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)

GLOBAL OFFERING

Global Coordinator, Sponsor, Bookrunner and Lead Manager

BNP PARIBAS
CORPORATE & INVESTMENT BANKING

IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.

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Number of Offer Shares	:	**270,000,000 Shares comprising 200,000,000 New Shares and 70,000,000 Sale Shares (subject to the Over-allotment Option)**
Number of Public Offer Shares	:	**27,000,000 New Shares (subject to adjustment)**
Number of Placing Shares	:	**243,000,000 Shares comprising 173,000,000 New Shares and 70,000,000 Sale Shares (subject to adjustment and the Over-allotment Option)**
Offer Price	:	**Not more than HK$3.82 per Share payable in full on application in Hong Kong dollars, plus brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%**
Nominal value	:	**HK$0.10 each**
Stock code	:	**2382**

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The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement among the Global Coordinator (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders) on the Price Determination Date. The Price Determination Date is expected to be on or around Saturday, 9 June 2007 and, in any event, not later than Monday, 11 June 2007. The Offer Price will be not more than HK$3.82 and is currently expected to be not less than HK$3.00 unless otherwise announced. Investors applying for Public Offer Shares must pay, on application, the maximum Offer Price of HK$3.82 for each Offer Share together with brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%.

The Global Coordinator, on behalf of the Underwriters, may, with the consent of the Company, reduce the number of Offer Shares being offered pursuant to the Global Offering and/or the indicative Offer Price range below that stated in this prospectus (which is HK$3.00 to HK$3.82 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Public Offer. If applications for Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Public Offer, then even if the number of Offer Shares and/or the Offer Price range is so reduced, such applications cannot be subsequently withdrawn. If, for any reason, the Offer Price is not agreed among the Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed.

The obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe for, and to procure applicants for the subscription for, the Offer Shares, are subject to termination by the Global Coordinator (on behalf of the Public Offer Underwriters) if certain circumstances arise prior to 8:00 a.m. on the day that trading in the Shares commences on the Stock Exchange. Such circumstances are set out in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus. It is important that you carefully read that section before making any investment decision.

4 June 2007

If there is any change in the following expected timetable of the Hong Kong Public Offering, the Company will issue an announcement in Hong Kong to be published in English in the *South China Morning Post* and in Chinese in the *Hong Kong Economic Times*.

	2007[(1)]
Latest time to lodge **WHITE** and **YELLOW** Application Forms and to give electronic application instructions to HKSCC[(2)]	Thursday, 7 June
Application lists open[(3)]	11:45 a.m. on Thursday, 7 June
Application lists close[(3)]	12:00 noon on Thursday, 7 June
Price Determination Date	Saturday, 9 June
Announcement of the Offer Price, the indication of level of interest in the Placing, the results of applications in the Public Offer (with successful applicants' identification document number, where appropriate) and the basis of allotment of the Public Offer Shares to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) and the Company's website (www.sunnyoptical.com) (in both English and Chinese)[(4)] on or before	Thursday, 14 June
Despatch of refund cheques on or before[(5)]	Thursday, 14 June
Despatch of Share certificates on or before[(5)]	Thursday, 14 June
Dealings in Shares on the Stock Exchange to commence on	Friday, 15 June

Notes:

(1) All times refer to Hong Kong local time, except as otherwise stated. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed "How to apply for Public Offer Shares — How to apply by giving electronic application instructions to HKSCC" in this prospectus.

(3) If there is a "black" rainstorm warning or a tropical cyclone warning signal number 8 or above in force at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 June 2007, the application lists will not open on that day. Further information is set out in the section headed "How to apply for Public Offer Shares — When may applications be made — Effect of bad weather conditions on the opening of the application lists" in this prospectus.

(4) No information on the website forms part of this prospectus.

