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 2012

FINANCIAL HIGHLIGHTS

- The Group's unaudited consolidated revenue increased by approximately 60.5% compared with the corresponding period of the previous year to approximately RMB1,769.6 million. The increase was mainly attributable to the benefit from business opportunities brought by the rapid growth of smartphones, notably the strong performance in the PRC market.

- The gross profit for the first half of financial year 2012 was approximately RMB340.0 million, representing an increase of approximately 44.3% compared with the corresponding period of the previous year. The gross margin was approximately 19.2%.

- The net profit for the period increased by approximately 77.2% to approximately RMB155.1 million compared with the corresponding period in 2011. 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 8.8%.

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 2012, 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 2012

	NOTES	Six months ended 30 June **2012** *RMB'000* **(unaudited)**	2011 *RMB'000* (unaudited)
Revenue	3	**1,769,566**	1,102,688
Cost of sales		**(1,429,615)**	(867,064)
Gross profit		**339,951**	235,624
Other income	4	**24,042**	32,246
Other gains and losses	5	**3,212**	(5,184)
Selling and distribution expenses		**(31,637)**	(25,940)
Research and development expenditure		**(67,913)**	(51,665)
Administrative expenses		**(75,288)**	(61,607)
Impairment loss recognised on goodwill		**–**	(4,071)
Reversal of (impairment loss) recognised on intangible assets	20	**5,058**	(5,391)
Impairment loss recognised on interest in an associate	11	**(6,262)**	–
Share of result of associates		**(2,510)**	(2,396)
Finance costs		**(1,115)**	(1,368)
Profit before tax		**187,538**	110,248
Income tax expense	6	**(32,390)**	(22,695)
Profit for the period	7	**155,148**	87,553
Other comprehensive (loss) income			
Exchange differences arising on translation of foreign operations		**(240)**	718
Total comprehensive income for the period		**154,908**	88,271
Profit for the period attributable to:			
Owners of the Company		**156,527**	91,541
Non-controlling interests		**(1,379)**	(3,988)
		155,148	87,553
Total comprehensive income attributable to:			
Owners of the Company		**156,614**	91,976
Non-controlling interests		**(1,706)**	(3,705)
		154,908	88,271
Earnings per share – Basic (RMB cents)	8	**16.23**	9.48
– Diluted (RMB cents)		**16.07**	9.40

Condensed Consolidated Statement of Financial Position
At 30 June 2012

	NOTES	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**522,282**	489,290
Prepaid lease payments		**23,838**	18,256
Intangible assets		**41**	35
Interests in associates	11	**6,158**	13,682
Deferred tax assets		**2,427**	1,137
Deposits for acquisition of prepaid lease payment		**–**	3,577
Deposits for acquisition of property, plant and equipment		**117,948**	27,075
		672,694	553,052
CURRENT ASSETS			
Inventories		**477,535**	472,339
Trade and other receivables and prepayment	12	**810,284**	627,226
Entrusted loan receivables	13	**113,000**	295,000
Prepaid lease payments		**575**	502
Tax recoverable		**–**	167
Financial assets designated as at fair value through profit or loss	14	**80,000**	84,080
Amounts due from related parties		**618**	367
Amount due from associates		**5,535**	1,832
Pledged bank deposits		**131,200**	50,020
Bank balances and cash		**326,087**	251,677
		1,944,834	1,783,210
Asset classified as held for sale	15	**–**	39,215
		1,944,834	1,822,425
CURRENT LIABILITIES			
Trade and other payables	16	**654,184**	598,670
Amounts due to related parties		**2,556**	4,665
Amount due to a non-controlling interest of a subsidiary		**317**	507
Tax payable		**30,887**	4,267
Borrowings	17	**150,810**	62,416
		838,754	670,525
NET CURRENT ASSETS		**1,106,080**	1,151,900
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,778,774**	1,704,952

	NOTES	30 June 2012 RMB'000 (unaudited)	31 December 2011 RMB'000 (audited)
NON-CURRENT LIABILITIES			
Borrowings	*17*	**–**	17,218
Deferred tax liabilities		**7,329**	5,595
Deferred income		**8,035**	1,035
		15,364	23,848
		1,763,410	1,681,104
CAPITAL AND RESERVES			
Share capital	*18*	**97,520**	97,520
Reserves		**1,650,395**	1,563,852
Equity attributable to owners of the Company		**1,747,915**	1,661,372
Non-controlling interests		**15,495**	19,732
Total equity		**1,763,410**	1,681,104

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

1. BASIS OF PRESENTATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as 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").

2. PRINCIPAL 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 values, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA that are mandatorily effective for the current interim period.

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2011 were authorised for issuance and are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]

[1] Effective for annual periods beginning on or after 1 January 2013

The Directors have not performed a detailed analysis of the impact of the application of these amendments to HKFRSs and hence have not yet quantified the extent of the impact on the financial statement.

3. SEGMENT INFORMATION

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

Specifically, the Group's operating segments under HKFRS 8 Operating Segments are as follows:

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

The following is an analysis of the Group's revenue and results by operating segments:

For the six months ended 30 June 2012

	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	**610,616**	**1,074,076**	**84,874**	**1,769,566**	**–**	**1,769,566**
Inter-segment sales	**58,677**	**2,127**	**621**	**61,425**	**(61,425)**	**–**
Total	**669,293**	**1,076,203**	**85,495**	**1,830,991**	**(61,425)**	**1,769,566**

Inter-segment sales are charged at prevailing market rates.

Result						
Segment profit	**82,785**	**102,959**	**9,137**	**194,881**	**–**	**194,881**
Share of result of associates						**(2,510)**
Unallocated expenses						**(4,833)**
Profit before tax						**187,538**

For the six months ended 30 June 2011

	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	494,258	517,756	90,674	1,102,688	–	1,102,688
Inter-segment sales	64,372	1,249	377	65,998	(65,998)	–
Total	558,630	519,005	91,051	1,168,686	(65,998)	1,102,688

Inter-segment sales are charged at prevailing market rates.

Result						
Segment profit	84,033	38,747	15,206	137,986	–	137,986
Share of result of an associate						(2,396)
Unallocated expenses						(25,342)
Profit before tax						110,248

Segment profit represents the profit earned by each segment without allocation of central administration costs, Directors' salaries, finance costs, impairment loss recognised on goodwill, intangible assets and interests in associates, reversal of impairment loss recognised on intangible assets, share of result of associates and loss on disposal of a subsidiary.

