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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2010

RESULT HIGHLIGHTS

- The Group's unaudited consolidated revenue increased by approximately 52.4% compared with the same period of the previous year to approximately RMB833.9 million. The increase was a result of the increasing market demand driven by the recovery of the global economy, seizing the opportunities to increase the shipment volume and optimising the product portfolio successfully.

- The gross profit for the first half of financial year 2010 was approximately RMB177.7 million, and the gross margin improved from approximately 19.7% to approximately 21.3% compared with that of the corresponding period of last year. This was mainly attributable to the improvement in product mix, higher capacity utilization rate as well as our effective implementation of "Lean Production".

- The net profit for the period increased by approximately 148.9% to approximately RMB50.1 million compared with the same period in 2009. The increase in net profit was mainly due to the increased gross profit and effective control over operating expenses. The net profit margin was approximately 6.0%.

FINANCIAL RESULTS

The board (the "**Board**") of directors (the "**Directors**") of Sunny Optical Technology (Group) Company Limited (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 2010, along with the comparative figures for the corresponding period in last year as follows:

Condensed Consolidated Statement of Comprehensive Income
FOR THE SIX MONTHS ENDED 30 JUNE 2010

		Six months ended 30 June	
		2010	2009
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**833,946**	547,309
Cost of sales		**(656,277)**	(439,245)
Gross profit		**177,669**	108,064
Other income and gains	*4*	**18,428**	16,658
Selling and distribution expenses		**(20,630)**	(13,558)
Research and development expenditure		**(45,459)**	(37,395)
Administrative expenses		**(51,593)**	(40,122)
Impairment loss recognised in respect of goodwill	*5*	**(8,097)**	–
Share of result of an associate	*11*	**(2,375)**	–
Loss on deemed disposal of partial interest in a subsidiary		**–**	(3,615)
Finance costs		**(1,923)**	(673)
Profit before taxation		**66,020**	29,359
Income tax expense	*6*	**(15,966)**	(9,245)
Profit for the period	*7*	**50,054**	20,114
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**(818)**	(891)
Other comprehensive income for the period		**(818)**	(891)
Total comprehensive income for the period		**49,236**	19,223
Profit for the period attributable to:			
Owners of the Company		**54,823**	23,407
Non-controlling interests		**(4,769)**	(3,293)
		50,054	20,114

	NOTES	Six months ended 30 June **2010** ***RMB'000*** **(unaudited)**	 2009 *RMB'000* (unaudited)
Total comprehensive income attributable to:			
Owners of the Company		**54,393**	22,704
Non-controlling interests		**(5,157)**	(3,481)
		49,236	19,223
Earnings per share – Basic (RMB cents)	*8*	**5.54**	2.34
– Diluted (RMB cents)		**5.53**	N/A

Condensed Consolidated Statement of Financial Position

AT 30 JUNE 2010

	NOTES	**30 June 2010 RMB'000 (unaudited)**	31 December 2009 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**479,338**	486,213
Prepaid lease payments		**19,009**	19,260
Goodwill		**4,071**	12,168
Intangible asset		**16,326**	14,946
Interest in an associate	*11*	**17,675**	–
Deferred tax assets		**948**	2,007
Deposits for acquisition of property, plant and equipment		**399**	3,210
		537,766	537,804
CURRENT ASSETS			
Inventories		**171,515**	148,431
Trade and other receivables and prepayment	*12*	**423,209**	375,574
Prepaid lease payments		**502**	502
Amount due from a related party		**101**	12
Amount due from an associate		**21**	–
Pledged bank deposits		**97,280**	19,185
Bank balances and cash		**666,530**	740,320
		1,359,158	1,284,024
CURRENT LIABILITIES			
Trade and other payables	*13*	**308,713**	294,027
Amounts due to related parties		**7,196**	6,765
Amount due to a non-controlling interest of a subsidiary		**463**	519
Tax payable		**9,573**	3,816
Borrowings	*14*	**104,787**	28,888
		430,732	334,015
NET CURRENT ASSETS		**928,426**	950,009
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,466,192**	1,487,813

	NOTES	30 June 2010 RMB'000 (unaudited)	31 December 2009 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Borrowings	*14*	**25,321**	27,011
Deferred tax liabilities		**7,100**	8,031
Deferred income		**3,543**	3,368
		35,964	38,410
		1,430,228	1,449,403
CAPITAL AND RESERVES			
Share capital	*15*	**97,520**	97,520
Reserves		**1,304,636**	1,318,654
Equity attributable to owners of the Company		**1,402,156**	1,416,174
Non-controlling interests		**28,072**	33,229
Total equity		**1,430,228**	1,449,403

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2010

1. 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 and with Hong Kong Accounting Standard 34 Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used 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 2009 except as described below.

In the current interim period, the Group has applied, for the first time, the following new accounting policies since the Group acquired an associate and launched a share award scheme during the period.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Share-based payment transactions

Shares granted to employees

For shares of the Company (''Restricted shares'') granted under the Sunny Optical Technology (Group) Company Limited Restricted Share Award Scheme, the fair value of the employee services received is determined by reference to the fair value of Restricted Shares granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share award scheme reserves). At the end of each reporting period, the Group revises its estimates of the number of Restricted Shares that are that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recoginsed in the consolidated statement of comprehensive income with a corresponding adjustment to the share award scheme reserve.