(5) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and also in respect of successful applications in the event that the final Offer Price is less than the initial Offer Price per Share payable on application. Applicants for 1,000,000 Public Offer Shares or more and who have indicated in their Application Forms that they wish to collect the refund cheques and Share certificates (as relevant) in person from the Hong Kong branch share registrar may collect the refund cheques (where applicable) and Share certificates (where applicable) from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 14 June 2007 or any other place and date notified by the Company in the newspapers as the place and date of collection of Share certificates/refund cheques. Individual applicants who opt for personal collection cannot authorise any other person to make their collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorised representatives, each bearing a letter of authorisation from such corporation stamped with the corporation's chop. Both individuals and authorised representatives (if applicable)

must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited. Uncollected Share certificates and refund cheques by 1:00 p.m. on Thursday, 14 June 2007 (or such other date notified by the Company) will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms promptly thereafter. Further information is set out in the section headed "Terms and conditions of the Public Offer — If your application for the Public Offer Shares is successful (in whole or in part)" in this prospectus.

Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may even invalidate your refund cheque.

Share certificates will only become valid certificates of title upon the Global Offering becoming unconditional in all respects and the right of termination described in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" in this prospectus has not been exercised, which is currently scheduled to be at 8:00 a.m. on Friday, 15 June 2007.

For details of the structure of the Global Offering, including its conditions, you should refer to the section headed "Structure of the Global Offering" in this prospectus.

CONTENTS

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. The Company has not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Selling Shareholders, the Global Coordinator, the Bookrunner, the Lead Manager, the Underwriters, the Sponsor, any of their respective directors, employees, agents or professional advisers or any other person or party involved in the Global Offering.

CONTENTS

This summary aims at giving you an overview of the information contained in this prospectus. Because this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors". You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

The Group is a leading integrated optical components and products manufacturer in terms of revenue and profitability in the PRC. The Group possesses strong design capabilities, manufacturing know-how and an efficient production process to offer a comprehensive range of optical and optical-related products through its ability to integrate optical, mechanical and electronic technologies. The Group also has the expertise to vertically integrate its principal businesses including its optical components, optoelectronic products and optical instruments businesses.

The Group is principally engaged in the design, research, development, manufacturing and sale of optical and optical-related products, which can be broadly classified into three categories, namely: (i) optical components, including glass/plastic lenses, plates, prisms and various lens sets; (ii) optoelectronic products, including mobile phone camera modules and other optoelectronic modules; and (iii) optical instruments, including microscopes, surveying instruments and other analytical instruments.

Taking into account its predecessor businesses, the Group has nearly 15 years of experience in the field of optical components design and manufacturing. The Group's management team is experienced and possesses in-depth knowledge of the optical industry. In particular, the founders of the Group, Mr Wang and Mr Ye, have over 20 years of experience in the optical industry. Capitalising on its strong expertise in integrating optical, mechanical and electronic technologies, the Group is capable of offering a wide range of optical and optical-related products ranging from optical components such as lenses and lens sets to optoelectronic products and specific optical instruments.

The Directors believe that the Group's capabilities in offering a comprehensive range of optical products, along with its expertise in design and manufacturing know-how, give it competitive edges over other manufacturers in an industry where competition is intensive in terms of capital, production skills, technology and labour. The Directors also believe that the Group is one of the few companies in the PRC capable of effectively integrating optical, mechanical and electronic technologies with a large scale of production.

The revenues of the Group by product category during the Track Record Period were as follows:

	Year ended 31 December					
Product category	**2004**		**2005**		**2006**	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Optical components	198.0	64.3	210.7	35.8	309.3	34.3
Optoelectronic products	39.5	12.8	278.7	47.4	468.0	52.0
Optical instruments	70.4	22.9	98.9	16.8	123.4	13.7
Total	307.9	100.0	588.3	100.0	900.7	100.0

The Group offers its optical components mainly to suppliers and manufacturers of consumer electronic appliances, including certain leading brand names such as Panasonic, Samsung, Konica Minolta, Lenovo and Olympus. With the increasing popularity of camera features in mobile phones in the PRC, optoelectronic products produced by the Group are mainly sold to the PRC customers, including Lenovo. The optical instruments of the Group are sold to end-customers, including internationally recognised corporations (such as Carl Zeiss), certain educational and medical institutes, and traders for distribution of such products.