4. OTHER INCOME

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Entrusted loans interest income	**10,648**	22,604
Government grants *(Note)*	**3,755**	3,245
Bank interest income	**3,399**	2,184
Income from sales of mould	**1,496**	1,834
Income from sales of scrap materials	**699**	303
Others	**4,045**	2,076
	24,042	32,246

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

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Net foreign exchange (gain) loss	**(2,927)**	3,466
Net loss on disposal of property, plant and equipment	**314**	191
Net (reversal of) allowance for bad and doubtful debts	**(205)**	1,527
Loss on disposal of a subsidiary	**157**	–
Others	**(551)**	–
	(3,212)	5,184

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2012	2011
	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	**33,802**	23,642
Deferred tax:		
– Current period	**(1,412)**	(947)
	32,390	22,695

For both periods of six months ended 30 June 2012 and 30 June 2011, 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	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Profit for the period has been arrived at after charging:		
Staff's salaries and allowances	**232,777**	175,868
Staff's contribution to retirement benefit scheme	**13,926**	12,268
Share award scheme expense	**8,926**	6,361
Total staff costs	**255,629**	194,497
Auditor's remuneration	**1,005**	1,115
Depreciation of property, plant and equipment	**50,018**	43,482
Release of prepaid lease payments	**310**	251
Amortisation of an intangible asset	**6**	2,317
Allowance for inventories	**6,677**	3,732

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Earnings		
Earnings for the purposes of basic and diluted earnings per share		
Profit for the period attributable to the owners of the Company:	**156,527**	91,541
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share:	**964,613**	965,630
Effect of dilutive potential ordinary shares:		
Unvested shares granted	**9,510**	7,992
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**974,123**	973,622

The weighted average number of ordinary shares for the purposes of diluted earnings per share has been adjusted for the share grants that took place on 7 May 2010, 14 March 2011, 18 August 2011 and 14 March 2012, and offset with the shares vested and lapsed during the period.

9. DIVIDENDS

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Dividends recognised as distribution during the period:		
Final dividend paid for 2011 of RMB7.10 cents (2011: RMB4.35 cents for 2010) per share	**71,000**	43,500

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired manufacturing equipments and incurred construction cost for manufacturing plants of approximately RMB86 million (the corresponding period of 2011: RMB83 million) in order to upgrade its manufacturing capabilities.

In addition, the Group disposed certain of its plant and equipment with a carrying amount of approximately RMB1.4 million (the corresponding period of 2011: RMB11 million).

11. INTERESTS IN ASSOCIATES

	30 June 2012 *RMB'000* **(unaudited)**	31 December 2011 *RMB'000* (audited)
Cost of investment in unlisted associates	**24,383**	23,135
Share of post-acquisition losses	**(11,963)**	(9,453)
Impairment loss	**(6,262)**	–
	6,158	13,682

As at 30 June 2012, the Group held 30.85% (2011: 30.85%) equity interests in Visiondigi (Shanghai) Technology Co., Ltd. (上海威乾視頻技術有限公司) ("Visiondigi") and 26% equity interests in Jiangsu Sunny Medical Equipments Co., Ltd. (江蘇舜宇醫療器械有限公司) ("Jiangsu Medical"). The Group previously owned 51% equity interests in Jiangsu Medical. In April 2012, the Group disposed 25% of the equity interests in Jiangsu Medical to a non-controlling interest with a consideration of approximately RMB1,228,000, resulting in a loss of approximately RMB157,000 included in other gains and losses. Details of the disposal has been set out in Note 20.

Visiondigi engages in manufacturing and selling of closed circuit televisions. During the six months ended 30 June 2012, the Group recognised an impairment loss of approximately RMB6,262,000 (the corresponding period in 2011: Nil) in relation to the investment in Visiondigi. The main factor contributing to the impairment of the cash-generating unit was the delay of the new product line.

The recoverable amount of this unit was determined based on a value in use calculation. The value in use calculation used cash flow projections based on financial budgets approved by management of Visiondigi covering a five-year period and a discount rate of 12%. Visiondigi's cash flows beyond the five-year period were extrapolated using a 4.5% growth rate, determined based on the expectation of the market growth in the relevant industry. The estimation of cash inflows/outflows used on the value in use calculation was based on the cash generating unit's past performance and management's expectations for the market development.

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 receivables (net of allowance for doubtful debts) and bill receivables, presented based on the invoice date and the bills issue date, respectively, at the end of the reporting period:

	30 June 2012 *RMB'000* **(unaudited)**	31 December 2011 *RMB'000* (audited)
Trade receivables		
Within 90 days	**635,260**	418,385
91 to 180 days	**9,164**	9,873
Over 180 days	**604**	2,170
	645,028	430,428
Bill receivables		
Within 90 days	**150,371**	136,720
91 to 180 days	**747**	3,024
	151,118	139,744
Other receivables and prepayments	**14,138**	57,054
	810,284	627,226

Trade receivables which are past due but not impaired:

	30 June 2012 *RMB'000* (unaudited)	31 December 2011 *RMB'000* (audited)
Over due by:		
91 to 180 days	**9,164**	9,873
Over 180 days	**604**	2,170
	9,768	12,043

Movement in the allowance for doubtful debts:

	30 June 2012 *RMB'000* (unaudited)	31 December 2011 *RMB'000* (audited)
Balance at the beginning of the reporting period	**2,363**	4,580
Impairment losses recognised	**818**	1,192
Amounts written off as uncollectible	**–**	(44)
Impairment losses reversed	**(1,023)**	(3,365)
Balance at the end of the reporting period	**2,158**	2,363

13. ENTRUSTED LOAN RECEIVABLES

	RMB'000
At 31 December 2011 (audited)	295,000
Additions	63,000
Repayments	(245,000)
At 30 June 2012 (unaudited)	113,000

The Group entered into entrusted loan arrangements with banks, in which the subsidiaries acted as the entrusting parties and the banks acted as the lenders to provide funding to specified borrowers. All of the entrusted loans are current and due within one year, bearing fixed interest rates ranging from 6.2% to 11.3% (2011: 5.5% to 12.0%) per annum.