In addition, in the current interim period, the Group has applied, for the first time, the following revised standards, amendments and interpretation ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no impact on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

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

HKFRSs (Amendments)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[4]
HKAS 32 (Amendment)	Classification of Rights Issues[2]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[3]
HKFRS 9	Financial Instruments[5]
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[4]
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 February 2010
3 Effective for annual periods beginning on or after 1 July 2010
4 Effective for annual periods beginning on or after 1 January 2011
5 Effective for annual periods beginning on or after 1 January 2013

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

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

3. SEGMENT INFORMATION

Segment information by operating segment is presented below:

For the six months ended 30 June 2010

	Optical components *RMB'000* (unaudited)	Optoelectronic products *RMB'000* (unaudited)	Optical instruments *RMB'000* (unaudited)	Segment total *RMB'000* (unaudited)	Elimination *RMB'000* (unaudited)	Consolidated *RMB'000* (unaudited)
Revenue						
External sales	**407,366**	**333,766**	**92,814**	**833,946**	**–**	**833,946**
Inter-segment sales	**44,735**	**1,393**	**69**	**46,197**	**(46,197)**	**–**
Total	**452,101**	**335,159**	**92,883**	**880,143**	**(46,197)**	**833,946**

Inter-segment sales are charged at prevailing market rates.

Result						
Segment profit	**55,329**	**11,475**	**17,649**	**84,453**	**–**	**84,453**
Unallocated expenses						**(18,433)**
Profit before taxation						**66,020**

For the six months ended 30 June 2009

	Optical components *RMB'000* (unaudited)	Optoelectronic products *RMB'000* (unaudited)	Optical instruments *RMB'000* (unaudited)	Segment total *RMB'000* (unaudited)	Elimination *RMB'000* (unaudited)	Consolidated *RMB'000* (unaudited)
Revenue						
External sales	249,526	250,160	47,623	547,309	–	547,309
Inter-segment sales	31,579	857	50	32,486	(32,486)	–
Total	281,105	251,017	47,673	579,795	(32,486)	547,309

Inter-segment sales are charged at prevailing market rates.

Result						
Segment profit	20,657	12,826	3,443	36,926	–	36,926
Unallocated expenses						(7,567)
Profit before taxation						29,359

Segment profit represents the profit earned by each segment without allocation of central administration costs, directors' salaries, finance costs, impairment recognised in respect of goodwill, share of result of an associate and loss on deemed disposal of partial interest in a subsidiary.

4. OTHER INCOME AND GAINS

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Change in fair value of financial assets designated as at fair value through profit and loss	**–**	6,134
Government grants	**3,217**	7,339
Bank interest income	**11,759**	2,259
Mould income	**890**	–
Net gain on sales of scrap materials	**394**	181
Others	**2,168**	745
Total	**18,428**	16,658

5. IMPAIRMENT LOSS RECOGNISED IN RESPECT OF GOODWILL

During the period ended 30 June 2010, the Group recognised an impairment loss of RMB8,097,000 (the corresponding period in 2009: Nil) in relation to goodwill arising on acquisition of Power Optics Company Limited ("Power Optics''). The main factor contributing to the impairment of the cash-generating unit was the delay of new product line for the optical components product. No write-down of the carrying amounts of other assets in the cash-generating unit was necessary.

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 17% (2009: 14%). Power Optics' cash flows beyond the five-year period are extrapolated using a steady 2.5% growth rate. This growth rate is based on the past few years growth trend of Power Optics and relevant industry. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development.

6. INCOME TAX CHARGE

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Current tax:		
– The People's Republic of China (the "PRC") Enterprise Income Tax calculated at the prevailing tax rates	**15,099**	6,274
Deferred tax:		
– Current period	**867**	2,971
	15,966	9,245

For both periods of six months ended 30 June 2010 and 30 June 2009, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 12.5% to 25%.

7. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging (crediting):		
Staff's salaries and allowances	**144,552**	96,869
Staff's contribution to retirement benefit scheme	**10,604**	9,294
Total staff costs	**155,156**	106,163
Auditor's remuneration	**1,125**	1,249
Depreciation of property, plant and equipment	**43,071**	39,927
Release of prepaid lease payments	**251**	251
Amortisation of an intangible asset	**2,005**	1,471
Allowance for bad and doubtful debts	**2,003**	752
Reversal of allowance for inventories	**(442)**	(5,862)
Net foreign exchange losses	**1,752**	2,621
Net (gain) loss on disposal of property, plant and equipment	**(590)**	(443)

8. EARNINGS PER SHARE

The calculation of basic earnings per share for both periods is based on the profit for the period attributable to owners of the Company and the weighted average number of shares 990,118,000 (2009: 1,000,000,000). The number of shares for the current interim period has been arrived at after eliminating the shares of the Company held under the share award scheme as detailed in note 16.

The computation of diluted earnings per share for the current interim period assumes the effect of unvested awarded shares under the Company's share award scheme since their vesting would result in a decrease in earnings per share. The calculation is based on the profit for the period attributable to owners of the Company. The weighted average number of ordinary share for the purpose of diluted earning per share for the current interim period increase by 489,000 to approximately 990,607,000.

No diluted earnings per share is presented in 2009 as the Company did not have any potential ordinary shares in issue during prior period or at the end of the prior reporting period.

9. DIVIDENDS

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period:		
Final dividend paid for 2009 of RMB2 cents (2009: RMB2 cents for 2008) per share	**20,000**	20,000

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2010 (2009: nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired approximately RMB40 million (the corresponding period of 2009: RMB27 million) manufacturing equipments and construction of manufacturing plants, in order to upgrade its manufacturing capabilities.