The Group sells its products to nearly 40 countries and regions. The Group's non-PRC customers of optical components are mainly located in Japan, Korea, Taiwan, Hong Kong and Singapore; the non-PRC customers of optoelectronic products are mainly located in Hong Kong and Taiwan; and the non-PRC customers of optical instruments are located throughout the world in countries and regions such as the United Kingdom, Germany, Italy, the Netherlands, Japan, Korea and Singapore. The Group has established a subsidiary and a representative office outside the PRC in two of the major optical-related product markets, namely, Japan and Korea, respectively. The Directors believe the strategic locations of its overseas subsidiary and representative office strongly facilitate the establishment and maintenance of close and long term relationships with the Group's customers in those regions.

The Group has successfully obtained certifications from leading internationally recognised customers, including Olympus and Samsung, for its optical components. In addition, Sunny Optics was accredited by Tianjin Samsung Opto-electronics Co., Ltd. as its outstanding cooperating supplier in 2005 and 2006 and Sunny Opotech was accredited by Lenovo Mobile Communication Technology Ltd. as an excellent supplier in 2006. The Directors believe that these certifications and awards obtained by the Group can demonstrate that, among others, the design and production efficiency, product quality and other related services of the Group are of high standards.

As of the Latest Practicable Date, the Group's products were manufactured in two production bases at Yuyao, Zhejiang, PRC and Zhongshan, Guangdong, PRC, respectively. The total operating site area owned and leased by the Group is approximately 105,261 square meters, of which approximately 87,512 square metres are owned by the Group. Yuyao, Zhejiang and

Zhongshan, Guangdong are situated in the Yangtze River Delta and Pearl River Delta regions, respectively, which are the traditional bases with a concentration of customers and optical industry talents. These strategic locations also facilitate the transportation of goods to overseas customers.

Given the increasing popularity in applying or including optical features in electronic products, the Directors believe that the global demand for optical-related components and products will continue to grow. Therefore, the Group plans to further expand its production capacity to take advantage of future opportunities.

COMPETITIVE STRENGTHS

The Directors believe that the Group has the following major strengths to compete in the optical industry:

- Expertise in the design and manufacturing of optical components
- Vertically integrated design and manufacturing approach
- Comprehensive range of optical components
- Reputable global customer base
- Strong research and development capability with advanced manufacturing facilities
- Committed management team with extensive industry experience

BUSINESS STRATEGIES

To maximise shareholder value, the Group's principal business strategies are:

- To enhance its global base of internationally recognised customers
- To leverage the Group's existing capabilities to expand product sales
- To enhance its research and development capability to develop more advanced products and improve product quality
- To strengthen and streamline processes to optimise production and operation efficiency
- To reinforce and diversify its supplier network
- To recruit, train and retain skilled engineers and experienced staff

SUMMARY OF FINANCIAL INFORMATION

The following table summarises the Group's consolidated audited financial information for the three years ended 31 December 2006. This summary of financial information was extracted from the accountants' report in Appendix I to this prospectus and you should read the entire audited financial statements including the notes thereto, included in Appendix I to this prospectus, for more details.

Consolidated Income Statements

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	307,929	588,298	900,698
Cost of sales	(194,889)	(407,891)	(652,917)
Gross profit	113,040	180,407	247,781
Other income	3,672	4,306	4,965
Selling and distribution expenses	(5,622)	(9,420)	(19,087)
Research and development expenditure	(5,426)	(10,680)	(12,310)
Administrative expenses	(17,222)	(36,731)	(55,723)
Discount on acquisition of additional interest in subsidiaries	—	—	3,408
Loss on disposal of a subsidiary	—	—	(136)
Impairment loss on goodwill	(7)	—	—
Finance costs	(108)	(4,683)	(2,913)
Share of result of an associate	(169)	(32)	—
Loss on dissolution of an associate	—	(2)	—
Profit before taxation	88,158	123,165	165,985
Income tax charge	(30,329)	(14,589)	—
Profit for the year	57,829	108,576	165,985
Attributable to:			
Equity holders of the Company *(Note 1)*	44,125	82,368	117,158
Minority interests	13,704	26,208	48,827
	57,829	108,576	165,985
Dividends	70,788	13,277	103,215
Earnings per Share — Basic *(Note 2)*	RMB0.08	RMB0.15	RMB0.20

