

Looking into 2012, the global economy is still unstable and filled with uncertainties. Although the optoelectronic industry, which is closely related to the smartphone industry, is full of opportunities, the Group still has to make continuous efforts to overcome the challenges. Right strategic guidelines and good business management are measures for enterprises to pass through the economic difficulties. The Group will strengthen its decision-making flexibility, promote management innovation, and adhere to the policy of “Transformation and Upgrading”, to overcome various difficulties, laying a solid foundation for its long-term development.

The Group has been engaged in the optoelectronic industry for 28 years, accumulating rich industry experience while gaining industry advantages. For its medium- and long-term sustainable development, the Group treats the optical applications as its core and its “Mingpeijiao” (「名配角」) strategy as the main line, formulates a series of development plans and earnestly implements the development strategies at various stages and levels. The image digitalization is and will be booming, as well as the optoelectronic products applications are and will be developing at an amazing speed, during which the Group will ultimately achieve the corporate vision of becoming a “Hundred Years Old Brand” by virtue of persevere exploration and pursuit of the optical field, its existing advantages and further expansion of the emerging applications fields.

To achieve long-term development objectives set by the Board, the Group has its medium-term development strategies: to build a high-tech optoelectronic products manufacturing enterprise with brand advantage, system advantage and value advantage, through insisting on the “Mingpeijiao” (「名配角」) strategy, adhering to three major objectives of High Tech, High Efficiency, High Value, as well as emphasizing transformation and upgrade of its production mode, profiting mode and operating mode.

The Group stays basically positive about its operation in 2012 as it did in spite of some uncertainties in the global economy. The Group will pay close attention to changes within the international market and industry development, and make full use of the Group's advantages of technical capability, capital strength and delicacy management.

1. Focus resources to be dedicated to and focused on the existing advantageous businesses, to improve our international market position significantly;

In the coming year, the Group will make full use of its advantageous abilities, continue to invest resources, increase percentage of sales and market share of high-end handset lens sets and handset camera modules, make full use of its competitive advantages, further expand vehicle lens set business and thus its market share, make thorough relocation plan of the production lines of glass spherical lenses and plane products and minimize the efficiency lost in the relocation in order to implement industrial transfer strategy smoothly, strengthen "Lean Production" achievements, and implement "Lean Production" more deeply, with an aim to further increase its management and controlling abilities of production processing.

2. Breakthrough existing emerging businesses, to realize overall profitability of related products and balanced development among subsidiaries.

Expand sales channels of new products and new businesses, optimize market operating mode, and seek to increase sales from high-end optical instruments, security surveillance products and infrared products. Continue to explore new optical applications, identify new businesses benefiting the Group's medium to long term development, and foster new industries.

3. Make innovations in management mode and implement cultural management, intensify the Group's management ability, strengthen brand and advanced information system construction, and promote process revolution of "automation". Continue to implement effective talent motivation system and performance management system. Attract talents and concentrate energies.

In conclusion, the Group will seek to enhance its management efficiency and economic benefits in 2012, to achieve the operational objectives for the full year.

## **FINANCIAL REVIEW**

### ***Revenue***

Revenue generated from the optical components business segment increased by approximately 24.8% to approximately RMB1,127.7 million compared with the corresponding period of the previous year. The increase was mainly due to more smartphones and DSLR related business orders received by the Group, by capitalizing on its strengths, capabilities and resources, thus driving the shipment volume of its handset lens sets and DSLR lenses increased and seeing the product mix improved, eventually achieved a healthy growth of revenue. Revenue generated from the optoelectronic products business segment increased by approximately 65.7% to approximately RMB1,193.0 million as compared with the corresponding period of the previous year. The increase was mainly caused by the rapid increase in demand for, and consequently a considerable increase in shipment volume of smartphone camera modules throughout the year, driven by a relatively strong market advantage in China's smartphone market established by the Group. Revenue generated from the optical instruments business segment decreased to approximately RMB177.8 million as compared with the corresponding period of last year. Main reason accounted for such decrease was that the Group received an one-off purchase order amounting to approximately RMB17.0 million from the Japanese government last year. The revenue of such business segment remained stable after deducting the impact of this factor.

The Group's revenue for the year ended 31 December 2011 was approximately RMB2,498.5 million, representing an increase of approximately 37.4% or approximately RMB680.4 million as compared with the corresponding period of last year.

