SUNNY OPTICAL TECHNOLOGY (GROUP) COMPANY LIMITED
舜宇光學科技（集團）有限公司

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 2382)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

RESULTS HIGHLIGHTS

- Unaudited consolidated revenue grew by approximately 6.2% year-on-year to approximately RMB590,348,000, driven by strong optical components and optical instruments sales growth which rose by approximately 41.3% and approximately 14.4% respectively

- Optoelectronic products experienced a tough period in the first half of 2008, sales of which declined by approximately 17.1% as a result of drastic decline in the ASP of VGA module products

- Gross profit margin, which was under pressure due to rising labour costs, RMB appreciation and ASP decline of the Company's leading product VGA mobile phone lens sets and camera modules, decreased by approximately 5.9% to approximately 21.1%

- Net profit attributable to equity holders for the reporting period amounted to approximately RMB39,090,000, as compared to approximately RMB102,097,000 in the same period of 2007

FINANCIAL RESULTS

The Board (the "Board") of Directors (the "Directors") of Sunny Optical Technology (Group) Company Limited ("Sunny Optical" or the "Company") presents the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2008, along with the comparative figures for the corresponding period in last year as follows:

Unaudited Condensed Consolidated Income Statement

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Revenue	**590,348**	555,950
Cost of sales	**(465,545)**	(406,004)
Gross profit	**124,803**	149,946
Other income	**17,022**	28,454
Selling and distribution expenses	**(14,722)**	(12,652)
Research and development expenditure	**(23,933)**	(7,487)
Administrative expenses	**(54,295)**	(49,060)
Finance costs	**—**	(1,951)
Profit before taxation	**48,875**	107,250
Income tax charge	**(9,781)**	(5,158)
Profit for the period	**39,094**	102,092
Attributable to:		
Equity holders of the Company	**39,090**	102,097
Minority interests	**4**	(5)
	39,094	102,092
Earnings per share — Basic *(RMB cents)*	**3.91**	12.30

Unaudited Condensed Consolidated Balance Sheet

	As of 30 June 2008 *RMB'000* *(unaudited)*	As of 31 December 2007 *RMB'000* *(audited)*
NON-CURRENT ASSETS		
Property, plant and equipment	**461,706**	401,142
Prepaid lease payments	**20,013**	20,264
Available-for-sale investments	**7,511**	7,511
Goodwill	**12,077**	12,077
Deposits for acquisition of property, plant and equipment	**1,244**	—
	502,551	440,994
CURRENT ASSETS		
Inventories	**146,219**	134,988
Trade and other receivables	**313,240**	378,252
Prepaid lease payments	**502**	502
Amounts due from related parties	**—**	2,298
Available-for-sale investments	**69,326**	66,188
Pledged bank deposits	**90**	1,690
Bank balances and cash	**491,548**	543,689
	1,020,925	1,127,607
CURRENT LIABILITIES		
Trade and other payables	**196,607**	265,225
Amounts due to related parties	**7,947**	5,661
Tax payable	**518**	2,670
	205,072	273,556
NET CURRENT ASSETS	**815,853**	854,051
TOTAL ASSETS LESS CURRENT LIABILITIES	**1,318,404**	1,295,045
NON CURRENTLY LIABILITY		
Deferred tax liability	**4,021**	—
	1,314,383	1,295,045
CAPITAL AND RESERVES		
Share capital	**97,520**	97,520
Reserves	**1,209,684**	1,191,295
Attributable to:		
Equity holders of the Company	**1,307,204**	1,288,815
Minority interests	**7,179**	6,230
	1,314,383	1,295,045

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

A. Basis of Presentation

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

B. Significant Accounting Policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, new interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2008.

The adoption of these new HKFPSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognized.

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

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operation Segments[1]
HK(IFRIC)-INT 13	Customer Loyalty Programmes[3]

[1] Effective for annual periods beginning on or after 1 January 2009.

[2] Effective for annual periods beginning on or after 1 July 2009.

[3] Effective for annual periods beginning on or after 1 July 2008.