At 30 June 2012, no entrusted loan receivables have been past due or impaired. The entrusted loan receivables of approximately RMB95,000,000 are covered by guarantees made by the related companies of the borrowers to the bank. For the remaining receivable of RMB18,000,000, the Group has been granted by the bank the right of a first claim for a piece of land that has been pledged to bank by the borrower. No impairment is made on the entrusted loan receivables as, in the opinion of the Directors, the entrusted loan borrowers have good credit quality and the entrusted loan receivables are fully guaranteed by the bank.

Subsequent to the end of the reporting period, and up to the date on which the condensed consolidated financial statements are authorised for issue, RMB50,000,000 has been repaid.

14. FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS ("FVTPL")

	RMB'000
At 31 December 2011 (audited)	84,080
Additions	80,000
Redemptions	(84,080)
At 30 June 2012 (unaudited)	80,000

During the six months ended 30 June 2012, the Group entered into several contracts of structured deposits with banks. The structured deposits contain embedded derivatives which were not closely related to the host contracts. The entire combined contracts have been designated as at financial assets at FVTPL on initial recognition. The return and principal were not guaranteed by the relevant banks and the return on the structured deposits which was determined by reference to the performance of certain government debt instruments and treasury notes are expected to be ranged from 3.9% to 4.8% (2011: 2.3% to 5.1%) per annum as stated in the contracts.

In the opinion of the directors, the fair value of the structured deposits at 30 June 2012 approximated their principal amounts, and the fair value of the embedded derivatives is insignificant. All the structured deposits have been settled after the reporting period ended 30 June 2012 at their principal amounts together with returns which approximated the expected return.

15. ASSET CLASSIFIED AS HELD FOR SALE

	30 June 2012 *RMB'000* **(unaudited)**	31 December 2011 *RMB'000* (audited)
Property, plant and equipment	–	39,215

As at 30 June 2012, no asset classified as held for sale is held by the Group.

During the year ended 31 December 2011, the Group entered into contractual agreement with an independent third party on 30 December 2011 to dispose of the freehold land and building in Korea at a consideration of approximately RMB39,215,000 (the "Transaction"). The Transaction was completed in February 2012. Approximately RMB3,900,000 had been received upfront during the year ended 31 December 2011 and included in the other payables.

The freehold land and building was pledged to a bank to secure a bank loan granted to the Group. The bank loan was repaid upon the completion of the Transaction during the current interim period.

16. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period. The credit period allowed for the purchases is typically within 90 days.

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables		
Within 90 days	**515,670**	447,662
91 to 180 days	**41,843**	22,636
Over 180 days	**1,159**	597
	558,672	470,895
Payables for purchases of property, plant and equipment	**1,498**	2,515
Staff salaries and welfare payables	**63,159**	73,408
Advances from customers	**3,406**	13,061
Value added tax payables and other tax payables	**7,076**	12,675
Commission payables	**6,819**	4,105
Others	**13,554**	22,011
	95,512	127,775
	654,184	598,670

17. BORROWINGS

During the six months ended 30 June 2012, the Group obtained new bank borrowings in the amount of approximately RMB161,544,000 (the corresponding period of 2011: approximately RMB49,290,000). The proceeds were used to meet short-term expenditure needs. As at 30 June 2012, the Group has fixed-rate borrowings which carry interest ranging from 1.70% to 4.72% per annum (corresponding period of 2011: 1.70% to 7.26% per annum). Repayment of bank borrowings amounting to approximately RMB90,205,000 (the corresponding period of 2011: RMB76,949,000) were made in line with the relevant repayment terms.

18. SHARE CAPITAL

Issued share capital as at 30 June 2012 amounted to HK$100,000,000 (equivalent to approximately RMB97,520,000) with number of ordinary shares amounted to 100,000,000 of HK$0.1 each. There were no movements in the issued share capital of the Company in the current interim period.

19. RESTRICTED SHARE AWARD SCHEME

The Company adopted The Sunny Optical Technology (Group) Company Limited Restricted Share Award Scheme ("Restricted Share Award Scheme") on 22 March 2010 ("adoption date") with a duration of 10 years commencing from the adoption date. The objective of the Restricted 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 Restricted Shares Awarded 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:

	Weighted average fair value (per share) *HKD*	**No. of restricted shares** *('000)*
As at 1 January 2011	1.637	33,560
Lapsed	1.637	(1,437)
Vested	1.637	(7,696)
Granted	2.136	12,040
As at 31 December 2011 and 1 January 2012	1.800	36,467
Lapsed	2.087	(505)
Vested	1.819	(9,157)
Granted *(Note)*	2.700	4,068
As at 30 June 2012	1.908	30,873

The equity-settled share-based payments expense charged to profit or loss was approximately RMB8,926,000 for the six months ended 30 June 2012 (the corresponding period of 2011: approximately RMB6,361,000).

Note: Among the total number of restricted shares granted in 2012, 4,068,000 shares are under vesting scale in a tranche of one-forth on every anniversary date of the grant date. The fair value of restricted shares granted is measured on the basis of listed share price.

20. DISPOSAL OF A SUBSIDIARY

On 1 April 2012, the Group entered into a sale and purchase agreement to dispose of 25% of its interest in a subsidiary, Jiangsu Medical, which is principally engaged in the manufacturing and sale of medical instrument business, to a non-controlling interest of Jiangsu Medical, for a cash consideration of approximately RMB1,228,000.

During the year ended 31 December 2011, the Group recognised a full impairment loss of approximately RMB5,391,000 in relation to a patent owned by Jiangsu Medical. The main factor contributing to the impairment of the intangible asset was that the sales of the products related to the patent did not get satisfactory response from the market and was below management's expectation. During the current interim period, the Group reversed the impairment loss of approximately RMB5,058,000 in relation to the corresponding patent before the disposal of Jiangsu Medical as the Group considered the value of the patent is recoverable through the disposal of shares in Jiangsu Medical.