In addition, the Group disposed of certain of its plant and equipment with a carrying amount of approximately RMB1 million (the corresponding period of 2009: RMB8 million).

11. INTEREST IN AN ASSOCIATE

As at 30 June 2010, the Group held approximately 26.16% interest in 上海威乾視頻技術有限公司（「上海威乾」） which was acquired on 4 January 2010 at a consideration of approximately RMB20,050,000. 上海威乾 engages in manufacturing and selling of closed circuit televisions. During the period ended 30 June 2010, the Group recognised share of loss of an associate of approximately RMB2,375,000.

12. TRADE AND OTHER RECEIVABLES AND PREPAYMENT

The Group allows a credit period from 60 to 90 days to its trade customers. The following is an aged analysis of trade and bill receivables at the end of the reporting period:

	30 June 2010 *RMB'000* **(unaudited)**	31 December 2009 *RMB'000* (audited)
Trade receivables		
Within 90 days	**296,873**	243,661
91 to 180 days	**19,400**	10,684
Over 180 days	**1,130**	2,488
	317,403	256,833
Bill receivables		
Within 90 days	**55,766**	52,801
91 to 180 days	**9,263**	32,530
	65,029	85,331
Other receivables	**40,777**	33,410
	423,209	375,574

13. TRADE AND OTHER PAYABLES

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

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables		
Within 90 days	**214,468**	204,052
91 to 180 days	**20,844**	7,971
Over 180 days	**2,284**	230
	237,596	212,253
Payables for purchase of property, plant and equipment	**7,325**	5,764
Staff salaries and welfare payables	**33,784**	47,414
Advance from customers	**6,809**	5,163
Value added tax payables and other tax payables	**1,846**	7,403
Deferred income	**1,000**	1,000
Others	**20,353**	15,030
	71,117	81,774
	308,713	294,027

14. BANK BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately RMB96,030,000 (the corresponding period of 2009: RMB37,691,000). The proceeds were used to meet short-term expenditure needs. Repayment of bank borrowings amounting to approximately RMB20,130,000 (the corresponding period of 2009: RMB22,229,000) were made in line with the relevant repayment terms.

15. SHARE CAPITAL

	Number of shares	**Amount**	**Equivalent to**
		HK$'000	*RMB'000*
Authorised:			
Ordinary shares of HK$0.1 each as of 1 January 2009, 31 December 2009, 1 January 2010 and 30 June 2010	100,000,000,000	10,000,000	
Issued & fully paid:			
Ordinary shares of HK$0.1 each as of 1 January 2009, 31 December 2009, 1 January 2010 and 30 June 2010	1,000,000,000	100,000	97,520

16. SHARE AWARD SCHEME

The Company adopted The Sunny Optical Technology (Group) Company Limited Restricted Share Award Scheme ("Share Award Scheme") on 22 March 2010 ("Adoption Date") with a duration of 10 years commencing from the Adoption Date. The objective of the Share Award Scheme is to provide the selected participants including directors, employees, agents or consultants of the Company and its subsidiaries (the "Selected Participants") with an opportunity to acquire a proprietary interest in the Company; to encourage and retain such individuals to work with the Group; and to provide additional incentive for them to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Selected Participants directly to be the owners of the Company through ownership of shares. The Group has set up The Sunny Optical Technology (Group) Company Limited Restricted Share Award Scheme Trust ("Trust") to administer and hold the Company's shares ("the Shares") before they are vested and transferred to Selected Participants.

Upon granting of shares to selected participants ("Restricted Shares"), the Trust purchases the Company's shares being awarded from the open market with funds provided by the Company by way of contributions. Restricted Shares granted under the Scheme are subject to a vesting scale in tranches of one-third to one-fifth each (as the case may be) on every anniversary date of the grant date starting from the first anniversary date until the third to the fifth anniversary (as the case may be). The vested shares are transferred to Selected Participants at no cost except that the expenses attributable or payable in respect of the transfer of such shares of the Company shall be borne by the Selected Participants.

The grant of Restricted Shares is subject to acceptance by the Selected Participants. Restricted Shares granted to but not accepted by the Selected Participants shall become unaccepted shares. The Trustee may use any remainder of cash and non-cash income received by the Trust in respect of the Shares held upon trust to purchase additional Shares after defraying all expenses incurred by the Trust prior to the purchase of additional shares. The Trust shall hold the additional shares, unaccepted shares and unvested shares upon trust and may make any grant to existing or new Selected Participants after receiving instructions from the Administration Committee.

The fair value of Restricted Shares awarded was determined based on the market value of the Company's shares at the grant date.

Movements in the number of Restricted Shares granted and related fair value are as follows:

	Unaudited	
	Weighted average fair value (per share) *HK$*	**Number of Restricted Shares granted** *('000)*
As at 1 January 2010	–	–
Granted	1.637	33,560
As at 30 June 2010	1.637	33,560

The equity-settled share-based payments charged to the profit or loss was RMB1,983,000 for the six months ended 30 June 2010 (the corresponding period of 2009: Nil).