The Directors of the Company anticipate that the application of these new and revised standards, amendments or interpretation will have no material impact on the results and the financial position of the Group except for the adoption of HKFRS 3 (Revised) Business Combinations and HKAS 27 (Revised) Consolidation and Separate Financial Statements. HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

C. Revenue and Segmental Information

Business segments

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

	For the six months ended 30 June 2008				
	Optical components *RMB'000* *(unaudited)*	**Optoelectronic products** *RMB'000* *(unaudited)*	**Optical instruments** *RMB'000* *(unaudited)*	**Elimination** *RMB'000* *(unaudited)*	**Consolidated** *RMB'000* *(unaudited)*
Revenue					
External sales	**268,014**	**254,755**	**67,579**	**—**	**590,348**
Inter-segment sales	**38,177**	**784**	**152**	**(39,113)**	**—**
Total	**306,191**	**255,539**	**67,731**	**(39,113)**	**590,348**
Inter-segment sales are charged at prevailing market rates.					
Result					
Segment results	**17,415**	**19,172**	**9,959**	**—**	**46,546**
Unallocated income					**10,096**
Unallocated corporate expenses					**(7,767)**
Profit before taxation					**48,875**
Income tax charge					**(9,781)**
Profit for the period					**39,094**

	For the six months ended 30 June 2007				
	Optical components	Optoelectronic products	Optical instruments	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
Revenue					
External sales	189,661	307,206	59,083	—	555,950
Inter-segment sales	41,746	12	387	(42,145)	—
Total	231,407	307,218	59,470	(42,145)	555,950
Inter-segment sales are charged at prevailing market rates.					
Result					
Segment results	40,022	47,334	15,098	—	102,454
Unallocated income					24,027
Unallocated corporate expenses					(17,280)
Finance costs					(1,951)
Profit before taxation					107,250
Income tax charge					(5,158)
Profit for the period					102,092

D. Other Income

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Fair value gains on held-for-trading investments	**5,426**	—
Government grants	**5,005**	5,139
Bank interest income	**4,670**	1,419
Mould income	**701**	—
Net gain on sales of scrap materials	**352**	996
Interests income from share subscription (Note)	**—**	20,408
Others	**868**	492
Total	**17,022**	28,454

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

E. Income Tax Charge

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Current tax:		
— The People's Republic of China Enterprise Income Tax calculated at the prevailing tax rates	6,363	5,158
Deferred tax:		
— Current year	3,418	—
	9,781	5,158

F. Profit for the Period

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Profit for the period has been arrived at after charging (crediting):		
Staff salaries and allowances	**111,286**	65,398
Staff contribution to retirement benefit scheme	**9,729**	5,181
Total staff costs	**121,015**	70,579
Auditor's remuneration	**1,227**	711
Depreciation of property, plant and equipment	**34,960**	20,370
Listing expenses	**—**	16,623
Release of prepaid lease payments	**251**	136
Allowance for bad and doubtful debts	**3,338**	4,049
Allowance for inventories	**—**	940
Reversal of inventories	**(310)**	—
Net foreign exchange losses	**2,390**	3,271
Net loss (gain) on disposal of property, plant and equipment	**670**	(147)

G. Dividends

	Six months ended 30 June	
	2008	2007
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
2007 Final dividend paid: RMB 2.1 cents per share (2006: RMB nil)	**21,000**	—

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2008 (2007: nil).

H. Basic Earnings Per Share

The calculation of the basic earnings per share for the six months ended 30 June 2008 is based on the profit attributable to the equity holders of the Company and the weighted average number of 1,000,000,000 shares in issue (2007: 829,834,000 shares).

No diluted earnings per share is presented as the Company did not have any potential dilutive shares in issue during both periods or at each of the balance sheet dates.