Notes:

1. If the Reorganisation had been completed on 1 January 2006, and the current Group structure had been in existence throughout the year ended 31 December 2006, the profit for the year ended 31 December 2006 attributable to the equity holders of the Company would have been approximately RMB166.0 million as described in note 2 to the accountants' report in Appendix I to this prospectus.

2. The calculation of the basic earnings per Share for the Track Record Period is based on the profit attributable to equity holders of the Company for the Track Record Period and by reference to the weighted average number of 575,372,000, 565,980,000 and 574,869,000 Shares for the year ended 31 December 2004, 2005 and 2006 which has been adjusted to reflect 800,000,000 Shares in issue, comprising 1,000,000 Shares in issue before the Capitalisation Issue and 799,000,000 Shares issued pursuant to the Capitalisation Issue as more fully described in the section headed "Further information about the Company — Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to this prospectus.

USE OF PROCEEDS

The aggregate net proceeds to the Company from the Global Offering (after deduction of underwriting fees for the New Shares and the estimated expenses payable by the Company in connection with the Global Offering, and assuming an Offer Price of HK$3.41 per Share, being the mid-point of the indicative range of the Offer Price of HK$3.00 to HK$3.82 per Share) will be approximately HK$632.0 million (approximately RMB632.0 million). The Company plans to use the net proceeds to the Company from the Global Offering in the following manner:

- as part of its overall business strategy, the Group intends to invest approximately RMB275.0 million (approximately HK$275.0 million) for the expansion of production capability and capacity as follows:

  (i) approximately RMB144.0 million (approximately HK$144.0 million) for enhancing the production capacity of the existing production lines for manufacturing lenses, prisms, lens sets, camera modules and optical instruments. The annual production capacity of (a) various types of lenses is expected to be increased by approximately 117% by the end of 2008 (as compared to that of 31 December 2006); (b) lens sets is expected to be increased by approximately 348% by the end of 2008 (as compared to that of 31 December 2006); (c) camera modules is expected to be increased by approximately 83% by the end of 2007 (as compared to that of 31 December 2006) and another 108% by the end of 2008 (as compared to that of 31 December 2007); and (d) optical instruments is expected to be increased by approximately 58% at the end of 2008 (as compared to that of 31 December 2006);

  (ii) approximately RMB50.0 million (approximately HK$50.0 million) for setting up new production lines for manufacturing aspheric moulding glass lenses, with machinery such as spherical polishing machines, precision scale testing machines, three dimension figure checking machines, aspheric polishing equipment, precision moulds, precision coating machines and releasing film moulding machines. The estimated production capacity of the new production lines is expected to reach 500,000 pieces per month after their completion;

  (iii) approximately RMB38.0 million (approximately HK$38.0 million) for setting up a new production line for manufacturing camera modules with COB technology, clean room and production facilities. The estimated production capacity of this new production line is expected to reach 2,000,000 units per month after its completion;

  (iv) approximately RMB25.0 million (approximately HK$25.0 million) for setting up a new analytical instrument base, which will focus on the development and production of analytical instruments (being a kind of optical instruments) of the Group; and

  (v) approximately RMB18.0 million (approximately HK$18.0 million) for refurbishing laboratories, manufacturing floors and for purchasing miscellaneous machinery and office equipment;

- approximately RMB123.0 million (approximately HK$123.0 million) for the enhancement of research and development activities and facilities as follows:

  (i) approximately RMB75.0 million (approximately HK$75.0 million) for research and development of technologies for optical components, including mould manufacturing, and coating, moulding and testing of glass aspheric lens techniques;