17. **CAPITAL COMMITMENTS**

	30 June 2010 *RMB'000* **(unaudited)**	31 December 2009 *RMB'000* (audited)
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the condensed consolidated financial statements	**8,889**	3,836

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Company is a leading integrated optical components and products manufacturer in the People's Republic of China ("PRC" or "China"). The Group is principally engaged in the design, research and development ("R&D"), manufacturing and sales of optical and optical-related products. Such products include optical components (such as glass or plastic lenses, plates, prisms and various lens sets), optoelectronic products (such as handset camera modules, security cameras and other optoelectronic modules) and optical instruments (such as microscopes, optical measuring instruments and other optical analytical instruments). We focus on the market of optoelectronic related products, such as handsets, digital cameras, vehicle imaging systems, security surveillance systems, optical measuring instruments and optical analytical instruments, which are combined with optical, electronic and mechanical technologies.

Save as disclosed in this announcement, since 31 December 2009, there were no material changes in the development or future developments of the Group's business and financial position, nor were there important events affecting the Group occurred since the publication of the annual report of the Company for the year ended 31 December 2009.

A. Financial Review

Revenue

The Group's revenue for the six months ended 30 June 2010 was approximately RMB833.9 million, representing an increase of approximately 52.4% or approximately RMB286.6 million compared with the corresponding period of the previous year. The increase in revenue was a result of the increasing market demand driven by the recovery of the global economy. The Group effectively seized the opportunities to increase shipment volume and optimise its product mix, therefore, the Group's optical components, optoelectronic products and optical instruments business segments recorded increase in operating revenue.

Revenue generated from the optical components business segment increased by approximately 63.3% to approximately RMB407.4 million compared with the corresponding period of the previous year. The increase was mainly attributable to the improvement in product mix and the considerable increase in shipment volume. Revenue generated from the optoelectronic products business segment increased by approximately 33.4% to approximately RMB333.8 million compared with the corresponding period of the previous year. The increase in revenue was also mainly attributable to the improvement in product mix and the increase in shipment volume. Revenue generated from the optical instruments business segment increased by approximately 94.9% to approximately RMB92.8 million compared with the corresponding period of the previous year. The increase was mainly attributable to the increase in both domestic and export sales volume.

Gross profit and margin

The gross profit for the first half of financial year 2010 was approximately RMB177.7 million, and the gross margin improved to approximately 21.3%, which is 1.6 percentage points higher than that of the corresponding period of last year. This was mainly attributable to the improvement in product mix, higher capacity utilization rate as well as the effective implementation of "Lean Production".

Selling and distribution expenses

For the six months ended 30 June 2010, selling and distribution expenses increased by approximately 52.2% or approximately RMB7.1 million to approximately RMB20.6 million for the period under review, accounting for approximately 2.5% of the Group's revenue, which was the same as the corresponding period of last year. The increase in absolute value was primarily due to the increase in costs of selling, marketing and distribution personnel arising from the growth in sales activities.

R&D expenditure

R&D expenditure, which was under effective control to account for approximately 5.5% of the Group's revenue during the period under review, increased from approximately RMB37.4 million for the six months ended 30 June 2009 to approximately RMB45.5 million for the corresponding period of 2010. 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 and the upgrading of existing product categories.

Administrative expenses

Administrative expenses, which reduced to account for approximately 6.2% of the Group's revenue during the period under review, increased from approximately RMB40.1 million during the six months ended 30 June 2009 to approximately RMB51.6 million for the corresponding period of 2010, representing an increase of 28.6%. The increase in overall expenses was mainly attributable to the increase in the headcount of administrative staff, the increase in remuneration, the grant of part of restricted shares and the corresponding increase in relevant fringe benefits.

Income tax expense

Income tax charge for the six months ended 30 June 2010 increased to approximately RMB16.0 million from approximately RMB9.2 million for the corresponding period of 2009. Such increase was mainly due to an increase in profits. The Group's effective tax rate for the year was approximately 24.2% while 31.5% in the corresponding period of last year.

In order to keep the effective tax rate steady in the future, the Group has successfully applied for the status of hi-tech enterprises for several PRC subsidiaries. Income tax rate applicable to hi-tech enterprises is 15% according to the national policy.

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

	2009	**2010**	**2011**
*Zhejiang Sunny Optics Co., Ltd. ("Sunny Optics")	12.5%	15.0%	15.0%
*Ningbo Sunny Instruments Co., Ltd. ("Sunny Instruments")	12.5%	15.0%	15.0%
*Sunny Optics (Zhongshan) Co., Ltd. ("Sunny Zhongshan Optics")	12.5%	12.5%	12.5%
*Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech")	12.5%	12.5%	15.0%
Ningbo Sunny Infrared Technologies Company Ltd. ("Sunny Infrared")	25.0%	25.0%	25.0%
*#Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping")	15.0%	15.0%	25.0%
Ningbo Sunny Automotive Optech Co., Ltd. ("Sunny Automotive Optech")	25.0%	25.0%	25.0%
Jiangsu Sunny Medical Instruments Co., Ltd. ("Sunny Medical")	25.0%	25.0%	25.0%
Sunny Optics (Tianjin) Co., Ltd. ("Sunny Tianjin Optics")	25.0%	25.0%	25.0%
Suzhou Shun Xin Instruments Co., Ltd ("Suzhou Shun Xin Instruments")	25.0%	25.0%	25.0%
Hangzhou Sunny Security Technology Co., Ltd. ("Sunny Security")	25.0%	25.0%	25.0%

* *Companies recognized as hi-tech enterprises prior to the balance sheet date*

\# *The company granted the 3-year qualification as a high-tech enterprise that will expire at the end of 2010, and it will then apply for a renewal of such qualification in 2011*

Profit for the Period and Margin

Profit for the period increased by approximately 148.9% from approximately RMB20.1 million for the six months ended 30 June 2009 to approximately RMB50.1 million for the same period of 2010. 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 6.0%.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company amounted to approximately RMB54.8 million, representing an increase of approximately RMB31.4 million or approximately 134.2% as compared with approximately RMB23.4 million for the corresponding period of last year.