I. Trade and Other Receivables

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

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Trade receivables		
Within 90 days	**188,520**	259,672
91 to 180 days	**12,146**	13,259
Over 180 days	**3,557**	1,578
	204,223	274,509
Bill receivables		
Within 90 days	**23,408**	47,604
91 to 180 days	**64,178**	24,603
	87,586	72,207
Other receivables	**21,431**	31,536
	313,240	378,252

J Trade and Other Payables

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

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Trade payables		
Within 90 days	**126,717**	173,700
91 to 180 days	**12,575**	10,164
Over 180 days	**532**	756
Total trade payables	**139,824**	184,620
Payables for purchase of property, plant and equipment	**6,750**	11,029
Accrued staff costs	**29,846**	41,407
Advance from customers	**3,591**	6,327
Value added tax payables and other tax payables	**1,394**	6,831
Others	**15,202**	15,011
	56,783	80,605
	196,607	265,225

K. Share Capital

	Number of shares	**Amount**	**Equivalent to**
		HK$'000	*RMB'000*
Authorized:			
Ordinary shares of HK$1 each on incorporation and as of 1 January 2007	380,000	380	
Sub-division of shares *(Note 1)*	3,420,000	—	
Increased on 25 May 2007 *(Note 1)*	99,996,200,000	9,999,620	
Ordinary shares of HK$0.1 each as of 31 December 2007, 1 January 2008 and 30 June 2008	100,000,000,000	10,000,000	
Issued & fully paid:			
Ordinary shares of HK$1 each as of 1 January 2007	100,000	100	101
Sub-division of shares *(Note 1)*	900,000	—	
Capitalization issue *(Note 2)*	799,000,000	79,900	
Issue of new shares *(Note 3)*	200,000,000	20,000	
Ordinary shares of HK$0.1 each as of 31 December 2007, 1 January 2008 and 30 June 2008	1,000,000,000	100,000	97,520

Notes:

(1) On 25 May 2007, resolutions of all the shareholders were passed pursuant to which each share of HK$1.00 in the share capital of the Company was sub-divided into 10 shares so that the authorized share capital of the Company became HK$380,000 divided into 3,800,000 shares and 100,000 issued shares of HK$1.00 each became 1,000,000 issued shares and the authorized share capital of the Company was then increased from HK$380,000 to HK$10,000,000,000 by the creation of additional 99,996,200,000 shares which rank pari passu in all respects with the shares then in issue.

(2) During the year ended 31 December 2007, the Board of Directors authorized to capitalize HK$79,900,000 standing to the credit of the special reserve account of the Company by applying such sum in paying up in full at par of 799,000,000 shares.

(3) In June 2007, the Company issued 200,000,000 shares with a nominal value of HK$0.1 each, at a price of HK$3.82 per share by way of a global offering to Hong Kong and overseas investors ("Global Offering").

L. Capital Commitments

	30 June 2008	31 December 2007
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**14,605**	31,699

M. Subsequent Events

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

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

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

For the six months ended 30 June 2008, the Group's revenue grew consistently. However, the management believes that it was a tough period due to volatile domestic mobile phone market, Renminbi ("RMB") appreciation, increase in labour costs, rise in research and development ("R&D") expenditure and increase in effective tax rate.

A. Financial Review

Revenue

For the six months ended 30 June 2008, the Group's revenue reached approximately RMB590,348,000, with an increase of approximately RMB34,398,000 or approximately 6.2% over the same period last year.

Revenue from optical components increased by approximately 41.3% over the same period last year to approximately RMB268,014,000. The revenue increase was a result of further development in consumer electronic products, which boosted the demand for lenses and lens sets. Furthermore, the Company strategically enhanced its productivity and developed new sales channels. Increased sales orders were recorded from some new reputable customers.

Revenue from optoelectronic products recorded a decrease of approximately 17.1% to approximately RMB254,755,000 compared to the period ended 30 June 2007. The decrease was mainly due to the fact that domestic mobile phone manufacturers had experienced an obvious slow-down in product sales compared to the corresponding period in 2007. Moreover, the prices of the Company's leading product 0.3 mega-pixel (VGA) mobile phone lens sets and camera modules were under pressure. Although the Group's sales volume grew as recorded, the intense decrease in average selling price led to the overall decrease in revenue.