The net assets of Jiangsu Medical at the date of disposal in June 2012 were as follows:

	Jiangsu Medical
	RMB'000
NET ASSETS DISPOSED OF	
Property, plant and equipment	751
Intangible assets	4,891
Trade and other receivables	390
Inventories	1,089
Bank balances and cash	1,171
Trade and other payables	(3,128)
	5,164
Release of non-controlling interests	(2,531)
Loss on disposal of a subsidiary	(157)
	2,476
Satisfied by:	
Cash	614
Deferred sales proceeds *(Note)*	614
Interest in an associate	1,248
	2,476
Net cash inflow (outflow) arising on disposal:	
Cash consideration	614
Bank balances and cash disposed of	(1,171)
	(557)

Note: Approximately RMB614,000 of the total consideration in relation to the disposal of Jiangsu Medical will be received by the Group on or before 31 December 2012.

The subsidiary disposed of during the period contributed approximately RMB288,000 to the Group's revenue.

No tax charge or credit arose on loss on the disposal.

21. CAPITAL COMMITMENTS

	30 June 2012	31 December 2011
	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	**77,152**	75,855

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading integrated optical components and products manufacturer in the People's Republic of China (the "PRC" or "China"). The Group is principally engaged in the design, research and development ("R&D"), manufacture and sales of optical and optical-related products. Such products include optical components (such as glass spherical and aspherical lenses, plane products, handset lens sets, vehicle lens sets and other various lens sets), optoelectronic products (such as handset camera modules, smart television video modules, security cameras and other optoelectronic modules) and optical instruments (such as microscopes, optical measuring instruments and various optical analytical instruments). We focus on the market of optoelectronic related products, such as handsets, digital cameras, vehicle imaging systems, smart television video 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, there has been no material change in the development or future developments of the Group's business and financial position, and no important events affecting the Group has occurred since the publication of the annual report of the Company for the year ended 31 December 2011.

A. FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2012 was approximately RMB1,769.6 million, representing an increase of approximately 60.5% or approximately RMB666.9 million compared with the corresponding period of the previous year. The increase was mainly attributable to the benefit from business opportunities brought by the rapid growth of smartphones, notably the strong performance in the PRC market.

Revenue generated from the optical components business segment increased by approximately 23.5% to approximately RMB610.6 million compared with the corresponding period of the previous year. The increase was mainly attributable to the improvement in product mix, the rise in average selling price and the considerable rise in shipment volume of lens products including handset lens sets and vehicle lens sets.

Revenue generated from the optoelectronic products business segment increased by approximately 107.4% to approximately RMB1,074.1 million compared with the corresponding period of the previous year. The increase in revenue was mainly attributable to the substantial rise in average selling price, as a result of the improvement in product mix and the rise in shipment volume.

Revenue generated from the optical instruments business segment decreased by approximately 6.4% to approximately RMB84.9 million compared with the corresponding period of the previous year. The decrease was mainly due to the sluggish global economy and the weak demand in the industrial market.

Gross Profit and Margin

The gross profit for the first half of financial year 2012 was approximately RMB340.0 million, and the gross margin decreased to approximately 19.2%, which was 2.2 percentage-point lower than that of the corresponding period of the previous year. The decrease in gross profit margin was mainly attributable to the rapid growth in sales of optoelectronic products business segment. As the gross margin of this segment was lower than the overall gross margin of the Group, it had a slight dilutive effect. The gross margins of optical components business segment, optoelectronic products business segment and optical instruments business segment were approximately 22.4%, 15.0% and 33.7% respectively (the corresponding period of 2011: approximately 23.2%, 14.2% and 35.9% respectively).

Selling and Distribution Expenses

For the six months ended 30 June 2012, selling and distribution expenses increased by approximately 22.0% or approximately RMB5.7 million to approximately RMB31.6 million, accounting for approximately 1.8% of the Group's revenue during the period under review, which was 0.6 percentage-point lower than that of the corresponding period of the previous year. The increase in absolute value was primarily due to the increase in costs of selling, marketing and distribution personnel resulted from the growth in sales activities.

R&D Expenditure

R&D expenditure increased from approximately RMB51.7 million for the six months ended 30 June 2011 to approximately RMB67.9 million for the corresponding period of 2012, accounting for approximately 3.8% of the Group's revenue during the period under review. The increase was mainly 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, smart television video modules, vehicle lens sets, infrared products, security surveillance systems, mid- to high-end optical instruments and the upgrade of existing product categories.

Administrative Expenses

Administrative expenses, represented approximately 4.3% of the Group's revenue which was 1.3 percentage-point lower than that of the corresponding period of the previous year, increased from approximately RMB61.6 million during the six months ended 30 June 2011 to approximately RMB75.3 million for the corresponding period of 2012, representing an increase of approximately 22.2%. The increase in overall expenses was mainly attributable to the increase in the headcount of administrative staff, the increase in remuneration, the grant of restricted shares and the corresponding increase of relevant fringe benefits.

Income Tax Expense

Income tax expense for the six months ended 30 June 2012 increased to approximately RMB32.4 million from approximately RMB22.7 million for the corresponding period of 2011. Such increase was mainly due to the growth in earnings. The Group's effective tax rate was approximately 17.3% for the first half of financial year 2012 and approximately 20.6% for the corresponding period of the previous 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 of its subsidiaries in the PRC. The income tax rate applicable to Hi-Tech enterprises is 15% according to the national policy in the PRC.

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

	2011	**2012**	**2013**	**2014**
*Zhejiang Sunny Optics Co., Ltd. ("Sunny Optics")	15.0%	15.0%	15.0%	15.0%
*Ningbo Sunny Instruments Co., Ltd. ("Sunny Instruments")	15.0%	15.0%	15.0%	15.0%
*Sunny Optics (Zhongshan) Co., Ltd. ("Sunny Zhongshan Optics")	12.5%	15.0%	15.0%	15.0%
*Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech")	15.0%	15.0%	15.0%	15.0%
Ningbo Sunny Infrared Technologies Company Ltd. ("Sunny Infrared")	25.0%	25.0%	25.0%	25.0%
*Shanghai Sunny Hengping Scientific Instrument Co., Ltd. ("Sunny Hengping")	15.0%	15.0%	15.0%	15.0%
*Ningbo Sunny Automotive Optech Co., Ltd. ("Sunny Automotive Optech")	15.0%	15.0%	15.0%	15.0%
Suzhou Shun Xin Instruments Co., Ltd. ("Suzhou Shun Xin Instruments")	25.0%	25.0%	25.0%	25.0%
Sunny Optics (Tianjin) Co., Ltd. ("Sunny Tianjin Optics")	25.0%	25.0%	25.0%	25.0%
Hangzhou Sunny Security Technology Co., Ltd. ("Sunny Security")	25.0%	25.0%	25.0%	25.0%
Xinyang Sunny Optics Co., Ltd. ("Sunny Xinyang")	25.0%	25.0%	25.0%	25.0%

* Companies recognized as Hi-Tech enterprises prior to the balance sheet date

Profit for the Period and Margin

Profit for the period increased by approximately 77.2% from approximately RMB87.6 million for the six months ended 30 June 2011 to approximately RMB155.1 million for the corresponding period of 2012. The increase in net profit was mainly due to the increase in gross profit and effective control in operating expenses. The net profit margin was approximately 8.8%.