Interim Dividend

For the year ended 31 December 2009, the dividend proposed by the Board was RMB0.02 (equivalent to approximately HK$0.0227) per share, with payout ratio of approximately 21.8% of the profit attributable to the owners of the Company for the year. Such dividend was paid to shareholders in May 2010.

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010 (Corresponding period of 2009: nil).

B. Business Review

In the first half of 2010, as global economic recovery improved operating environment, various markets of consumer electronics also revived. Despite the popularity of 3G handsets was below expectation, the shipment volume of 3G handset still recorded a fast growth, and the rapid expansion of the smartphone market boosted the demand for handset lens sets and camera modules with high resolution. In the first half of 2010, the shipment volume of global smartphone market reached 110 million units, while that of domestic 3G handset market also amounted to 25.2 million units. As demand for Digital Single Lens Reflex ("DSLR") remained strong in the global market, and Japanese manufacturers had shifted to procure components from China. Thus, business opportunities arose for domestic suppliers of lenses. Recovery in global economy also drove demand for optical instruments. Even returning a more favourable operating environment, the management of the Group kept alert, and adhered to the development strategies of "Explore New Sources and Cut Cost, Speed Up Transformation, Obtain Orders Externally and Get Refinement Internally", explored markets through various ways, improved the internal management standard, and constantly enhanced the research and development of products and technologies. Meanwhile, by taking such specific measures as "Lean Production", the Group enhanced its competitive edge.

During the period, the Group's operations as a whole were running smoothly. Compared with the corresponding period of last year, the three major business segments of the Group, namely optical components, optoelectronic products and optical instruments, all achieved sales growth. In addition to the growth in the existing business, a number of new businesses also progressed well. The profits of vehicle lens sets business continued to increase. Infrared lenses and lens sets business recorded profits. Shanghai Sunny Hengping Scientific Instrument Co., Ltd. commenced mass production of several mid- and high-end optical analytical instruments, which gives hope to generate profits in the second half of the year.

During the period under review, the Group further strengthened its R&D capabilities which brought fruitful results. Our three major business segments underwent an upgrade on their respective products. These R&D projects further strengthened the technological leading position of our existing products in the industry. In addition, the optical components segment has been able to produce glass aspherical lenses; the automative assembly technology has undergone a breakthrough which has been utilized in the production of handset lens sets with high resolution; and vehicle lens sets business was granted a number of utility model patents. As for the optoelectronic products business segment of the Group, of which 8-mega pixel camera modules for handset with auto-focus function has been successfully developed and has entered the stage of small batch production; and the security surveillance cameras have been in the preliminary prototype stage with some of their functions under further perfection. The optical touch screen module has been developed successfully and began its mass production, this product can be used in integrated tablet PC; the particle-resistant gluing technique for camera modules for handset with high resolution which newly developed by the business segment has obtained the invention patent, and made important contribution to quality improvement. The Group's optical instruments business segment completed the development of process mass spectrometer, sales were made on water treatment, bio-pharmaceuticals and petrochemical industry; laser doppler interfermometer specifications successfully developed and sales were made; the differential interference contrast technology received successful breakthrough, the success of these developments advanced the product levels and expanded its scope of applications.

During the period under review, the Group has fully implemented "Lean Production" and obtained good returns therefrom, and also made a significant contribution to stable increase in the Group's gross profit margin.

The Group obtained recognition from all parties and received many honors in the first half of the year. During the period, Ningbo Sunny Opotech Co., Ltd., a subsidiary of the Group, once again obtained the title of "Sangfei Annual Outstanding Suppliers". Moreover, the Group was also awarded the titles of the "Top 30 Electronic Information Product Enterprisers for 2010" and the "Top 10 Electronic Information Product Export Enterprisers for 2010" by the relevant authority of Zhejiang Province, the "Ningbo City Safety (Model) Enterprises for 2009" by Ningbo Municipal Government and the "Charity Model" by Yuyao Municipal Government.

Optical Components

Driven by the global economic recovery, the optical components business segment recorded strong growth. During the period, sales income of this business segment was approximately RMB407.4 million, representing an increase of approximately 63.3% as compared with the corresponding period of last year. This business segment accounted for approximately 48.9% of the Group's revenue as compared with approximately 45.6% in the corresponding period of last year.

During the period under review, the digital camera-related businesses increased rapidly, particularly the high-precision lenses for DSLR cameras which achieved a stunning growth. As for handset lens sets business, the proportion of 2-mega pixel or above products increased to 36.9% of the total sales volume from 31.3% for the corresponding period of last year. Those products have recently passed the certification of one major international customer, which laid a solid foundation for the growth in the relevant operating revenue in the second half of the year. The vehicle lens sets business increased rapidly and the company will continue to explore the pre-set and post-set lens sets markets, and there was a significant growth in the operating revenue of the infrared lenses and lens sets.

Optoelectronic Products

Despite average handset prices declined due to intensive competition in the domestic market, the Group's optoelectronic products business recorded significant growth in shipment volume over the corresponding period of last year, and thus realized sales growth by improvement in product mix and marketing promotion. Revenue from optoelectronic products business segment for the six months ended 30 June 2010 amounted to approximately RMB333.8 million, representing an increase of approximately 33.4% over the corresponding period of last year. This business segment accounted for approximately 40.0% of the Group's revenue compared with 45.7% in the corresponding period of last year.