Revenue from optical instruments for the period ended 30 June 2008 achieved an increase of approximately 14.4% over the same period last year to approximately RMB67,579,000. This was mainly due to the successful expansion in analytical instruments market.

Gross profit and margin

During the review period, the Group's gross profit was approximately RMB124,803,000 and the gross margin was approximately 21.1%. Gross margin decreased by approximately 5.9% compared to the same period last year. It was mainly brought by the increase in labour costs, RMB appreciation, and the significant decrease in average selling prices of VGA mobile phone lens sets and camera modules under market pressure.

Other income

Other income decreased significantly by approximately 40.2% from approximately RMB28,454,000 for the six months ended 30 June 2007 to approximately RMB17,022,000 for the same period in 2008. The decrease was mainly because the Group recorded an interest income of approximately RMB20,408,000 in 2007 from share subscription under the Global Offering which took place in June 2007.

Selling and distribution expenses

Selling and distribution expenses, which represented approximately 2.5% of the Group's revenue during the review period, increased by approximately 16.4% or approximately RMB2,070,000 to approximately RMB14,722,000 during the review period of 2008. The increase was primarily due to the increase in the costs for selling, marketing, and distribution personnel, and the increase in transportation fees and business development expenses.

Research and development expenditure

Research and development expenditure, which represented approximately 4.1% of the Group's revenue during the review period, increased from approximately RMB7,487,000 for the six months ended 30 June 2007 to approximately RMB23,933,000 for the same period in 2008. Such increase was due to the continuous investment in research and development activities and business development which mainly related to the establishment of mould centre, the development of aspheric glass lens, closed circuit television ("CCTV") system, 3-time zoom mobile phone lens sets, and the capacity expansion of chip-on-board ("COB") technology.

Administrative expenses

Administrative expenses, which represented approximately 9.2% of the Group's revenue in the period under review, increased by approximately 10.7% from approximately RMB49,060,000 for the six months ended 30 June 2007 to approximately RMB54,295,000 for the corresponding period of 2008. The increase was mainly due to the increase of administrative and staff costs, and the increase in related welfare costs. There was a non-recurring Global Offering expenses of approximately RMB16,623,000 incurred in the period of six months ended 30 June 2007.

Income tax charge

Income tax increased from approximately RMB5,158,000 for the six months ended 30 June 2007 to approximately RMB9,781,000 in the same period in 2008 due to the elapse of tax free periods of the first two years that some of the Company's subsidiaries in the PRC had enjoyed under the applicable laws of the PRC as sino-foreign equity joint ventures and jointly foreign owned enterprises. The effective tax rate for the Group in the review period was approximately 20.0%, including the 5% Withholding Tax on Dividend. The net effective tax rate should be approximately 13.0%.

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

	2008
Zhejiang Sunny Optics Co., Ltd.	12.5%
Ningbo Sunny Instruments Co., Ltd.	12.5%
Sunny Optics (Zhongshan) Co., Ltd.	—
Ningbo Sunny Opotech Co., Ltd.	12.5%
Ningbo Sunny Infrared Technologies Company Ltd.	25.0%
Nanjing Sunny Optical Instruments Co., Ltd.	25.0%
Shanghai Sunny Hengping Scientific Instrument Co., Ltd.	25.0%
Ningbo Sunny Automotive Optech Co., Ltd.	25.0%

Profit for the period

During the review period, profit of the Group was approximately RMB39,094,000 as compared to approximately RMB102,092,000 for the same period in 2007. The decrease in net profit was mainly due to a lower gross profit, increase in research and development expenses and increase in tax expenses due to expiry of tax concession period. The net profit margin was approximately 6.6%.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company amounted to approximately RMB39,090,000, representing a decrease of approximately RMB63,007,000 or approximately 61.7% as compared to approximately RMB102,097,000 in the same period last year.

Dividends

The Company declared dividends of approximately RMB21,000,000 to equity holders of the Company for the year ended 31 December 2007. The payment of such dividends was made in May 2008.

