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 2009

RESULTS HIGHLIGHTS

- Unaudited consolidated revenue decreased by approximately 7.3% over the corresponding period of last year to approximately RMB547.3 million. The decrease was mainly due to the downward pressure on the average selling prices of the Group's products brought about by worldwide persistent sluggish demand and a drop in prices of consumer electronic products

- The profit margin of optical components business increased by 4.6%, mainly due to the improvement in product mix and the progress in lean production

- Some non-operating factors enlarged the decrease in net profit for the reporting period. Thus, net profit attributable to equity holders for the reporting period decreased to approximately RMB23.4 million, as compared to approximately RMB39.1 million in the same period of 2008

FINANCIAL RESULTS

The Board (the "Board") of Directors (the "Directors") of Sunny Optical Technology (Group) Company Limited ("Sunny Optical" or the "Company") presents the unaudited consolidated interim results of the Company and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2009, along with the comparative figures for the corresponding period in last year as follows:

Condensed Consolidated Statement of Comprehensive Income

		Six months ended 30 June	
		2009	2008
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited)*
Revenue	*3*	**547,309**	590,348
Cost of sales		**(439,245)**	(465,545)
Gross profit		**108,064**	124,803
Other income and gain	*4*	**16,658**	17,022
Loss on deemed disposal of partial interest in a subsidiary		**(3,615)**	–
Selling and distribution expenses		**(13,558)**	(14,722)
Research and development expenditure		**(37,395)**	(23,933)
Administrative expenses		**(40,122)**	(54,295)
Finance costs		**(673)**	–
Profit before taxation		**29,359**	48,875
Income tax charge	*5*	**(9,245)**	(9,781)
Profit for the period	*6*	**20,114**	39,094
Other comprehensive income			
Exchange differences arising on translation of foreign operations		**(891)**	(736)
Fair value change on available-for-sale financial assets		**–**	1,638
Income tax relating to components of other comprehensive income		**–**	(603)
Other comprehensive income for the period (net of tax)		**(891)**	299
Total comprehensive income for the period		**19,223**	39,393
Profit for the period attributable to:			
Owners of the Company		**23,407**	39,090
Minority interests		**(3,293)**	4
		20,114	39,094

		Six months ended 30 June	
		2009	2008
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	*(unaudited)*
Total comprehensive income attributable to:			
Owners of the Company		**22,704**	39,389
Minority interests		**(3,481)**	4
		19,223	39,393
Earnings per share – Basic (RMB cents)	*7*	**2.34**	3.91

Condensed Consolidated Statement of Financial Position

	NOTES	**30 June 2009** **RMB'000** **(unaudited)**	31 December 2008 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**475,754**	496,579
Prepaid lease payments		**19,511**	19,762
Goodwill		**12,168**	12,168
Intangible asset		**7,325**	8,796
Deferred tax assets		**270**	1,432
Deposits for acquisition of property, plant and equipment		**4,149**	4,001
		519,177	542,738
CURRENT ASSETS			
Inventories		**121,194**	126,351
Trade and other receivables	*10*	**278,495**	257,606
Prepaid lease payments		**502**	502
Tax recoverable		**153**	2,246
Available-for-sale investments		**–**	4,000
Financial assets designated as at fair value through profit or loss		**–**	291,070
Pledged bank deposits		**17,447**	–
Bank balances and cash		**688,950**	387,536
		1,106,741	1,069,311
CURRENT LIABILITIES			
Trade and other payables	*11*	**186,681**	190,400
Amounts due to related parties	*15(c)*	**4,410**	8,015
Amount due to a minority shareholder of a subsidiary		**469**	2,475
Derivative financial liabilities		**2,160**	–
Tax payable		**393**	306
Bank borrowings	*12*	**25,613**	18,284
		219,726	219,480
NET CURRENT ASSETS		**887,015**	849,831
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,406,192**	1,392,569

	NOTES	30 June 2009 RMB'000 (unaudited)	31 December 2008 RMB'000 (audited)
CAPITAL AND RESERVES			
Issued capital	*13*	**97,520**	97,520
Reserves		**954,756**	938,369
Retained earnings		**293,147**	306,830
Equity attributable to owners of the Company		**1,345,423**	1,342,719
Minority interests		**25,065**	23,605
Total equity		**1,370,488**	1,366,324
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**8,654**	7,996
Bank borrowings	*12*	**26,273**	17,226
Deferred income		**777**	1,023
		35,704	26,245
TOTAL EQUITY AND LIABILITIES		**1,406,192**	1,392,569

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 ("HKAS 34") Interim Financial Reporting.