During the period, the business segment successfully commenced mass production of the 2-, 3- and 5-mega pixel camera modules for handset with auto-focus function, which maintained the Group's leading position in the supply chain of domestic 3G handset and smartphone manufacturers. During the period, the sales volume of modules with 2-mega pixel or above increased to 36.3% of the total sales volume of handset camera modules from 25.1% in the corresponding period of last year. During the period under review, Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech") successfully passed the certification of Health and Safety System (OHSAS180001). It also made an investment of approximately RMB20.0 million to Visiondigi (Shanghai) Technology Co., Ltd. ("Visiondigi"), in which Sunny Opotech holds approximate 26% of the equity. The company has not yet recorded any profit in the first half of the year, but its security surveillance project has been in smooth progression, and was expected to generate profit in the second half of the year.

Optical Instruments

The optical instruments market recovered during the period under review. Through active promotion in domestic and international markets, the revenue from our optical instruments business segment increased rapidly to RMB92.8 million, representing an increase of 94.9% over the corresponding period of last year. This business segment accounted for approximately 11.1% of the Group's revenue compared with approximately 8.7% in the corresponding period of last year.

During the period, the Group disposed of its surveying instrument business from its optical instrument business segment. The purpose of the transaction was to concentrate the Group's resources on the R&D and marketing of its mid- to high-end microscopes, optical measuring instruments and optical analytical instruments, and to raise the profit of optical instruments.

Production

The Group mainly operates four production bases in Yuyao City of Zhejiang Province, Zhongshan of Guangdong Province, Shanghai and Tianjin in the PRC respectively. In addition, the Group has set up separate offices and production areas in Seoul, Korea and Singapore through its subsidiaries, Power Optics Co., Ltd. and Sunny Instruments Singapore Pte. Ltd.

C. Outlook and Future Strategies

For the second half of 2010, the global economic outlook is still subject to uncertainties. The Group will remain prudent but optimistic to face the challenges ahead. By leveraging on its advanced R&D capabilities, extensive client base and diversified product mix, the Group will continue to pursue its "Mingpeijiao" strategy and to achieve excellence in pragmatic manner.

1. Seize market opportunities and continue to expand overseas markets

In 2010, handset related products will still contribute a major proportion of sales to the Group. Domestically, as huge subsidies granted by telecommunication operators to 3G handset will allow consumers accessing to 3G handsets easier, relevant organizations expect that the annual shipment volume of 3G handsets in China will reach 42.97 million units. Meanwhile, as the global market has been expanding rapidly due to the further price reduction of smartphones, relevant organizations expect that the annual shipment volume of smartphone for the world market will reach 250 million units. Therefore, the Group will focus on marketing handset lens sets and camera modules with high resolution, with an aim that it can maintain its strength in domestic market and get entry into the supply chain of international leading handset manufacturers.

The Group predicts that the market for DSLR will grow steadily in the second half year, as relevant organizations have predicted that the annual shipment volume of DSLR will reach 11 million units. It is expected that the shipment volume of lens sets will reach as high as 17.9 million units in 2010 as DSLR cameras equipped with replaceable lens sets. The Group will continue its internal technical innovation and speed up the transformation of production capacity to glass spherical product line based on the high-precision lens of DSLR.

At the same time, the Group will continue its efforts in marketing promotion for key businesses and conduct key breakthroughs for security surveillance cameras, lens sets for vehicles, infrared lenses and lens sets as well as mid- to high-end optical instruments, enabling these new businesses to contribute to sales and generate profit growth.

2. Strengthen technology and product innovation and enhance R&D capabilities

The Group will continue to upgrade existing products according to the market conditions so as to maintain its lead in the relevant sector. Meanwhile, the Group will strengthen its technology and product innovation, increase the added value of products, and be aware of any opportunity brought about by the sunrise strategic businesses of "Internet of Things", new energy etc. to optical business enterprises, get R&D reserve ready and lay a solid foundation for a fresh great leap forward.

3. Carry out "Lean Production" in every way and strengthen cost control

In the first half of 2010, "Lean Production" reaped significant rewards. In the second half of the year, the Group will further push forward "Lean Production", accelerate the process of informationization and adopt SAP system to solidify the effectiveness of "Lean Production", optimize the supply chain, combine technique improvement with automatic production to achieve good cost control.

4. Attend to formation of corporate culture, attract talents and retain employees

For management of human resources, the Group will continue to reinforce its internal communication and training to improve its management. The Group will also improve the old and new employees' corporate awareness to enhance internal cohesion and team spirit. The Group has formulated its own talent program to build a high quality talent pool and continues to adopt the restricted share award scheme. It has also created a unified and dedicated management team featuring excellent ability and will keep motivating employees' initiatives so that they can create maximum value for the Group.

In general, by pursuing the strategy of "Explore new sources and Cut cost, Speed up transformation, Obtain orders externally and Get refinement internally" set up early this year, the Group will focus on the development of the new businesses and comprehensively enhance its competitiveness so as to improve its profitability. The Group will expedite its transformation from "Quantity Expansion" to "Quality Improvements" and gradually attain its goal in line with the direction from the Board.

D. Liquidity and Financial Resources

Cash Flows

The table below summaries the Group's cash flows for the six months ended 30 June 2009 and 30 June 2010.