Profit Attributable to Owners of the Company

For the six months ended 30 June 2012, profit attributable to owners of the Company amounted to approximately RMB156.5 million, representing an increase of approximately RMB65.0 million or approximately 71.0% as compared with approximately RMB91.5 million for the corresponding period of the previous year.

Interim Dividend

For the year ended 31 December 2011, the dividend proposed by the Board was approximately RMB0.071 (equivalent to HK$0.087) per share, with payout ratio of approximately 33.0% of the profit attributable to owners of the Company for the year. Such dividend was paid to shareholders in June 2012.

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (corresponding period of 2011: nil).

B. BUSINESS REVIEW

In the first half of financial year 2012, despite the global economy suffered from European Debt Crisis and domestic economic growth experienced a slowdown, the growing demand for smartphones remained strong, in particular, the domestic smartphone market has achieved an excellent performance. Benefited from the rapid growth in smartphone penetration and our effective management of relevant resources, the Group's development in various segments achieved splendid results.

During the period under review, the rapid development of smartphone market was remarkable. The global smartphone shipment volume in the first half of financial year 2012 amounted to approximately 302.0 million units, in which the domestic smartphone shipment volume was approximately 94.9 million units. (Source: the Telecommunications Research Center under the Ministry of Industry and Information Technology of the PRC)

The Group speeds up its strategic transformation by applying transformation and upgrade in three aspects namely "production", "profit" and "operation", continuing to strengthen in R&D on products and technologies, and enhancing penetration into international markets. During the period under review, our strategies have successfully achieved the intended goals. Two major business segments of the Group, namely optical components and optoelectronic products performed well and recorded a satisfactory growth. More diverse customer base and better product mix resulted in a rapid increase in revenue and our gross margin remained stable. At the same time, certain production lines for digital cameras related products were relocated to the new production base in Xinyang of Henan Province, and the Group will gradually implement the industrial transfer strategy in the second half of financial year 2012 as soon as practicable. The Group has officially established a subsidiary in Silicon Valley, California, the United States ("U.S."), and dispatched marketing and sales personnel there at the early stage to provide technical support, marketing and customer base expansion in North America.

In March 2012, Mr. Wang Wenjian resigned as the Chairman of the Board and the Chief Executive Officer of the Company, and these roles were taken over by Mr. Ye Liaoning and Mr. Sun Yang respectively. The above changes in the senior management of the Company (being part of the Company's overall succession plannings) are in line with the long term benefits of the Group. Embracing this principle, Mr. Wang, who has reached his retirement age, has tendered his resignation as the Chairman, the Chief Executive Officer and an executive Director of the Company, stating that it is time to pass the torch to someone younger and those who are capable of leading the Group. Upon the request and invitation of the Board, Mr. Wang remains as the Honorary Chairman and a non-executive Director of the Company. The new leaders are committed to the management principles of Mr. Wang, and continue to contribute positively to the Group's business. Currently, the Group continues to achieve a good performance under the efforts of the staff.

During the period under review, all the three major business segments had upgraded their respective R&D on the existing products and improved their processing technology standards, aiming to strengthen their R&D capabilities, increase investment in R&D and consolidate their technical leadership in the respective fields. Given the favorable development of the emerging businesses, the rapid growth in businesses associated with smartphones, together with the improved product mix and the more diversified customer base, the Group achieved a growth rate which was higher than the industrial average level. In respect of optical components business segment, the production of 5-mega and 8-mega pixel handset lens sets has commenced and the shipment volume is expected to increase continuously in the second half of financial year 2012; the mass production of various new vehicle lens sets has commenced; the applications of infrared lens sets have developed rapidly; our high-resolution lens sets with wide-angle for webcams have obtained an invention patent. In respect of optoelectronic products business segment, the mass production of 5-mega and 8-mega pixel handset camera modules has commenced; the development of 13-mega pixel handset camera modules has been accomplished; the "gluing tool for handset camera modules" has obtained an utility model patent, and such tool can improve production efficiency and automation. In respect of the optical instruments business segment, R&D upgrade for a number of key products has been accomplished, and the expansion of market channels has shown effective results. Currently, the Group has obtained 130 patents and 50 patent applications are pending for approval.

The Group was awarded numerous honours and recognitions during the period under review. In respect of the optical components business segment, Sunny Optics (Tianjin) Co., Ltd. was granted the title of "2011 Grade A Suppliers" and the award of "Second Prize in 2011 EHS Excellent Suppliers" by Samsung Electronics. In addition, Zhejiang Sunny Optics Co., Ltd. was granted the "2011 Special Contribution Award" from Wuxi Sony at Sony's Suppliers Conference for Eastern China region held in Shanghai. In respect of the optical instruments business segment, Shanghai Sunny Hengping Scientific Instrument Co., Ltd. was awarded the "Top 10 Most Influential Domestic Manufacturers 2011" at the 2012 Annual Conference of China Scientific Instruments, and its newly launched GC1100P gas chromatography was granted the award of "The Most Outstanding New Scientific Instrument of the Year 2011". Furthermore, Ningbo Sunny Instruments Co., Ltd. was granted the first "Ningbo City Quality Exporter Award". This award was the highest quality award in the field of export in Ningbo. The Group was also named "Ningbo Top 100 Enterprises in Foreign Trade" and "Top 100 Leading Enterprises in the Industry" in 2011.