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost convention, except for certain financial instruments that are measured at fair values.

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 2008.

In the current interim period, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new or revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1 January 2009.

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 *Segment Reporting*, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 (see note 3). The adoption of the new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied new and revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in loss of control of the subsidiary. Changes in the Group's ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions. 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

The Group has adopted HKFRS 8 "*Operating Segments*" with effect from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Segment information about these businesses is presented below:

	For the six months ended 30 June 2009				
	Optical components *RMB'000* *(unaudited)*	**Optoelectronic products** *RMB'000* *(unaudited)*	**Optical instruments** *RMB'000* *(unaudited)*	**Elimination** *RMB'000* *(unaudited)*	**Consolidated** *RMB'000* *(unaudited)*
Revenue					
External sales	**249,526**	**250,160**	**47,623**	**–**	**547,309**
Inter-segment sales	**31,579**	**857**	**50**	**(32,486)**	**–**
Total	**281,105**	**251,017**	**47,673**	**(32,486)**	**547,309**

Inter-segment sales are charged at prevailing market rates.

Result					
Segment profit (loss)	**18,643**	**11,499**	**(982)**	**–**	**29,160**
Unallocated income and gain					**8,393**
Unallocated corporate expenses					**(3,906)**
Loss on deemed disposal of partial interest in a subsidiary					**(3,615)**
Finance costs					**(673)**
Profit before taxation					**29,359**
Income tax charge					**(9,245)**
Profit for the period					**20,114**

	For the six months ended 30 June 2008				
	Optical components	Optoelectronic products	Optical instruments	Elimination	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*	*(unaudited)*
Revenue					
External sales	268,014	254,755	67,579	–	590,348
Inter-segment sales	38,177	784	152	(39,113)	–
Total	306,191	255,539	67,731	(39,113)	590,348

Inter-segment sales are charged at prevailing market rates.

Result					
Segment profit	17,415	19,172	9,959	–	46,546
Unallocated income and gain					10,096
Unallocated corporate expenses					(7,767)
Profit before taxation					48,875
Income tax charge					(9,781)
Profit for the period					39,094

Segment profit (loss) represents the profit earned or loss incurred by each segment without allocation of unallocated corporate income and expenses and finance costs. This is the measure reported to the Group's Chief Executive Officer for the purposes of resources allocation and assessment of segment performance.

4. OTHER INCOME AND GAIN

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Change in fair value of financial assets designated as at fair value through profit and loss	**6,134**	–
Change in fair value of held-for-trading investments	**–**	5,426
Government grants	**7,339**	5,005
Bank interest income	**2,259**	4,670
Mould income	**–**	701
Net gain on sales of scrap materials	**181**	352
Others	**745**	868
Total	**16,658**	17,022

5. INCOME TAX CHARGE

	Six months ended 30 June	
	2009	2008
	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	**6,274**	6,363
Deferred tax:		
– Current period	**2,971**	3,418
	9,245	9,781

For the both periods of six months ended 30 June 2009 and 30 June 2008, the relevant tax rates for the Group's subsidiaries in the PRC ranged from 12.5% to 25%.

6. PROFIT FOR THE PERIOD

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
Profit for the period has been arrived at after charging (crediting):		
Staff's salaries and allowances	**96,869**	111,286
Staff's contribution to retirement benefit scheme	**9,294**	9,729
Total staff costs	**106,163**	121,015
Auditor's remuneration	**1,249**	1,227
Depreciation of property, plant and equipment	**39,927**	34,960
Release of prepaid lease payments	**251**	251
Amortisation of an intangible asset	**1,471**	–
Allowance for bad and doubtful debts	**752**	3,338
Reversal of allowance for inventories	**(5,862)**	(310)
Net foreign exchange losses	**2,621**	2,390
Net (gain) loss on disposal of property, plant and equipment	**(443)**	670

7. 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 1,000,000,000 shares in issue.