	For the six months ended 30 June	
	2010	2009
	RMB million	*RMB million*
Net cash from operating activities	49.1	46.6
Net cash (used in) from investing activities	(126.4)	260.5
Net cash from (used in) financing activities	3.6	(5.2)

The Group, being a self-sufficient company, derives its working capital mainly from net cash generated from operating and financing activities. The Directors expect that the Group will rely on net cash from operating activities and the net proceeds from the global offering to meet its working capital and other capital expenditure requirements in the near future. In the long run, the Group will be funded by net cash from operating activities and, if necessary, by additional equity financing or bank borrowings.

The Group recorded a net outflow of cash and cash equivalent of approximately RMB73.7 million for the six months ended 30 June 2010.

Capital Expenditure

For the six months ended 30 June 2010, capital expenditure of the Group amounted to approximately RMB35.5 million mainly for the purchase of property, plant, equipment and other tangible assets. All of the capital expenditure was financed by internal resources.

E. Capital Structure

Indebtedness

Borrowings

Bank loans of the Group as of 30 June 2010 amounted to approximately RMB130.1 million (2009: approximately RMB55.9 million). Pledged bank deposit amounting to approximately RMB97.3 million was arranged in the year 2010.

As of 30 June 2010, among all of the bank loans, approximately RMB36.4 million were denominated in Korean Won, approximately RMB4.9 million were denominated in Japanese Yen, while approximately RMB88.8 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 6.9%, reflecting that the Group's financial position was at a sound level.

Bank facilities

As of 30 June 2010, the Group had unutilized banking facilities of RMB250.0 million with Yuyao Branch of Agricultural Bank of China, RMB130.0 million with Yuyao Branch of China CITIC Bank and RMB55.0 million with Yuyao Branch of Bank of Ningbo.

Debt securities

As of 30 June 2010, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2010, the Group did not have any material contingent liabilities or guarantees.

F. Pledge of Assets

As of 30 June 2010, the Group did not have any pledge or charge on assets except the pledged bank deposits of approximately RMB97.3 million.

Capital commitments

As of 30 June 2010, the Group had capital commitment in respect of acquisition of equipment amounted to approximately RMB8.9 million (2009: approximately RMB3.8 million).

As of 30 June 2010, the Group had no other capital commitments save as disclosed herein.

G. Off-balance Sheet Transactions and Contingent Liabilities

As of 30 June 2010, the Group did not enter into any material off-balance sheet transactions.

H. Employee and Remuneration Policy

The Group had a total of 8,295 dedicated full time employees as of 30 June 2010, including 1,630 management and administrative staff, 6,504 production staff and 161 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 six months ended 30 June 2010, no share option was granted or agreed to be granted by the Group under the scheme. As of 30 June 2010, a total of 33,560,000 restricted shares have been offered to eligible participants in accordance with the restricted share award scheme.

OTHER INFORMATION

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

The Company is empowered by the applicable Companies Law of the Cayman Islands and the Articles of the Association to repurchase its own shares subject to certain restrictions and the Board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange. There was no purchase, sale, redemption or writing-off by the Company or its subsidiaries with the exception of restricted share award scheme trustees, of the Company's listed shares during the six months ended 30 June 2010.

B. Share Option Scheme

On 25 May 2007, the Company adopted the Share Option Scheme (the "Scheme") with the aim of providing incentives to the qualified participants who have made significant contributions to the Company. Eligible participants include (but are not restricted to) employees, the Director and shareholders of the Group. As of 30 June 2010, no share option has been granted or agreed to be granted to any person or exercised by any person under the Scheme.

C. Restricted Share Award Scheme

On 22 March 2010 (the adoption date), the Board has adopted the restricted share award scheme, the Director, all employees, senior staff, agents and consultants of the Company and its subsidiaries are entitled to participate in the scheme. The purpose of the scheme is to assist the Company in attracting new talents as well as motivating and retaining its current staff. The scheme shall be effective from the adoption date and shall continue in full force and effect for a term of 10 years and be managed by its management committee and the trustee. Details of the restricted share award scheme could be found in the note 16 of the condensed consolidated financial statement. 33,560,000 restricted shares have been issued for qualified participants in accordance with the restricted shares scheme, accounting for 3.356% of the shares of the Company in issue as at the adoption date. For the six months ended 30 June 2010, details of movements of the restricted shares issued under the restricted share award scheme are as follows:

		Number of restricted shares					
Date of grant	**Fair value of each restricted share** *(Note)* *HK$*	**1 January 2010**	**Granted during the period**	**Vested during the period**	**Lapsed during the period**	**30 June 2010**	**Vesting period**
7 May 2010	1.637	–	33,560,000	–	–	33,560,000	From 6 May 2014 to 6 May 2015

Note:

The fair value of the restricted shares was calculated based on the closing price per share on the date of grant.

Save as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors or any of their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

D. Disclosure of Interest

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

E. Disclosure of Substantial Shareholders

As of 30 June 2010, so far as the Directors are aware, the following persons or institutions have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the 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/ underlying shares held	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	431,820,060	43.18%
Mr. Ye Liaoning *(Note 3)*	Long position	Beneficiary of a trust	422,378,060	42.24%
Mr. Wu Jinxian *(Note 4)*	Long position	Beneficiary of a trust	422,378,060	42.24%
Mr. Sun Yang *(Note 5)*	Long position	Beneficiary of a trust	422,378,060	42.24%
Summit Optical Holdings Inc ("Summit")	Long position	Beneficial owner	171,174,508	17.12%
Chengwei Ventures Evergreen Fund, L.P. *(Note 6)*	Long position	Interest in a controlled corporation	207,715,208	20.77%

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 8,200,000 shares held by Sun Zhong under the provisions of SFO. Mr. Wang is also taken to be interested as a grantee of 2,160,000 restricted shares granted under the Restricted Share Award Scheme.