### ***Gross Profit and Margin***

The gross profit for the financial year 2011 was approximately RMB522.8 million, which was approximately 33.4% higher than that of last year; and the gross margin was approximately 20.9% (2010: approximately 21.6%). The decrease in gross margin was mainly due to the considerable increase in revenue of handset camera modules produced by the optoelectronic products business segment. The gross margin of such business segment was lower than the overall gross margin, thus causing a dilution effect. The gross margin of optical components business segment, optoelectronic products business segment and optical instruments business segment were approximately 22.4% (2010: approximately 22.2%), 14.7% (2010: approximately 13.3%) and 34.5% (2010: approximately 37.4%) respectively.

### ***Selling and Distribution Expenses***

For the year ended 31 December 2011, selling and distribution expenses increased by approximately 34.1% or approximately RMB14.9 million to approximately RMB58.8 million for the year, accounting for approximately 2.4% of the Group's revenue, which was the same as last year. The increase in expenses was mainly driven by the increase in costs of selling, marketing and distribution personnel resulted from the growth in sales activities.

### ***R&D Expenditure***

R&D expenditure, which represented approximately 5.2% of the Group's revenue during the year under review and which was approximately 5.5% for last year, increased from approximately RMB99.6 million for the year of 2010 to approximately RMB131.1 million for the year of 2011. The increase was attributable to the continuous investment in R&D activities and business development, including the research and development of high resolution handset lens sets and camera modules, vehicle lens sets, infrared products, security surveillance systems, mid- to high-end optical instruments, the upgrading of existing product categories and the increase in headcount and salaries of R&D experts and engineers.

### ***Administrative Expenses***

Administrative expenses, which represented approximately 4.9% of the Group's revenue during the year under review and which was approximately 5.9% for last year, increased from approximately RMB106.7 million for the year of 2010 to approximately RMB122.9 million for the year of 2011, representing an increase of approximately 15.2%. The rise in expenses was mainly attributable to the increase in the headcount of administrative staff, the increase in remuneration, the grant of certain restricted shares, and the corresponding increase relevant fringe benefits.

### ***Income Tax Expense***

Income tax expense increased from approximately RMB26.7 million for the year of 2010 to approximately RMB37.8 million for the year of 2011. The increase was primarily due to the growth in earnings. The Group's effective tax rate for the year under review was approximately 15.8%, which was approximately 16.2% for last year.

In order to keep the effective tax rate steady in the future, the Group has successfully applied for several of its subsidiaries to become Hi-Tech Enterprises. Income tax rate for hi-tech enterprises is 15.0% according to the national policy.

### ***Profit for the Year and Margin***

Profit for the year increased by approximately 46.0% from approximately RMB138.2 million for the year of 2010 to approximately RMB201.7 million for the year of 2011. The increase in net profit was mainly due to the increase in gross profit and effective control in operating expenses. The net profit margin was approximately 8.1%.

### ***Profit for the Year Attributable to Owners of the Company***

Profit for the year attributable to owners of the Company amounted to approximately RMB215.3 million, representing an increase of approximately RMB71.5 million or approximately 49.7% as compared with approximately RMB143.8 million for last year.

### **Liquidity and Financial Resources**

#### ***Cash Flows***

The table below summaries the Group's cash flows for the year ended 31 December 2011 and 31 December 2010:

	<b>For the year ended 31</b>	
	<b>December</b>	
	<b>2011</b>	2010
	<b><i>RMB million</i></b>	<i>RMB million</i>
Net cash from operating activities	72.4	185.1
Net cash from (used in) investing activities	87.2	(721.0)
Net cash used in financing activities	(96.6)	(16.1)

The Group, being a self-sufficient company, derives its working capital mainly from net cash generated from operating activities. The Directors expect that the Group will rely on net cash from operating activities 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 were no material changes in the funding and treasuring policy of the Group. The Group recorded the bank balances and cash of approximately RMB251.7 million for the year ended 31 December 2011, representing an increase of approximately RMB63.0 million.

#### ***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 purchases of raw materials, staff costs, selling and distribution expenses, R&D expenditure and administrative expenses. Net cash from operating activities was approximately RMB185.1 million and RMB72.4 million for the financial years ended 2010 and 2011 respectively. The decrease in net cash generated from operating activities was mainly because of the increase in inventory and trade receivable balances as of 31 December 2011.