In addition, the Municipal Government of Ningbo City announced the winners for 2011 Ningbo City Technology Advancement Award, in which the Group was granted one first class prize, one second class prize and two third class prizes. Among which, the project of "Research and Industrialization of Key Technologies for New Infrared Optical System Based on Chalcogenide Glass" jointly developed by Ningbo Sunny Infrared Technologies Company Ltd. and the Ningbo University was granted the first class prize; the project of "R&D and Industrialization of Lens Sets Applied in Vehicle Intelligent Security Sector" developed by Ningbo Sunny Automotive Optech Co., Ltd. was granted the second class prize; and the project of "Research and Industrialization of Key Technologies for High-end Handset Camera Modules" developed by Ningbo Sunny Opotech Co., Ltd. was granted the third class prize. These awards demonstrated the technological innovation capability of the Group.

Optical Components

The optical components business segment, benefited from the rapid development of handset lens sets, vehicle lens sets and infrared lens sets, as well as the optimised product portfolio and the improved product mix and thus, achieving a solid growth. During the period under review, revenue of this business segment was approximately RMB610.6 million, representing an increase of approximately 23.5% as compared with the corresponding period of last year. This business segment accounted for approximately 34.5% of the Group's revenue as compared with approximately 44.8% in the corresponding period of the previous year.

The production lines for handset lens sets under the optical components business segment have launched the automatic assembling and the automatic testing, which significantly improved production efficiency and yield rate, and also reduced labor costs. For handset lens set business, the proportion of 2-mega pixel or above products increased to approximately 78.2% of the total shipment volume from approximately 55.4% for the corresponding period of the previous year. In the second half of financial year 2012, the proportion of 5-mega pixel or above products is expected to increase.

Optoelectronic Products

Benefited from the rapid development of smartphones, the product mix of this business segment achieved remarkable improvement, and thus the Group's handset camera module business realized a strong growth. Revenue from optoelectronic products business segment for the six months ended 30 June 2012 amounted to approximately RMB1,074.1 million, representing an increase of approximately 107.4% over the corresponding period of the previous year. This business segment accounted for approximately 60.7% of the Group's revenue as compared with approximately 47.0% in the corresponding period of the previous year.

During the period under review, the shipment volume of handset camera modules with 2-mega pixel or above increased to approximately 65.7% of the total shipment volume of handset camera modules from approximately 45.2% in the corresponding period of the previous year, in which the proportion of shipment volume of modules with 5-mega pixel or above increased to approximately 22.3% from approximately 2.5% in the corresponding period of the previous year. Our outstanding high resolution products allowed the Group to maintain its leading position in the supply chain for domestic smartphones. During the period under review, the Group commenced to supply a mass volume of 8-mega pixel handset camera modules for a famous handset manufacturer in Korea. In addition, the video modules for smart television under this business segment also commenced mass production.

Optical Instruments

During the period under review, affected by the sluggish global economy, impacts of the European Debt Crisis and the slowdown of domestic economic growth, the demand for industrial instruments decreased, and revenue of this business segment recorded a slight decrease to approximately RMB84.9 million. This business segment accounted for approximately 4.8% of the Group's total revenue as compared with approximately 8.2% in the corresponding period of the previous year.

Despite the unstable global economic environment, it should be noted that the PRC government will substantially increase its investment in such areas as environmental protection and food safety in the "12th Five-Year Plan Period", which is expected to propel the demand for high-end optical analytical instruments. Therefore, the Group will increase investment in the R&D and marketing of high-end optical instruments in order to foster the medium to long term steady development of the Group.

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. Meanwhile, the Group has also set up offices and production bases in Seoul of Korea and Singapore through its subsidiaries, namely Power Optics Co., Ltd. and Sunny Instruments Singapore Pte. Ltd. In addition, the construction of the new production base in Xinyang of Henan Province has been partly completed, and the new production base is expected to produce and supply products associated with digital cameras, such as glass spherical lenses and plane products.

C. OUTLOOK AND FUTURE STRATEGIES

Upholding the mission of "Building a Stronger and Bigger Sunny Optical", our new management team strives to make progress with innovation based on our solid foundation, and all businesses of the Group have developed well under their leadership. During the period under review, the Group recorded strong performance. Although uncertainties in the global economy are expected to continue, the Group remains basically positive on the outlook of its operations for the full year forecasted at the beginning of the year. To keep the good development momentum going beyond the first half of 2012, the Group is currently accelerating its business transformation and upgrading process, and will continue to implement the development strategies formulated at the beginning of the year.

1. Continue to be dedicated to and focus on our existing advantageous businesses and to improve our international market position significantly

During the period under review, the Group has made full use of its advantageous abilities and will continue to invest resources, increase percentage of sales and market share of high-end handset lens sets and handset camera modules, make full use of its competitive advantages, further expand vehicle lens set business and increase its market share in the second half of the year. The Group will make a thorough relocation plan of the production lines of digital camera related products and minimize the efficiency lost occurred during the relocation process in order to implement industrial transfer strategy smoothly, strengthen "Lean Production" achievements, and implement "Lean Production" more deeply, with an aim to further increase its management and controlling abilities of the production processing.

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

Our existing emerging businesses performed well in the first half of financial year 2012. The Group will continue to expand its sales channels of new products and new businesses, optimize market operation, and seek to increase revenue from high-end optical instruments, security surveillance products and infrared related business. Besides, the Group will continue to explore new optical applications, identify new businesses benefiting the medium to long term development of the Group, and foster new industries.

3. Continue to innovate in management and implement cultural management

The Group will intensify its managerial capabilities, strengthen brand development and intensify an advanced information system, and promote production process revolution of "automation"; continue to implement effective talent motivation system and performance management system; strengthen industrial cultural developments; attract talents and concentrate powers.

D. LIQUIDITY AND FINANCIAL RESOURCES

Cash Flows

The table below summaries the Group's cash flows for the six months ended 30 June 2011 and 30 June 2012:

	For the six months ended 30 June	
	2012	2011
	RMB million	*RMB million*
Net cash from operating activities	**110.5**	47.3
Net cash (used in) from investing activities	**(27.2)**	146.1
Net cash used in financing activities	**(8.8)**	(83.5)

The Group, being a self-sufficient company, derives its working capital mainly from net cash generated from operating and investing activities. The Board expects that the Group will rely on net cash from operating activities in order 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 inflow of cash and cash equivalents of approximately RMB74.5 million for the six months ended 30 June 2012.