For the six months ended 30 June 2008, the Group decided not to declare any interim dividend.

Gearing ratio

The Group financed its business mainly with internally generated resources and in some cases, short-term loans from banks. To meet additional working capital requirements for business expansion, the Group obtained bank loans in the second quarter of 2007 and they were paid off before the year ended 2007. No external loan was outstanding as of 30 June 2008, consequently the gearing ratio was zero.

As of 30 June 2008, the Group did not have any material contingent liabilities or guarantees.

B. Operational Review

Production

As of 30 June 2008, the Group's products were manufactured in its three production bases in Yuyao of Zhejiang Province, Zhongshan of Guangdong Province and Shanghai Province of the PRC respectively.

Research & Development

As of 30 June 2008, the Group had a dedicated team of 260 research staff to constantly review and improve the Group's production know-how, develop more advanced technologies and products. Currently, the Group has engaged in several major R&D projects.

For optical components, new projects include aspheric glass lenses, infrared lenses and lens sets, automobile optical lens sets and high-resolution mobile phone lens sets, etc. Small-quantity production of infrared lens sets has been started. Many automobile optical lenses are well developed and mass production has been started. The projects of 3-time zoom 3.0 mega-pixel lens sets for mobile phones and aspheric glass lenses have proceeded smoothly.

For optoelectronic products, new projects include AF/Zoom camera modules with high resolutions, automobile camera modules, CCTV modules and industrial and medical-used endoscopes. Mass production of industrial endoscopes and AF camera modules for mobile phones has commenced. 3-time zoom 3.0 mega-pixel mobile phone camera modules proceed well along with the 3-time zoom mobile phone lens sets under optical components. The Group's visual doorbell modules have already passed the verification of Japanese customers and will be ready for mass production in November 2008.

For optical instruments, new projects include mid-high-end microscope instruments, surveying and analytical instruments. In February 2008, the Group set up a new company in Singapore, which mainly focuses on the research and development of high-end optical instruments such as three-dimensional ("3D") optical vision measuring machines and microscopic interferometers. Chromatographs mainly used for chemistry and environmental protection have proceeded as planned. Various microscopes and measuring instruments have been developed successfully.

C. Outlook and Future Strategies

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

- Enhance its R&D capability and develop more advanced products of better quality;
- Leverage its professional knowledge and core competencies to expand product sales;
- Strengthen and expand its supplier network;
- Reinforce human resources:
- Provide incentives and rewards to eligible participants who contribute to the success of the Group by granting shares/share options.

Looking ahead, the management believes the second half of 2008 will be full of challenges due to the following reasons:

1. Currently, the Group's major revenue is derived from the domestic mobile phone industry in China in which we provide camera lens sets, camera modules and glass lenses for mobile phones to domestic manufacturers of mobile phones in China. The above products accounted for approximately 60% of the Group's overall revenue.

   In the first half of the year, mobile phones (with camera function) produced by the domestic manufacturers are still mainly equipped with camera modules of low resolution — 0.3 mega-pixel resolutions (VGA). Due to the fierce competition in the market of low-resolution mobile phone lens sets and camera modules, the average selling price of the Group's 0.3 mega-pixel mobile-phone-related products decreased by approximately 24% compared to the corresponding period in 2007. Furthermore, the increase in total sales volume of domestic manufacturers apparently slowed down in the first half of the year compared to the corresponding period in 2007. Nevertheless, the Group's production capacities of mobile phone lens sets and camera modules were expanded by approximately 76% and 100% respectively compared to the corresponding period in 2007, and the decline in capacity utilization rate resulted in higher fixed cost allocated to each product.

2. To a certain extent, factors such as RMB appreciation, the increase in labour costs and increase in effective tax rate etc. have brought negative impacts to the Group's profit.

3. In the year 2008, the Group is accelerating the development of aspheric glass lens — Glass Mould Press ("GMP"). The Group has also set up a centre specializing in the development and manufacture of aspheric lens moulds. Besides, the Group is promoting the use of auto focus/zoom function in mobile phone lens sets and camera modules, and developing 3D optical vision measuring machines and microscopic interferometers. The investment and expenditure of all the above projects are relatively high. For the first half of the year, the research and development expenses have increased by approximately 220% compared to the corresponding period in 2007.