(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. Mr. Ye is also taken to be interested as a grantee of 918,000 restricted shares granted under the Restricted Share Award Scheme.

(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. Mr. Wu is also taken to be interested as a grantee of 918,000 restricted shares granted under the Restricted Share Award Scheme.

(5) Mr. Sun Yang is a beneficiary under the Sunny Employee Trust, under which he is entitled to 0.84% of the beneficial interests. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Sun Yang is deemed to be interested in 421,460,060 shares under the SFO. Mr. Sun is also taken to be interested as a grantee of 918,000 restricted shares granted under the Restricted Share Award Scheme.

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

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

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

Definition of terms:

– "PRC Investor Trust" refers to a trust established on 28 July 2006 on the entire issued share capital of Sun Zhong Limited ("Sun Zhong").

– "Sunny Employee Trust" refers to a trust established on 28 July 2006 on the entire issued share capital of Sun Ji

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

Save as disclosed above, as of 30 June 2010, no other shareholder of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

As of 30 June 2010, 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/ underlying shares held	Approximate percentage of shareholding
Mr. Wang Wenjian	The Company	Long position	Trustee *(Note 1)*	8,200,000	0.82%
	The Company	Long position	Trustee and Beneficiary of a trust *(Note 2)*	423,620,060	42.36%
Mr. Ye Liaoning	The Company	Long position	Beneficiary of a trust *(Note 3)*	422,378,060	42.24%
Mr. Wu Jinxian	The Company	Long position	Beneficiary of a trust *(Note 4)*	422,378,060	42.24%
Mr. Sun Yang	The Company	Long position	Beneficiary of a trust *(Note 5)*	422,378,060	42.24%

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 0.82% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 8,200,000 shares under the SFO.

(2) Mr. Wang Wenjian is the trustee and one of the beneficiaries of the Sunny Employee Trust. The Sunny Employee Trust is a trust on the entire issued share capital of Sun Ji. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 42.15% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 421,460,060 shares under the SFO. Mr. Wang is also taken to be interested as a grantee of 2,160,000 restricted shares granted under the Restricted Share Award Scheme.

(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. Mr. Ye is also taken to be interested as a grantee of 918,000 restricted shares granted under the Restricted Share Award Scheme.

(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. Mr. Wu is also taken to be interested as a grantee of 918,000 restricted shares granted under the Restricted Share Award Scheme.

(5) Mr. Sun Yang is a beneficiary under the Sunny Employee Trust, under which he is entitled to 0.84% of the beneficial interests. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Sun Yang is deemed to be interested in 421,460,060 shares under the SFO. Mr. Sun is also taken to be interested as a grantee of 918,000 restricted shares granted under the Restricted Share Award Scheme.

G. 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.

As of 30 June 2010, 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rule"). With effect from 21 July 2009, Mr. Ye Liaoning had ceased to act as the Chief Executive Officer of the Company and Mr. Wang Wenjian, as the existing Chairman of the Company, had been re-designated as Chief Executive Officer and Chairman of the Company.

The Directors note that the above re-designation deviates from the Corporate Governance Code, which suggests that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. In this regard, the Company will comply with the disclosure requirements under Appendix 14 to the Listing Rules.

Whilst the Directors fully recognize the importance of the division of responsibilities between the Chairman and the Chief Executive Officer, the Board, after thorough considerations, is of the opinion that given the expertise and experience of Mr. Wang Wenjian, the re-designations and reallocation of responsibilities could assist to alleviate the negative impacts of the current economic conditions on the developments of the Company and better apply the Group's strategy consistently.

As of 30 June 2010, 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.

Securities Transactions by Directors

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules, and after having made specific enquiry with regard to securities transactions after the Global Offering by the Directors, all Directors have confirmed their compliance with the required standard set out in the Model Code regarding Directors' securities transactions throughout the period ended 30 June 2010.

H. 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 statement, including a review of the unaudited financial statement for the six months ended 30 June 2010.

I. Investor Relations and Communications

The Group recognises the importance of shareholder to understand its business and prospect, and therefore has always taken a proactive approach to communicate with the investment community, including institutional investors and retail investors. Newsletter is sent to investors every month to improve the Group's transparency. Immediately after the annual results announcement in March, the Group held a couple of one-on-one meetings in Hong Kong. In May, the Group's Annual General Meeting was also held. Besides, the Group participated in "Investing Strategy Conference in Spring of 2010 Hosted by CITICS" in Hangzhou in March and the "Economic Restructuring and New Investment Opportunities" organized by CICC Corporate in May in order to maintain close relationship with the investors.

Shareholders of the Company are recommended to visit the Group's website (www.sunnyoptical.com) from time to time, where up-to date information of the Group can be accessed.

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

China, 18 August 2010

As at the date of this announcement, the Board comprises of Mr. Wang Wenjian, Mr. Ye Liaoning, Mr. Xie Minghua, Mr. Wu Jinxian and Mr. Sun Yang, 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 and Mr. Zhang Yuqing, who are independent non-executive directors.