Capital Expenditure

For the six months ended 30 June 2012, the Group's capital expenditure amounted to approximately RMB179.5 million, mainly used for the purchases 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 2012 amounted to approximately RMB150.8 million (as of 31 December 2011: approximately RMB79.6 million). Pledged bank deposit amounting to RMB131.2 million (as of 31 December 2011: approximately RMB50.0 million) was arranged.

As of 30 June 2012, of all bank loans, approximately RMB2.5 million were denominated in Korean Won, approximately RMB70.2 million were denominated in Euro, while approximately RMB78.1 million were denominated in U.S. Dollars. The gearing ratio of the Group by reference to the total debt to total book capitalization ratio (with total book capitalization representing the sum of total liabilities and shareholders' equity) was approximately 5.8%, reflecting that the Group's financial position was at a sound level.

Bank facilities

As of 30 June 2012, the Group had unutilized banking facilities of RMB275.0 million with Yuyao Branch of Agricultural Bank of China and RMB55.0 million with Yuyao Branch of Ningbo Bank.

Debt securities

As of 30 June 2012, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2012, the Group did not have any material contingent liabilities or guarantees.

F. PLEDGE OF ASSETS

The Group did not have any pledge or charge on assets as of 30 June 2012, other than pledged bank deposits of RMB131.2 million.

Capital Commitments

As of 30 June 2012, the Group had capital commitment in respect of acquisition of property, plant and equipment amounting to approximately RMB77.2 million (as of 31 December 2011: approximately RMB75.9 million).

As of 30 June 2012, the Group had no other capital commitments save as disclosed above.

G. OFF-BALANCE SHEET TRANSACTIONS

As of 30 June 2012, the Group did not enter into any material off-balance sheet transactions.

H. PERFORMANCE OF INVESTMENTS MADE AND FUTURE INVESTMENTS

The Group's investing activities mainly include the purchases of property, plant and equipment. For the six months ended 30 June 2012, the Group's investments amounted to approximately RMB179.5 million, mainly involving in the purchases of machinery and equipment, as well as the initial production settings of new products and the necessary equipment configurations of new projects. These investments enhanced the capabilities of our R&D and technology applications as well as production efficiency and thus, broadening the sources of revenue. No substantial acquisition and large investment plan is intended for the year of 2012.

I. EMPLOYEE AND REMUNERATION POLICY

The Group had a total of 10,896 dedicated full time employees as of 30 June 2012, including 2,168 management and administrative staff, 8,521 production staff and 207 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 (the "Scheme") and a restricted share award scheme (the "Restricted Share Award Scheme") for its employees, for the purpose of providing incentives and rewards to eligible participants with reference to their contribution. For the six months ended 30 June 2012, no share option was granted or agreed to be granted by the Company under the share option scheme. As of 30 June 2012, an aggregate of 47,725,750 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 any of its subsidiaries, with the exception of purchases by the trustee of the Restricted Share Award Scheme, of the Company's listed shares during the six months ended 30 June 2012.

B. SHARE OPTION SCHEME

On 25 May 2007, the Company adopted the share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Company. Eligible participants of the Scheme include, without limitation, employees, Directors and shareholders of the Group. Up to 30 June 2012, 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. Pursuant to the Restricted Share Award Scheme, the Directors, all employees, senior staff, agents and consultants of the Company and its subsidiaries are entitled to participate in this scheme. The purpose of the Restricted Share Award Scheme is to assist the Company in attracting new talents as well as motivating and retaining its current staff. The Restricted Share Award 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 administrative committee and the trustee. Details of the Restricted Share Award Scheme could be found in the Note 19 of the condensed consolidated financial statements. As of 30 June 2012, an aggregate of 47,725,750 shares have been issued for qualified participants in accordance with the Restricted Share Award Scheme since the adoption date, accounting for 4.773% of the shares of the Company in issue.

Pursuant to the Restricted Share Award Scheme, the Company shall transfer cash to the trustee from time to time for the acquisition of shares ("restricted shares") to be held upon trust for the benefits of the selected participants. Shares granted to the selected participants are subject to restrictions and limitations and will become unrestricted upon vesting at the end of each vesting period. No shares shall be granted under the scheme if the number of shares granted at any time during the scheme period has exceeded 10% of the 1,000,000,000 issued shares of the Company as at the adoption date (i.e.,100,000,000 Shares). Apart from the expenses incurred by the trustee attributable or payable in connection with the vesting of the restricted shares which shall be borne by the selected participants, vested shares shall be transferred at no cost to the selected participants.

Details of movements of the shares under the Restricted Share Award Scheme for the six months ended 30 June 2012 are as follows:

		Number of Shares					
Date of grant	**Fair value of each Share** *(Note)* *HK$*	**1 January 2012**	**Granted during the period**	**Vested during the period**	**Lapsed during the period**	**30 June 2012**	**Vesting period**
7 May 2010	1.637	24,457,250	–	(7,548,000)	(255,000)	16,654,250	From 6 May 2014 to 6 May 2015
14 March 2011	2.67	5,768,000	–	(1,609,500)	(220,000)	3,938,500	From 13 March 2014 to 13 March 2015
18 August 2011	1.64	6,242,000	–	–	(30,000)	6,212,000	From 17 August 2014 to 17 August 2015
14 March 2012	2.70	–	4,068,000	–	–	4,068,000	13 March 2016
		36,467,250	4,068,000	(9,157,500)	(505,000)	30,872,750	

Note:

The fair value of the 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 SUBSTANTIAL SHAREHOLDERS

As of 30 June 2012, 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 members 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")	Long position	Interest in a controlled corporation *(Note 1)*	421,460,060	42.15%
Mr. Wang Wenjian	Long position	Beneficial owner *(Note 2)*	2,160,000	0.22%
	Long position	Interest in a controlled corporation, and trustee and one of beneficiaries of a trust *(Note 3)*	421,460,060	42.15%
Equity Trust (HK) Limited	Long position	Interest in a controlled corporation, and trustee of a trust *(Note 4)*	421,460,060	42.15%
Mr. Ye Liaoning	Long position	Beneficial owner *(Note 5)*	918,000	0.09%
	Long position	Beneficiary of a trust *(Note 6)*	421,460,060	42.15%
Mr. Sun Yang	Long position	Beneficial owner *(Note 7)*	918,000	0.09%
	Long position	Beneficiary of a trust *(Note 8)*	421,460,060	42.15%
Summit Optical Holdings Inc ("Summit")	Long position	Beneficial owner	127,332,408	12.73%

Name	Long/short position	Type of interest	Number of shares/ underlying shares held	Approximate percentage of shareholding
Chengwei Ventures Evergreen Fund, L.P.	Long position	Beneficial owner *(Note 9)*	146,351,912	14.64%

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 by Sun Xu under the provisions of SFO.