  (ii) approximately RMB25.0 million (approximately HK$25.0 million) for research and development of optical instruments, including digital microscopes, spectrophotometers, environmental analytical instruments and analytical instruments for life science;

  (iii) approximately RMB7.0 million (approximately HK$7.0 million) for developing the application of COB technology;

  (iv) approximately RMB5.0 million (approximately HK$5.0 million) for research and development of new products, including vehicle remote supervision systems; and

  (v) the remaining amount for other research and development projects;

- approximately RMB28.0 million (approximately HK$28.0 million) for the acquisition of land and the buildings erected thereon, which are currently leased by Sunny Group for the manufacture and development and research of optical instruments;

- approximately RMB25.0 million (approximately HK$25.0 million) for the enhancement of information systems;

- approximately RMB130.0 million (approximately HK$130.0 million) for the repayment of short term bank loans for working capital *(Note)*, which includes (i) two bank loans from Agricultural Bank of China, Yuyao Branch in an aggregate amount of RMB110.0 million (approximately HK$110.0 million) at the interest rate of 5.1% per annum and which shall mature in October 2007; and (ii) another bank loan from Shanghai Pudong Development Bank, Ningbo Branch in an amount of RMB20.0 million (approximately HK$20.0 million) at the interest rate of 0.42525% per month and which shall mature in October 2007; and

- the remaining amount to provide funding for working capital and other general corporate purposes.

Note: As of 31 December 2006, the dividends payable of the Group amounted to approximately RMB236.0 million (approximately HK$236.0 million) while the Group had nil bank borrowings and its cash and cash equivalents amounted to approximately RMB160.0 million (approximately HK$160.0 million). As the Group utilised the internal cash resources, including (i) cash and cash equivalents as of 31 December 2006, (ii) cash receipts from trade and other receivables of approximately RMB202.0 million (HK$202.0 million) as of 31 December 2006; and (iii) cash generated from operations in the first quarter of 2007 for settlement of the dividends payable, the Group replenished its short term working capital by new bank borrowings in April 2007.

If the Offer Price is determined at the highest point of the stated range, the proceeds to the Company would be increased by approximately RMB82.0 million (approximately HK$82.0 million). In such event, the Company has the present intention to apply the additional funding of (i) RMB50.0 million (approximately HK$50.0 million) for the enhancement of research and development activities and facilities and (ii) the remaining amount to provide funding for working capital and other general corporate purpose. If the Offer Price is determined at the lowest point of the stated range, the proceeds to the Company would be decreased by approximately RMB82.0 million (approximately HK$82.0 million). In such event, the Company will finance such shortfall by internal cash resources and/or additional bank borrowings, as and when appropriate.

To the extent that any part of the net proceeds to the Company from the Global Offering are not immediately used for the above purposes, the Directors may allocate such proceeds to short-term interest-bearing deposits and/or money-market instruments with authorised financial institutions and/or licensed banks in Hong Kong and/or China.

GLOBAL OFFERING STATISTICS

	Based on an Offer Price of HK$3.00	**Based on an Offer Price of HK$3.82**
Market capitalisation of the Shares[1]	HK$3,000 million	HK$3,820 million
Unaudited pro forma adjusted net tangible asset value per Share[2]	HK$0.908	HK$1.066

Notes:

(1) The calculation of market capitalisation is based on 1,000,000,000 Shares expected to be in issue following completion of the Global Offering.

(2) The unaudited pro forma adjusted net tangible asset value per Share is calculated after making the adjustments referred to in the section headed "Unaudited pro forma financial information" in Appendix II to this prospectus and on the basis of a total of 1,000,000,000 Shares expected to be in issue following completion of the Global Offering.

DIVIDENDS AND DIVIDEND POLICY

Dividends

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to its Shareholders, but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provide that dividends may be declared and paid out of the Company's profit, realised or unrealised, or from any reserve set aside from profits which the Board determines is no longer needed.

With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to a Shareholder on or in respect of any Shares all sums of money (if any) presently payable by such Shareholder to the Company on account of calls or otherwise.