In response to the challenges mentioned above, the management of the Group has adopted the following measures:

1. *To expand customer base and obtain orders from new customers*

   We will try to get orders from leading global mobile phone manufacturers instead of relying heavily on domestic mobile phone manufacturers so as to minimize the risk of the group's mobile-phone-related business, and improve the utilization rate of production capacity.

2. *To enhance the marketing of high-pixel camera lens sets and camera modules for mobile phones*

   With the ability to carry out mass production of mobile phone camera lens sets and camera modules of 2.0 mega pixels or above, the Group will further enhance the marketing of the above products, increase the delivery proportion of high-pixel camera lens sets and camera modules of mobile phones and improve its overall gross profit margin.

3. *To enlarge the proportion of non-mobile-phone-related business in the Group's revenue*

   In the first half of the year, among all the non-mobile-phone-related products, glass lenses for digital cameras, vehicle monitoring lens sets, industrial endoscopes, digital video disc ("DVD") lenses and CCTV security modules, etc., have proceeded smoothly. The Group will facilitate and accelerate the development of the above products by allocating more resources to them, so as to enlarge the portion of non-mobile-phone-related business of the Group's overall revenue. In the first half of the year, the Group had also established a joint venture with China Training Center Reproductive Health & Family Care ("CTC") affiliated to the National Population and Family Planning Commission to produce medical endoscopes.

4. *To increase operation efficiency and control costs*

   The Group aims to minimise the pressure of production costs brought by the RMB appreciation, the increase in labour costs and the increase in effective tax rate by further enhancing production efficiency, optimizing supply chain and controlling operational costs.

5. *To develop new revenue sources*

   The Group will further develop new income sources for the Group by accelerating the process of launching new products to the market.

The Group's management believes that these measures will minimise the negative impacts of the above challenges. After the implementation of these measures in the first half of the year, effects would be shown gradually in the subsequent half year. In conclusion, although there might be short-term adjustments, the management is still optimistic about the prospect of the Group in the foreseeable future.

D. Liquidity and Financial Resources

Cash flows

	Six months ended 30 June	
	2008	2007
	RMB million	*RMB million*
Net cash from operating activities	**58.7**	105.0
Net cash used in investing activities	**(90.3)**	(66.8)
Net cash (used in) from financing activities	**(20.1)**	598.7

Net decrease in cash and cash equivalent during the period amounted to approximately RMB51,675,000. The group ended the period with approximately RMB491,548,000 of net cash (i.e. cash and cash equivalents) together with approximately RMB90,000 fixed bank deposits. In the coming future, the Group plans to use the cash for product developments, equipment purchases as well as general corporate purposes. As of 30 June 2008, the Group had no borrowings and there were no significant charge on the Group's assets. The Group's cash balance was mainly deposited in interest-bearing accounts with reputable financial institutions in the PRC/Hong Kong.

During the review period, there were no significant changes in the Group's investment portfolio. The investments held by the Group during the period were mainly the 8.56% shareholding interests in a Korean company and the unutilised proceeds from the Global Offering placed with the financial institutions as short term deposits. The performance of the investments remained stable.

Part of trade receivables and payables of the Group are in US dollars. During the review period, the Group has entered into certain foreign exchange trading facilities to hedge against foreign exchange risks.

Capital Expenditure

Capital expenditure for the period was approximately RMB101,334,000 (1H 2007: approximately RMB68,025,000), the majority of which was spent on the purchase of property, plant and equipment in order to expand our business scale. During the review period, the Group did not make any material acquisitions or disposals of subsidiaries.

E. Capital Structure

Indebtedness

Borrowings

The Group did not have any outstanding borrowings as of 30 June 2008.

Bank facilities

As of 30 June 2008, the Group had unutilised banking facilities of approximately RMB250,000,000 with Yuyao Branch of Agricultural Bank of China.