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

8. DIVIDENDS

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(unaudited)	*(unaudited)*
2008 Final dividend paid: RMB2 cents (2007: RMB2.1 cents) per share	**20,000**	21,000

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2009 (2008: nil).

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB27 million (the corresponding period of 2008: RMB97 million) on purchasing its manufacturing equipments and construction of a manufacturing plant in Korea, 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 RMB8 million (the corresponding period of 2008: Nil).

10. TRADE AND OTHER RECEIVABLES

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

	30 June	31 December
	2009	2008
	RMB'000	*RMB'000*
	(unaudited)	*(audited)*
Trade receivables		
Within 90 days	**183,432**	165,830
91 to 180 days	**11,564**	12,220
Over 180 days	**804**	915
	195,800	178,965
Bill receivables		
Within 90 days	**37,458**	42,155
91 to 180 days	**8,772**	3,285
	46,230	45,440
Other receivables	**36,465**	33,201
	278,495	257,606

11. TRADE AND OTHER PAYABLES

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

	30 June 2009 *RMB'000* *(unaudited)*	31 December 2008 *RMB'000* *(audited)*
Trade payables		
Within 90 days	**122,334**	112,409
91 to 180 days	**10,260**	6,374
Over 180 days	**983**	1,056
	133,577	119,839
Payables for purchase of property, plant and equipment	**2,003**	5,137
Accrued staff costs	**24,791**	41,685
Advance from customers	**5,900**	6,896
Value added tax payables and other tax payables	**7,580**	7,190
Accrued expenses	**6,212**	6,573
Others	**6,618**	3,080
	53,104	70,561
	186,681	190,400

12. BANK BORROWINGS

During the period, the Group obtained new bank borrowings in the amount of approximately RMB37,691,000 (the corresponding period of 2008: Nil). The proceeds were used to meet short-term expenditure needs. Repayment of bank borrowings amounting to approximately RMB22,229,000 (the corresponding period of 2008: Nil) were made in line with the relevant repayment terms.

13. ISSUED CAPITAL

	Number of shares	**Amount** *HK$'000*	**Equivalent to** *RMB'000*
Authorised:			
Ordinary shares of HK$0.1 each as of 1 January 2008, 31 December 2008, 1 January 2009 and 30 June 2009	100,000,000,000	10,000,000	
Issued & fully paid:			
Ordinary shares of HK$0.1 each as of 1 January 2008, 31 December 2008, 1 January 2009 and 30 June 2009	1,000,000,000	100,000	97,520

14. CAPITAL COMMITMENTS

	30 June 2009 RMB'000 (unaudited)	31 December 2008 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	**13,015**	22,858

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

Sunny Optical conducts operations in a vertically-integrated manner, and is a leading integrated manufacturer of optical components and optoelectronic products in China. The Group is principally engaged in the design, R&D, manufacturing and sales of optical and optical-related products. The three business scopes include optical components (such as glass or plastic lenses, plates, prisms, handset lens sets, digital camera lens sets, scanner lens sets and security surveillance lens sets), optoelectronic products (such as handset camera modules and other optoelectronic modules including industrial endoscopes and security surveillance modules) and optical instruments (such as microscopic instruments, surveying instruments and analytical instruments). Our products involve a combination of optical, electronic and mechanical technologies.

Save as disclosed in this announcement, since 31 December 2008, 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 2008.

A. Financial Review

Revenue

The Group's revenue for the six months period ended 30 June 2009 was approximately RMB547.3 million, representing a decrease of approximately 7.3% or approximately RMB43.0 million compared with the corresponding period of the previous year. The decrease was mainly due to the downward pressure on the average selling prices of the Group's products brought about by worldwide persistent sluggish demand, a drop in prices of consumer electronic products and strategic pricing to certain important customers.

Revenue generated from optical components business decreased by approximately 6.9% to approximately RMB249.5 million compared with the corresponding period of the previous year. The decline in revenue was mainly attributable to the persistent sluggish demand in the consumer electronic products market, and several new products could not contribute any revenue until the second half of the year. Revenue generated from optoelectronic business decreased by approximately 1.8% to approximately RMB250.2 million compared with the corresponding period of the previous year. The decline was mainly attributable to the decrease in the average selling prices and the shipment of handset camera modules caused by the weak demand and declining market prices of domestic handsets. Revenue generated from optical instruments business decreased by approximately 29.5% to approximately RMB47.6 million compared with the corresponding period of the previous year. The decrease was a result of the decline in demand from American and European customers.