For each of the years during the Track Record Period, the subsidiaries of the Group have declared dividends, excluding minority shareholders, of approximately RMB70.8 million, RMB13.3 million and RMB103.2 million, respectively, to their then shareholders.

Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by the Company following Listing.

Dividend Policy

The Directors currently intend to recommend a distribution to all the Shareholders in an amount representing approximately 20% to 30% of the distributable net profit attributable to the equity holders of the Company in respect of the six month period commencing from 1 July 2007 and in respect of each financial year thereafter by way of dividends. For the avoidance of doubt, the Directors do not have any present intention to recommend any interim dividend to the Shareholders for the six-month period ending 30 June 2007.

The recommendation for dividends is subject to the discretion of the Board, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- the Company’s cash position and available distributable reserves;
- the Group’s general business condition;
- the Group’s financial results;
- the Group’s capital requirements;
- interests of the Shareholders;
- applicable laws and regulations and Articles; and
- any other factors which the Board may deem relevant.

Any dividend declared will be in Hong Kong dollars with respect to Shares on a per share basis and the Company will pay such dividend in Hong Kong dollars. Any final dividend for a fiscal year will be subject to approval by the Shareholders.

The Directors consider that the Company’s dividend policy mentioned above will not adversely affect the working capital position of the Company.

RISK FACTORS

The Group's operations and industry and the Global Offering involve certain risks, a summary of which is set forth in the section headed "Risk Factors" in this prospectus. These risks can be classified as follows:

Risks relating to the Group's business

- Demand for the Group's products depends on trends and developments in the markets for end products containing the Group's products
- The Group's customers may cancel their orders, change production quantities or delay production
- Any failure by the Group to further refine its technology and develop and introduce new products or improved processes could render its products or production methods uncompetitive or obsolete and reduce the Group's sales and market share
- Disputes over intellectual property rights could be costly and could deprive the Group of technologies it needs to remain competitive
- The Group derives a substantial portion of its revenue from a small number of customers
- The Group may not be able to sustain its revenue and profitability
- The Group's business relies on the Hong Kong and China markets
- Change in sales mix in response to market development may result in declining average selling prices, which may adversely affect the Group's revenue
- The Group's increasing sales of optoelectronic products may result in a decrease in the overall gross profit margin
- Variations in the gross profit margins of the Group's products may result in volatility of the Group's profitability ratio
- The Group relies on a limited number of suppliers and agents for key components and raw materials and is susceptible to supply shortages
- The value of components or raw materials kept in stock may decrease, which could adversely affect the Group's business, liquidity and profitability
- The Group may not be able to pass onto its customers all increases in raw material or component costs, which would eventually reduce its profit margin ratio

- The Group's success depends significantly on key management and its ability to retain and attract additional management and technical staff

- The Group's facilities and production are susceptible to interruption, damage or loss caused by natural disasters, power shortages or other events beyond the Group's control, and the Group's insurance may not be sufficient to cover such interruption, damage or loss

- Compliance with environmental regulations adopted by the relevant authorities or requirements imposed by customers can be expensive, and non-compliance with these regulations or requirements may adversely affect the Group's business, reputation and financial condition

- Any failure to maintain effective quality control systems at the Group's facilities could have a material adverse effect on its business and operations

- If the Group fails to maintain effective internal controls, then its business, financial results and reputation could be materially and adversely affected

- A number of the Company's subsidiaries enjoy a lower effective enterprise income tax rate which will expire or change in the future

- The Group may not be able to collect its trade receivables in whole or in part

- The Group may be subject to potential product liability

- If the Group is unable to implement its plan to expand production capability and capacity, its growth prospects may be limited and its profitability may be adversely affected

- Some parts of the Group's business can be seasonal in nature, and such seasonality could adversely affect its business and operating results

- If the Group is unable to maintain steady operating cash flows, its operations and profitability may be adversely affected

- The Group may not be able to implement its business strategies on schedule or within budget or at all

- The Group faces risks associated with the marketing, distribution and sale of its products internationally, and if it is unable to effectively manage these risks, its ability to expand its business abroad could become impaired