The trade receivable turnover increased from approximately 61 days for the financial year of 2010 to approximately 63 days for the financial year of 2011. There was no significant difference in trade receivable turnover days in these two financial years.

The trade payable turnover increased from approximately 77 days for the financial year of 2010 to approximately 87 days for the financial year of 2011. The increase in trade payable turnover days was mainly because of the expansion of the Group's business in 2011 and better transaction terms obtained from suppliers.

The inventory turnover increased from approximately 56 days for the financial year of 2010 to approximately 87 days for the financial year of 2011. The increase in inventory turnover days was mainly because significant purchases were made near year end, to cope with the quarter-to-quarter increasing business volume and thus pulling up the inventory balance.

### ***Investing Activities***

The Group recorded a net cash inflow from investing activities of approximately RMB87.2 million for the financial year of 2011, mainly due to the receipt and the advance of entrusted loan receivables of approximately RMB765.0 million and approximately RMB475.0 million respectively, and the Group's capital expenditure amounted to approximately RMB203.2 million used during the year.

### ***Financing Activities***

The Group recorded a net cash outflow from financing activities of approximately RMB96.7 million for the financial year of 2011. The inflow mainly came from new bank borrowings raised of approximately RMB50.7 million. Major outflows were the repayment of borrowings of approximately RMB81.5 million, purchases of shares under the Restricted Share Award Scheme adopted on 22 March 2010 of approximately RMB19.7 million and dividend paid to shareholders of approximately RMB43.5 million as declared in the previous year.

### ***Capital Expenditure***

For the year ended 31 December 2011, the Group's capital expenditure amounted to approximately RMB203.2 million, mainly used for the purchases 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 2011 amounted to approximately RMB79.6 million (2010: approximately RMB113.0 million). Pledged bank deposit amounting to approximately RMB50.0 million was arranged in the year under review.

As of 31 December 2011, of all bank loans, approximately RMB31.3 million were denominated in Korean Won, approximately RMB3.2 million were denominated in Japanese Yen, while approximately RMB45.1 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 3.4%, reflecting that the Group's financial position was at a sound level.

#### *Bank facilities*

As of 31 December 2011, the Group had unutilized banking facilities of RMB240.0 million with Yuyao Branch of Agricultural Bank of China and RMB55.0 million with Yuyao Branch of Ningbo Bank.

#### *Debt securities*

As of 31 December 2011, the Group did not have any debt securities.

#### *Contingent liabilities*

As of 31 December 2011, 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 2011, other than pledged bank deposits of approximately RMB50.0 million and the pledged freehold land and building with a carrying value of approximately RMB39.2 million.

#### *Capital Commitments*

As of 31 December 2011, the future aggregate minimum lease payments under non-cancellable operating lease in respect of rental properties amounted to approximately RMB8.5 million (2010: approximately RMB15.9 million).

As of 31 December 2011, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements amounting to approximately RMB75.9 million (2010: approximately RMB10.6 million). The Group had expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of land use right of approximately RMB2.4 million (2010: nil).

As of 31 December 2011, the Group had no other capital commitments save as disclosed above.

#### **Performance of Investments Made and Future Investments**

The Group's investing activities mainly include the purchases of property, plant and equipment. For the year ended 31 December 2011, the Group used approximately RMB203.2 million in investing activities, mainly in relation to the purchases of plants and equipment and the setting up of the capacities for new products and new projects. These investments enhanced the Group's R&D capability and production efficiency thereby enlarging the market share of existing products and penetrating into new markets, and thus broadened the revenue sources.

The Group adopts prudent financial policies, and therefore its investment projects are mostly the ones that will preserve their values and have fixed income, so that we can guarantee stable and healthy financial positions while improve our returns.



During the year, the Group entered into several entrusted loan agreements with banks in order to gain more interest income and better utilization of cash, in which the subsidiaries acted as the entrusting parties and the banks acted as the lenders to provide funding to specified borrowers amounting to RMB295.0 million.

All of the entrusted loans are secured by pledges of lands and bills receivables and covered by guarantees made by the related companies of the borrowers, current in nature and due within one year, bearing fixed interest rates ranging from approximately 5.5% to approximately 12.0%.