Gross profit and margin

During the period under review, the Group's gross profit was approximately RMB108.1 million, a decrease of approximately 13.4% compared to the corresponding period last year and the gross margin was approximately 19.7%. The decrease was mainly due to inadequate capacity utilization and the decrease in the average selling prices of products under market pressure. However, the profit margin of optical components business increased by 4.6 percentage points, mainly due to the improvement in product mix and the progress in lean production.

Selling and distribution expenses

Selling and distribution expenses, which represented approximately 2.5% of the Group's revenue during the period under review, decreased by approximately 7.9% or approximately RMB1.2 million to approximately RMB13.6 million during the period under review. The decrease was primarily due to the stringent control on various sales expenses.

Research and development ("R&D") expenditure

R&D expenditure, which represented approximately 6.8% of the Group's revenue during the period under review, increased from approximately RMB23.9 million for the six months ended 30 June 2008 to approximately RMB37.4 million for the corresponding period in 2009. The increase was due to the continuous investment in research and development activities and projects, including security surveillance systems, aspheric glass lenses, infrared products, mid-high end new optical instruments and upgrading original product categories.

Administrative expenses

Administrative expenses, which represented approximately 7.3% of the Group's revenue during the period under review, decreased from approximately RMB54.3 million during the six months ended 30 June 2008 to approximately RMB40.1 million for the corresponding period in 2009, representing a decrease of 26.1%. The decrease was mainly attributable to the reduction in the management's remuneration and the stringent control on various administrative expenses.

Income tax charge

Income tax charge decreased from approximately RMB9.8 million for the six months ended 30 June 2008 to approximately RMB9.2 million for the corresponding period in 2009. The effective tax rate for the Group in the period under review was approximately 31.5%. The increase in the effective tax rate was mainly due to the losses contributed by the newly established or acquired subsidiaries, thus reduced profit before taxation. On the other hand, Sunny Zhongshan Optics Co., Ltd. has started its "50% tax relief period". In order to keep the effective tax rate steady, the Company has made applications of hi-tech enterprises for several subsidiaries. Income tax for hi-tech enterprises is 15% according to the national policy, As at the date of this announcement, the Group has obtained hi-tech enterprise approvals for four of its subsidiaries.

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

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

* Companies recognized as hi-tech enterprise and obtained the approvals before the balance sheet date.
\# Application for a hi-tech enterprise status in progress on the announcement date.

Profit for the period and margin

During the period under review, profit of the Group was approximately RMB20.1 million as compared to approximately RMB39.1 million for the corresponding period in 2008. The decrease in net profit was mainly due to the decrease in revenue and increase in research and development expenses, as well as non-operating factors such as amortization of patents arising from the newly acquisition of Power Optical Co., Ltd., a Korean subsidiary, amounted to approximately RMB1.5 million, deemed loss amounted to approximately RMB3.6 million from additional shares issued to the minority shareholders of Sunny Instruments Singapore PTE Ltd. and the income tax of Sunny Zhongshan Optics Co., Ltd. increased by approximately RMB2.8 million. The net profit margin was approximately 3.7%.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company amounted to approximately RMB23.4 million, representing a decrease of approximately RMB15.7 million or approximately 40.1% as compared to approximately RMB39.1 million in the corresponding period last year.

Interim dividends

For the year ended 31 December 2008, the dividend proposed by the Company to the equity holders of the Company was RMB0.020 (equivalent to approximately HK$0.022) per share, with payout ratio approximately 26.1% of the Group's net profit for the year, and was paid in May 2009.

For the six months ended 30 June 2009, the Group has resolved not to declare any interim dividend (the corresponding period of 2008: nil).

B. Business Review

In the first half of 2009, the global economy remained weak as did the Company's end market. According to Internet Data Center statistics, the number of worldwide handset shipments recorded a decline of 17.2% in the first quarter compared with the same period of last year, and a corresponding decrease of 10.8% in the second quarter. The demand in the digital camera market also dropped substantially, which adversely affected the upstream industries such as optical components and optoelectronic products industries. The industry structure thereby changed – orders concentrated into certain manufacturers with core competitiveness. During the past half year, the Group has coordinated the clients' competition strategies to confront the hard time and made contribution for clients to obtain favorable competitive position. Despite of the relatively minor drop in sales during the period, the Group has forged a favourable position in the industry and laid solid foundations for good future development.