(2) Mr. Wang Wenjian is taken to be interested as a grantee of 2,160,000 shares granted under the Restricted Share Award Scheme.

(3) As Mr. Wang Wenjian is the sole shareholder of Sun Guang Limited and one of the two trustees (together with Equity Trust (HK) Limited) 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.

(4) As Equity Trust (HK) Limited is one of the two trustees (together with Mr. Wang Wenjian) of the Sunny Employee Trust, Equity Trust (HK) Limited is deemed to be interested in the 421,460,060 shares held by Sun Xu under the provisions of SFO.

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

(6) Mr. Ye Liaoning is a beneficiary under the Sunny Employee Trust, under which he is entitled to 6.80% 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 91.65% 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.

(7) Mr. Sun Yang is taken to be interested as a grantee of 918,000 shares granted under the Restricted Share Award Scheme.

(8) Mr. Sun Yang is a beneficiary under the Sunny Employee Trust, under which he is entitled to 0.92% 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 91.65% 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.

(9) CWI Optical Holdings, Inc. ("CWI") is interested in 19,019,504 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 146,351,912 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 146,351,912 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 146,351,912 shares under the SFO.

Definition of terms:

– "Equity Trust (HK) Limited" refers to the additional trustee of the Sunny Employment Trust appointed pursuant to the Deed of Appointment of Additional Trustee dated 2 July 2011

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

Save as disclosed above, as of 30 June 2012, 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.

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

As of 30 June 2012, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company or of any associated corporations (within the meaning of Part XV of the 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 (the "Model Code"), 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 and Beneficiary of a trust *(Note 1)*	421,460,060	42.15%
	The Company	Long position	Beneficial owner *(Note 2)*	2,160,000	0.22%
Mr. Ye Liaoning	The Company	Long position	Beneficiary of a trust *(Note 3)*	421,460,060	42.15%
	The Company	Long position	Beneficial owner *(Note 4)*	918,000	0.09%
Mr. Sun Yang	The Company	Long position	Beneficiary of a trust *(Note 5)*	421,460,060	42.15%
	The Company	Long position	Beneficial owner *(Note 6)*	918,000	0.09%

Notes:

(1) Mr. Wang Wenjian is one of the two trustees (together with Equity Trust (HK) Limited) 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 91.65% 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.

(2) Mr. Wang Wenjian is taken to be interested as a grantee of 2,160,000 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 6.80% 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 91.65% 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. Ye Liaoning is taken to be interested as a grantee of 918,000 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 0.92% 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 91.65% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Sun Yang is deemed to be interested in 421,460,060 shares under the SFO.

(6) Mr. Sun Yang is taken to be interested as a grantee of 918,000 shares granted under the Restricted Share Award Scheme.

Other than as disclosed above, none of the Director and chief executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as of 30 June 2012.

F. 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.

For the six months ended 30 June 2012, the Company complied with all the principles and code provisions (including those amendments effective from 1 April 2012) 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 Rules").

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 enquiries with regard to securities transactions by the Directors, all Directors have confirmed their compliance with the required standards set out in the Model Code regarding Directors' securities transactions throughout the period ended 30 June 2012.

G. AUDIT COMMITTEE

The audit committee comprises of 2 independent non-executive Directors, namely, Mr. Zhang Yuqing as Committee Chairman and Mr. Chu Peng Fei Richard, and 1 non-executive Director namely Mr. Sha Ye. 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 2012.

H. INVESTOR RELATIONS AND COMMUNICATIONS

The Company recognises the importance of the shareholders' right to understand its businesses and prospects, and therefore has always taken a proactive approach to communicate with the investment community, including institutional investors and retail investors.

In January, the Company participated in "China Smartphone Enterprises Forum" held by Daiwa Capital Markets Hong Kong Limited in Hong Kong. Following the announcement of our annual results for the year 2011 in March, the Company organized a results presentation conference and a number of individual or group meetings with investors, participated in the "Presentation Conference for Small and Medium Capitalization Companies in Hong Kong and China" held by United Bank of Switzerland in March, the "Promotional Conference for Hong Kong Local Companies" held by DBS Vickers (Hong Kong) Ltd in April and the "2012 Overseas Chinese Mainland Stocks Investment Strategy Forum" held by Shanghai Shenyin Wanguo Research & Consulting Co., Ltd. in May and convened the Annual General Meeting in the same month. In addition, the Company participated in the "Asia Technology Forum" organized by Nomura International (Hong Kong) Limited in late May, and attended the "9th Greater China Development Forum" held by Piper Jaffray Asia Securities Limited, "2012 Interim Strategy Conference" held by Huatai Securities Co., Ltd. and "2012 Interim Strategy Conference" held by CITIC Securities Co., Ltd. in June respectively. In early July, the Company organized a reverse roadshow at our headquarters in Yuyao City and participated in the "Presentation Conference II for Small and Medium Capitalization Companies in Hong Kong and China" held by United Bank of Switzerland in a view to maintain close contacts with investors.

The Group's website (www.sunnyoptical.com) offers timely access to the Group's press releases and other business information. Through its website, the Group provides shareholders with the electronic version of the financial reports, the latest slides presented at investors' conferences, as well as the up-to-date news about the Group's business, announcements and general information, etc. For environmental protection and to maintain effective communication with shareholders, the Group encourages all shareholders to browse the Group's information via the Group's website.

The Group has a dedicated team to maintain contact with investors and handles shareholders' inquiries. Should investors have any inquiries, please contact the Group's investor relationship department (Tel: +852-35687038; +86-574-62530875; email: ir@sunnyoptical.com).

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

China, 17 August 2012

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