The proceeds from the Global Offering amounted to approximately RMB745.1 million, all of which was used up by the Company. No intention for substantial acquisition and large investment plan is noted for the financial year of 2012.

### **Off-Balance Sheet Transactions and Contingent Liabilities**

As of 31 December 2011, 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 2011, the effective interest rates on fixed-rate bank loans and variable-rate bank loans were approximately 4.47% and 5.61% per annum respectively. The Group had 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 cash, pledged bank deposits, entrusted loan receivables, financial assets designated as at fair value through profit and loss, trade and other receivables, amount due from a related party and amount due from an associate, 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 be received.

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 liquidity is limited because majority of the counterparties 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 9,087 dedicated full time employees as of 31 December 2011, including 2,001 management and administrative staff, 6,907 production staff and 179 operation supporting staff. 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 and restricted share award scheme for its employees, providing incentives and rewards to eligible participants with reference to their contribution. For the year ended 31 December 2011, no share option was granted or agreed to be granted by the Group under the share option scheme. In addition, for the year ended 31 December 2011, a total of 44,162,000 restricted shares have been offered to eligible participants in accordance with the restricted share award scheme.

### **DIVIDEND**

The Directors recommended a payment from the distributable reserves of the Company a final dividend of HK\$0.087 (equivalent to approximately RMB0.071) per share in respect of the year ended 31 December 2011 to the shareholders whose names appear on the register of members of the Company at the close of business on 16 May 2012. The final dividend, payable on 1 June 2012, is subject to the approval of the shareholders of the Company at the forthcoming Annual General Meeting ("AGM") to be held on 11 May 2012.

### **CLOSURE OF REGISTER OF MEMBERS**

In order to be eligible to attend the AGM, which is to be held on 11 May 2012, the register of members of the Company will be closed from 8 May 2012 to 11 May 2012, both days inclusive, during which period no transfer of shares will be registered. 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 7 May 2012.

In order to qualify for the final dividend, the register of members of the Company will be closed from 17 May 2012 to 22 May 2012, both days inclusive, during which period no transfer of shares will be registered. 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 16 May 2012.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES**

There was no purchase, sale, redemption or writing-off by the Company or any of its subsidiaries with the exception of purchases by the trustees of the Restricted Share Award Scheme, of the Company's listed shares during the year ended 31 December 2011.

## **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 2011, save and except for deviation relating to code provision A.2.1 with considered reasons as explained 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.

With effect from 21 July 2009, Mr. Wang Wenjian, the existing Chairman of the Company, had been re-designated as Chief Executive Officer and 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.

### **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 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 2011.

## **REVIEW OF FINANCIAL STATEMENTS**

The Company has established an Audit Committee with written terms of reference. The Group's audited final results for the year ended 31 December 2011 were reviewed by all the Audit Committee members, namely, Mr. Zhang Yuqing (Chairman of the Audit Committee), Mr. Sha Ye and Mr. Chu Peng Fei Richard.

## **PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT**

The final results announcement is available for viewing on the website of Hong Kong Exchanges and Clearing Limited ([www.hkexnews.hk](http://www.hkexnews.hk)) and on the website of the Company ([www.sunnyoptical.com](http://www.sunnyoptical.com)). The annual report of the Company for the year ended 31 December 2011 will be despatched to shareholders of the Company and will be published on the same websites in due course.

## **APPRECIATION**

Our desired accomplishments in 2011 were the direct result of the combined efforts of our diligent staff. Therefore, I wish to sincerely thank my fellow Directors and our Group's employees for their diligence, dedication and hard working throughout the previous year, which contributed greatly to the development of the Group. Also, I wish to extend my gratitude for the continued support of our shareholders, customers and suppliers. We will continue to deliver sustainable business growth, so as to realize higher values for our shareholders and other interest related parties and thus attain accomplishments again.

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

China, 14 March 2012

*As at the date of this announcement, the Board comprises of Mr. Wang Wenjian, Mr. Ye Liaoning and Mr. Sun Yang, who are executive directors, and Mr. Sha Ye, who is non-executive director, and Dr. Liu Xu, Mr. Zhang Yuqing and Mr. Chu Peng Fei Richard, who are independent non-executive directors.*