Against the adverse operating environment, the Group implemented a number of measures to increase income and reduce expenditures during the period, including aggressive expansion of customer base and tightening internal cost control, with an aim to maintain its profitability at certain level and ensure a stable and healthy growth in the long run. More efforts were made in conducting market research and exploring new applications of optical products while the Group strived to strengthen and enhance its capabilities in R&D and "lean production", so as to confront the challenges brought about by rapidly changing market environment.

During the period, our newly established or acquired subsidiaries operated well. The Group's Korean subsidiary – Power Optics Co., Ltd. began generating profits, while its newly developed 2-light-emitting-dioded ("LED") light module commenced batch delivery to Samsung. Two types of micro-projectors are awarded "National-Supported Development Cases", the R&D of which is in full swing. Ningbo Sunny Automotive Optech Co., Ltd. started generating profit contribution. Ningbo Sunny Infrared Technologies Company Ltd. increased its sales gradually and likely to make profits in the second half of the year. All these companies have good follow-up orders trend. Jiang Su Sunny Medical Instruments Co., Ltd. completed the development of medical endoscopes and entered into the process of medical license application and clinical validation. Sunny Instruments Singapore PTE. Ltd. completed the research and development of 3D optical vision measuring instruments, microscopic interferometers and began the relevant sales.

The Group's other important R&D projects made progress smoothly: three products under Glass Molding Press ("GMP") projects entered into small batch production process, while Chip-on-board ("COB") processing achieved mature mass production process. Certain types of security surveillance cameras accomplished their development process. The Group established its Security Surveillance Business Unit to promote the marketing of security products; time-of-flight mass spectrometer and quadrupole mass spectrometer also completed their research process.

The Group's three business segments – optical components, optoelectronic products and optical instruments also made upgrade for their respective current products. These R&D activities reinforced our technical leading position in the original products in the industry.

Optical components

Owing to the weakness of the handset and digital camera markets, the revenue of optical components decreased and contributed the sales income of approximately RMB249.5 million, representing a decrease of 6.9% compared with the corresponding period of last year. This business division accounted for approximately 45.6% of the Group's revenue compared with 45.4% in the corresponding period of last year. However, the product mix of this business division changed significantly. Demand for small and medium sized spheric lenses was surpassed by medium and large ones, most of which applied in digital single-lens reflex cameras; the percentage of handset lens sets with 1.3-megapixel-resolution or above has increased to 37.9% in the first half of the year. Some of our major customers, such as Panasonic, Nikon and Samsung increased their procurements. Lean production was fully implemented in this business division. The results were remarkable and made important contribution to the profit margin improvement.

During the period, the Group put more efforts in upgrading existing optical components, as a result, the 2-, 3- and 5-mega pixel resolution camera lens sets with auto-focus function commonly used in handsets and laptops were successfully developed. Optical components business started to research and develop 8-mega pixel zoom lens for handsets use. During the period, the Group also made a great breakthrough in the engineering modification of its automatic grouping assembly process, which was applied to mass production of some of our products.

Optoelectronic products

Owing to the decrease in demand from the market and declined average selling prices of handsets, the sales revenue from optoelectronic products for the six months ended 30 June 2009 amounted to approximately RMB250.2 million, representing a decrease of 1.8% over the corresponding period of last year. This business division accounted for approximately 45.7% of the Group's revenue compared with 43.2% in the corresponding period of last year. The product mix of this business division had encouraging changes in the first half of the year. Products with 1.3-mega pixel resolution or above accounted for 30.1% among all. Currently, products with high resolution are mainly adopted by the PRC branded customers. This business division is focused on developing the business with international renowned brands, and has succeeded to be one of the suppliers of Sharp.

During the period, our optoelectronic products division successfully developed the "Reflow" handset camera modules and the 5-mega-pixel compact camera modules with 3x auto-focus function, while the extended-depth-of-field ("EDOF") handset camera modules and the 5-mega-pixel-resolution handset camera modules with auto-focus function designed with COB technology started batch production, thus further expanding our product range.