- One of the existing Shareholders has substantial influence over the Group and his interest may not be aligned with the interest of other Shareholders

- As a holding company, the Company's liquidity and its ability to make shareholder distributions and other payments depend to a significant extent upon the distribution of earnings and other payments made by its PRC operating subsidiaries

Risks relating to the industry

- Life cycles of optical products' application and image devices are short due to rapid changes of technology

- The markets for the Group's products are highly competitive

Risks relating to the PRC

- PRC economic, political and social conditions and the PRC Government policies can affect the Group's business

- Changes in foreign exchange regulations may adversely affect the Company's ability to pay dividends to its Shareholders in foreign currencies

- The PRC Government's control of currency and future movements in exchange rates may affect the Group's business and financial conditions

- Interpretation of PRC laws and regulations involves uncertainty

- It may be difficult to effect service of process on or enforce judgments obtained from non-PRC courts against the Group, the Directors or the executive officers who live inside the PRC

- The PRC economy and the Group's prospects may be adversely affected by a recurrence of SARS or an outbreak of other epidemics

- The Group's operating cost may increase due to the provision of staff benefits as required by the PRC Government

- PRC regulations of investment and loans by offshore holding companies to PRC entities may delay or prevent the Company from using the proceeds of the Global Offering to make additional capital contributions or loans to its PRC operating subsidiaries

Risks relating to the Global Offering

- There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile

- Forward-looking statements may not be accurate

- Future issues, offers or sales of Shares may adversely affect the prevailing market price of the Shares

- Dividends declared in the past may not be indicative of the dividend policy in the future

- Certain facts and statistics from official sources contained in this prospectus have come from various government official publications whose reliability cannot be assumed or assured

In this prospectus, unless the context otherwise requires, the following terms shall have the meanings set out below.

"ABC"	Agricultural Bank of China, Hong Kong Branch
"ABC's Loan"	a 3-year loan in the sum of HK$167.7 million advanced by ABC to Sun Xu and Sun Zhong
"Application Form(s)"	**WHITE** application form(s) and **YELLOW** application form(s), or where the context so requires, any of them
"Articles of Association" or "Articles"	the articles of association of the Company, adopted on 25 May 2007, and as amended from time to time
"Associates"	has the meaning ascribed thereto under the Listing Rules
"Baoma"	餘姚市寶馬印刷器材有限公司 (Yuyao City Baoma Printing Equipment Limited*), a company established under the laws of the PRC with limited liability on 12 March 1999, the 3 individual shareholders of which own approximately 7.19% of equity interest in aggregate in Sun Zhong through the PRC Investor Trust and are not Sunny Staff Shareholders. The business scope of Baoma includes manufacturing and processing of printing equipment and machinery, pre-sensitised plates, plastic knife strips and steel wire knives and ancillary products for electronics for vehicles and exporting self-manufacturing products
"Board"	the board of Directors
"BNP Paribas Capital", "Global Coordinator", "Sponsor", "Bookrunner" or "Lead Manager"	BNP Paribas Capital (Asia Pacific) Limited, acting as the global coordinator, sponsor, bookrunner and lead manager of the Global Offering, a corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
"Business"	any activity consisting of or relating to the research and development, manufacturing and sale of optical-related products as described in this prospectus (whether as principal or agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) that the Group from time to time engages
"BVI"	the British Virgin Islands