F. Off-Balance Sheet Transactions and Contingent Liability

As of 30 June 2008, the Group did not have any material off-balance sheet transactions.

G. Employees

As of 30 June 2008, the Group had 8,364 full-time employees (30 June 2007: 6,548 employees). Their functions include management and administration (908 employees), production (7,286 employees) and supporting operations (170 employees). The Directors believe that employees are the most valuable assets of the Group and competitive remuneration packages are offered to retain quality staff. Employee benefits include medical insurance, discretionary bonuses, mandatory provident fund schemes, state-managed retirement benefit scheme and other staff benefits.

H. Share Option Scheme

On 25 May 2007, the Company adopted a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Eligible participants of Scheme include, without limitation, employees, Directors and shareholders of the Group. Up to 30 June 2008, no share option had been granted or agreed to be granted to any person under the Scheme.

OTHER INFORMATION

A. Purchase, Sale or Redemption of the Company's Shares

There was no purchase, sale or redemption by the Company or its subsidiaries, of the Company's listed shares during the six months ended 30 June 2008.

B. Disclosure of Interest

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

C. Disclosure of Substantial Shareholders

As of 30 June 2008, so far as the Directors are aware, the following persons have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Future Ordinance, Cap 571 of the Laws of Hong Kong ("SFO"), or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Long/short position	Type of interest	Number of shares	Approximate percentage of 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%
Wang Wenjian *(Note 2)*	Long position	Interest in a controlled corporation, trustee of a trust and trustee and one of beneficiaries of a trust	479,401,000	47.94%
Mr. Ye Liaoning *(Note 3)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Mr. Wu Jinxian *(Note 4)*	Lonf position	Beneficiary of a trust	421,460,060	42.15%

Name	Long/short position	Type of interest	Number of shares	Approximate percentage of shareholding
Summit Optical Holdings Inc ("Summit")	Long position	Beneficial owner	171,174,508	17.12%
Chengwei Ventures Evergreen Fund, L.P. *(Note 5)*	Long position	Interest in a controlled corporation	207,715,208	20.77%
Sun Zhong Limited ("Sun Zhong")	Long position	Beneficial owner	57,940,940	5.79%

Notes:

(1) As Sun Ji owns more than one-third of the voting power of general meetings of Sun Xu, Sun Ji is deemed to be interested in the 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 57,940,940 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) 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.

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

D. Directors' and Chief Executives' Interests and Short Position in Shares

As of 30 June 2008, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company and its associated corporation (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:

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)*	57,940,940	5.79%
	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%

Notes:

(1) Mr. Wang Wenjian is the trustee of the PRC Investor Trust. The PRC Investor Trust is a trust on the entire issued share capital of Sun Zhong, which in turn owns 5.79% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 57,940,940 shares under the SFO.

(2) Mr. Wang Wenjian is the trustee and one of the beneficiaries of the Sunny Employee Trust. The Sunny Employee Trust is a trust on the entire issued share capital of Sun Ji. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 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.

E. Corporate Governance

Code of Corporate Governance Practices

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability and to maximise the shareholders' benefits.

The Group has throughout the period adopted and complied with the code provisions as set out in the Code of Corporate Governance Practices as stated in Appendix 14 to the Listing Rules. As of 30 June 2008, the Audit Committee, the Remuneration Committee, the Nomination Committee and the Strategy and Development Committee have been established with their respective terms of reference in force.

Code of Conduct Regarding Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the said Model Code from 1 January 2008 to 30 June 2008.

F. Audit Committee

The Audit Committee consists of 3 Independent Non-executive Directors, namely Mr. Zhang Yuqing as Committee Chairman, Dr. Chang Mei Dick and Dr. Liu Xu, and 2 Non-executive Directors, namely Mr. Michael David Ricks and Mr. Shao Yang Dong. The audit committee and the Company's external auditors have reviewed and discussed matters relating to auditing, internal controls and financial statements, including a review of the unaudited financial statements for the six months ended 30 June 2008.

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

China, 27 August 2008

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