Optical instruments

Affected by the drop in demand from overseas markets, the revenue of our optical instruments business declined in the first half of 2009 to approximately RMB47.6 million, representing a decrease of 29.5% over the corresponding period of last year. This business accounted for approximately 8.7% of the Group's revenue compared with 11.4% in the previous year.

During the period, the Group has completed the R&D of various middle to high-end optical instruments, including drugs detectors, time-of-flight mass spectrometers, quadrupole mass spectrometers, 3D optical vision measuring machines and microscopic interferometers, and certain of these products were under initial small lot production.

Production

As of 30 June 2009, the Group produces its products in our four production bases in Yuyao of Zhejiang province, Zhongshan of Guangdong province, Shanghai and Tianjin respectively. A newly established Tianjin base aims to provide better services to clients in Bohai Rim Area (including Samsung). These production bases cover the regions clustered with optoelectronic products end-manufacturers in the Yangtze River Delta, the Pearl River Delta and the Bohai Rim Region.

C. Outlook and Future Strategies

In the first half of 2009, the global economy remained weak in spite of some recovery signs. In the aftermath of the global financial crisis, the market was still shaky, but it was shown slight improvement as compared to the end of last year. In 2009, Sunny Optical will consolidate its business for the long run. By leveraging on its advanced R&D capabilities, extensive clientele base and diversified product portfolio and product mix, the Group will continue to pursue its "Mingpeijiao" strategy and to achieve excellence in pragmatic manner.

The Group made the announcement of "Change and Re-designation of Chief Executive Officer" on 21st July 2009 in relation to the re-designation of Mr. Wang Wenjian from the Chairman of the Group to the Chief Executive Officer and Chairman of the Group. The board of directors of the Group considered that given the expertise and experience of Mr. Wang, the re-designation and reallocation of responsibilities could assist to alleviate the impacts of the current economic conditions on the developments of the Company and better apply the Group's strategy consistently.

1. *Reinforce existing clientele base and explore potential markets*

   The global financial crisis has accelerated industry consolidation, which is favourable to well-established and powerful players, like the Group. Thanks to its leading position in the industry and its premium quality products, the Group is well-positioned to further expand its market share. Sunny Optical has established long-standing relationships with a number of renowned brands such as Samsung, Panasonic, Lenovo, Nikon, Pentax etc. During the period, the sales from top five clients of the Group represented 33.6% of the Group's sales revenue. The Group will commit itself to reinforcing the existing clientele base and market segment. At the same time, it will explore potential markets in China, Japan, South Korea, Singapore, the United States and Europe with products and services of better quality through its sales channels in these countries.

2. *Diversify its product portfolio and improve its product mix*

Given that more resources are earmarked for food safety, environmental protection and education by the government and awareness of security and surveillance is increasing among citizens, it is expected that the non-handset related products (including industrial and medical endoscopes, and security surveillance products and microscopic, surveying and analytical instruments, etc), being aggressively developed in recent years by the Group, will benefit from this directly. The Group will emphasize the upgrade of existing products in order to strengthen its existing markets constantly. Meanwhile, it will broaden its vision to put more efforts into new products, and achieve fast breakthrough in new markets by means of acquisition and merger in appropriate time. Sunny Optical will seize the opportunity and proactively diversify its product portfolio and product mix, so as to meet market demand.

In addition, the development of China's 3G market and the widespread use of netbook computers will bring new opportunities for optoelectronic products and therefore increase the demand for high-pixel camera modules. In line with the market development, the Group will strive to improve the quality and grade of products and develop more high-end products to improve the overall operating revenue of the Group.

3. *Implement "lean production" throughout the Group and improve operational efficiency*

In 2009, the Group will implement the manufacturing execution system. Zhongshan production base has comprehensively completed the implementation of the manufacturing execution system, which is expected to play an active role in the management in the second half of the year. Optoelectronic products business has recruited a Korean as factory director in August this year, aiming to introduce the production and management pattern from Korean enterprises to improve its production efficiency, to improve the overall workflow, and achieve cost reduction by cutting both production costs and operating expenses. In this year, Sunny Optical will strive to raise its capacity utilization, to maximize the Group's operational efficiency and to further strengthen the competitiveness of the enterprise.

D. Liquidity and Financial Resources

Cash flows

The table below summaries the Group's cash flows for the six months ended 30 June 2008 and 30 June 2009:

	Six months ended 30 June	
	2009	2008
	RMB million	*RMB million*
Net cash from operating activities	**46.6**	58.7
Net cash from (used in) investing activities	**260.5**	(90.3)
Net cash used in financing activities	**(5.2)**	(20.1)

The Group, being a self-sufficient company, derives its working capital mainly from net cash generated from operating and investing activities. The Directors expect that the Group will rely on net cash from operating activities and the net proceeds from the global offering of the Company's shares ("Global Offering") in 2007 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 increase in cash and cash equivalents of approximately RMB301.9 million for the six months ended 30 June 2009.

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

Capital expenditure

For the six months ended 30 June 2009, capital expenditure of the Group amounted to approximately RMB29.6 million, mainly for the purchase of property, plant and 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 2009 amounted to approximately RMB51.9 million (2008: 0), of which approximately RMB16.0 million were secured bank loans. During the year, all loans bear fixed interest rates ranging from 1.14% to 10.69%. The proceeds were used to finance the daily operation of the Group.

As of 30 June 2009, among all of the bank loans, approximately RMB35.8 million were denominated in Korean Won, approximately RMB12.4 million were denominated in Hong Kong Dollars, while approximately RMB3.7 million were denominated in U.S. Dollars. Its total debt to total book capitalization ratio (with total book capitalization representing the sum of total liabilities and shareholders' equity) was approximately 3.2%, reflecting the Group's financial position was at a sound level.

Bank facilities

As of 30 June 2009, the Group had unutilised banking facilities of approximately RMB435 million.

Debt securities

As of 30 June 2009, the Group did not have any debt securities.

Contingent liabilities

As of 30 June 2009, the Group did not have any material contingent liabilities or guarantees.

F. Pledge of Assets

As of 30 June 2009, the Group did not have any pledge or charge on assets other than the pledged bank deposits of approximately RMB17.4 million.

Capital commitments and contingencies

As of 30 June 2009, the Group had capital commitments in respect of acquisition of property, plant and equipment amounted to approximately RMB13.0 million.

G. Off-balance Sheet Transactions and Contingent Liabilities

As of 30 June 2009, the Group did not have any material off-balance sheet transactions.

H. Employee and Remuneration Policy

The Group had a total of 6,808 dedicated full time employees as of 30 June 2009, including 1,280 management and administrative staff, 5,388 production staff and 140 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 for its employees, providing incentives and rewards to eligible participants with reference to their contribution. For the six months ended 30 June 2009, no share options were granted or agreed to be granted under the scheme.

OTHER INFORMATION

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

There was no purchase, sale, redemption or cancellation by the Company or its subsidiaries, of the Company's listed shares during the six months ended 30 June 2009.

B. 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).

C. Disclosure of Substantial Shareholders

As of 30 June 2009, so far as the Directors are aware, the following persons or institutions have beneficial interests or short positions in any shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO"), Cap 571 of the Laws of Hong Kong, or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Long/short position	Type of interest	Number of shares	Approximate percentage of shareholding
Sun Xu Limited ("Sun Xu")	Long position	Beneficial owner	421,460,060	42.15%
Sun Ji Limited ("Sun Ji") *(Note 1)*	Long position	Interest in a controlled corporation	421,460,060	42.15%
Mr. Wang Wenjian *(Note 2)*	Long position	Interest in a controlled corporation, trustee of a trust and trustee and one of beneficiaries of a trust	479,401,000	47.94%
Mr. Ye Liaoning *(Note 3)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Mr. Wu Jinxian *(Note 4)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Mr. Sun Yang *(Note 5)*	Long position	Beneficiary of a trust	421,460,060	42.15%
Summit Optical Holdings Inc ("Summit")	Long position	Beneficial owner	171,174,508	17.12%
Chengwei Ventures Evergreen Fund, L.P. *(Note 6)*	Long position	Interest in a controlled corporation	207,715,208	20.77%
Sun Zhong Limited ("Sun Zhong")	Long position	Beneficial owner	57,940,940	5.79%

Notes:

(1) As Sun Ji owns more than one-third of the voting power of general meetings of Sun Xu, Sun Ji is deemed to be interested in the 421,460,060 shares held of and in the Company by Sun Xu under the provisions of SFO.

(2) As Mr. Wang Wenjian is the sole shareholder of Sun Guang Limited and the trustee and one of the beneficiaries of the Sunny Employee Trust, Mr. Wang Wenjian is deemed to be interested in the 421,460,060 shares held by Sun Xu under the provisions of SFO. As Mr. Wang Wenjian is the trustee of the PRC Investor Trust, Mr. Wang Wenjian is deemed to be interested in the 57,940,940 shares held by Sun Zhong under the provisions of SFO.

(3) Mr. Ye Liaoning is a beneficiary under the Sunny Employee Trust, under which he is entitled to 6.20% of the beneficial interest. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Ye Liaoning is deemed to be interested in 421,460,060 shares under the SFO.

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

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

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

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

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

Definition of terms:

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

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

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

Save as disclosed above, as of 30 June 2009, no other shareholder of the Company had any interests or short positions in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

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

As of 30 June 2009, the interests and short positions of the Directors and the chief executive 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 of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Director	Name of Corporation	Long/short position	Capacity/Nature of interest	Number of shares	Approximate percentage of shareholding
Mr. Wang Wenjian	The Company	Long position	Trustee *(Note 1)*	57,940,940	5.79%
	The Company	Long position	Trustee and Beneficiary of a trust *(Note 2)*	421,460,060	42.15%
Mr. Ye Liaoning	The Company	Long position	Beneficiary of a trust *(Note 3)*	421,460,060	42.15%
Mr. Wu Jinxian	The Company	Long position	Beneficiary of a trust *(Note 4)*	421,460,060	42.15%
Mr. Sun Yang	The Company	Long position	Beneficiary of a trust *(Note 5)*	421,460,060	42.15%

Notes:

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

(2) Mr. Wang Wenjian (王文鑒) is the trustee and one of the beneficiaries of the Sunny Employee Trust. The Sunny Employee Trust is a trust on the entire issued share capital of Sun Ji. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 42.15% of the issued share capital of the Company. Accordingly, Mr. Wang Wenjian is deemed to be interested in 421,460,060 shares under the SFO.

(3) Mr. Ye Liaoning (葉遼寧) is a beneficiary under the Sunny Employee Trust, under which he is entitled to 6.20% of the beneficial interest. As a beneficiary of the trust, he is deemed to be interested in all the equity interest that Sunny Employee Trust owns under the SFO. Sun Ji owns 92.32% equity interest in Sun Xu, which in turn owns 421,460,060 shares of the Company. As a controlling shareholder, Sun Ji is deemed to be interested in all the shares that Sun Xu owns under the SFO. Accordingly, Mr. Ye Liaoning is deemed to be interested in 421,460,060 shares under the SFO.

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

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

Other than as disclosed above, none of the Director, chief executives 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 2009.

E. Corporate Governance

Code of Corporate Governance Practices

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

As of 30 June 2009, 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 impacts of the current economic conditions on the developments of the Company and better apply the Group's strategy consistently.

As of 30 June 2009, 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 2009.

F. Audit Committee

The audit committee consists of 3 Independent Non-executive Directors, namely, Mr. Zhang Yuqing as Committee Chairman, Dr. Chang Mei Dick and Dr. Liu Xu, and 2 Non-executive Directors namely Mr. Michael David Ricks and Mr. Shao Yang Dong. The audit committee and the Company's external auditors have reviewed and discussed matters relating to auditing, internal controls and financial statements, including a review of the unaudited financial statements for the six months ended 30 June 2009.

G. Investor Relations and Shareholders' Communications

The Group recognises the importance of enhancing shareholders' understanding of its business and prospects, and therefore has taken a proactive approach in communication with the investment community, including institutional investors and retail investors. In February 2009, the Group participated in "Orient Securities-Annual Capital Market Conference 2009". Immediately after the annual results announcement in April 2009, the Group held a couple of one-on-one meetings in Hong Kong. In May 2009, the Group's Annual General Meeting was also held.

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 of
Sunny Optical Technology (Group) Company Limited
Wang Wenjian
Chairman and Executive Director

China, 20 August 2009

As at the date of this announcement, the Board comprises 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, Mr. Zhang Yuqing, who are independent non-executive directors.