"Capitalisation Issue"	the issue of Shares made upon capitalisation of certain sums standing to the credit of the special reserve account of the Company as referred to in the section headed "Further information about the Company — Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to this prospectus
"Cayman Court"	the Grand Court of the Cayman Islands
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant
"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation
"CCASS Participant"	a CCASS Broker Participant, a CCASS Custodian Participant or a CCASS Investor Participant, or any of them as the context so requires
"Chengwei Funds"	collectively (i) Chengwei Ventures Evergreen Fund, L.P. (a limited liability partnership established in the Cayman Islands on 8 July 2004); (ii) Chengwei Ventures Evergreen Advisors Fund, LLC (a limited liability company incorporated in the Cayman Islands on 10 August 2004); and (iii) Chengwei Partners, L.P. (a limited liability partnership established in the Cayman Islands on 6 January 2005) Chengwei Funds are investment funds that make investments in primarily China-based companies and are managed by Chengwei Ventures Evergreen Management, LLC, a limited liability company incorporated in the Cayman Islands on 2 July 2004 which is comprised of the individual partners and members who manage Chengwei Funds. The investors of Chengwei Funds are principally institutional investors including university endowments
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
"Companies Ordinance"	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time

"Company"	Sunny Optical Technology (Group) Company Limited (舜宇光學科技（集團）有限公司), an exempted company incorporated in the Cayman Islands with limited liability on 21 September 2006
"Controlling Shareholders"	has the meaning ascribed thereto under the Listing Rules, being Sun Xu, Sun Ji and Mr Wang, the ultimate Controlling Shareholder of the Company
"Cornerstone Investor" or "Well Phase"	Well Phase Holdings Limited, a company incorporated in the BVI and directly wholly and beneficially owned by Mr Lau Luen-hung, Thomas, who is the managing director of Lifestyle International Holdings Limited, a company listed on the Main Board of the Stock Exchange
"Cornerstone Placing"	the conditional placing of the Cornerstone Shares by the Company and the Selling Shareholders with the Cornerstone Investor on the terms and conditions described in this prospectus and other documents prepared for the Cornerstone Placing
"Cornerstone Placing Agreement"	the placing agreement dated 23 May 2007 entered into between the Company, the Selling Shareholders and the Global Coordinator with the Cornerstone Investor in respect of the Cornerstone Placing, as supplemented by the supplemental agreement dated 29 May 2007 entered into between the Company, the Selling Shareholders, the Global Coordinator, the Cornerstone Investor and Mr Lau Luen-hung, Thomas (being its sole legal and beneficial owner)
"Cornerstone Relevant Shares"	Cornerstone Shares and any shares or other securities of the Company which are derived therefrom pursuant to any rights issue, capitalisation issue or other form of capital reorganisation
"Cornerstone Shares"	a maximum amount of 26,000,000 Shares (assuming the Offer Price is determined at HK$3.00 per Offer Share) to be sold under the Cornerstone Placing at an aggregate consideration of US$10.0 million (exclusive of brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%)
"Cornerstone Subsidiary"	a subsidiary owned, directly or indirectly, by the Cornerstone Investor
"Covenantors"	Mr Wang, Sun Xu, Sun Guang and Sun Ji, the covenantors to the deed of non-competition in favour of the Company dated 25 May 2007

"CRM"	customer relationship management
"CWI"	CWI Optical Holdings, Inc., an investment holding company incorporated in the BVI with limited liability on 6 July 2006, a Shareholder holding approximately 4.17% equity interest in the Company immediately following completion of the Global Offering. As of the Latest Practicable Date, CWI was beneficially owned as to 40.44% by Chengwei Funds (or 1.29% by Chengwei Partners, L.P., 35.62% by Chengwei Ventures Evergreen Fund, L.P. and 3.52% by Chengwei Ventures Evergreen Advisors Fund, LLC), 40.44% by Investor AB Funds (or 28.31% by Investor Investments Asia Limited and 12.13% by Investor Group Asia, L.P.) and 19.12% by Independent Investors (or 2.55% by SF Capital Ltd., 13.51% by Wealthpro Investments Ltd. and 3.06% Beolym Corporation)
"Director(s)"	the directors of the Company
"Distribution"	the distribution made by Staff Shareholding Committee to its members (i.e. the then Sunny Staff Shareholders) so that such members would hold their respective equity interests in Sunny Group in their own capacity pursuant to the resolutions of Staff Shareholding Committee in December 2000
"Entrustment Arrangements"	the entrustment arrangements on the equity interest in Sunny Group, whereby the entire equity interest in Sunny Group is held by the Sunny Nominees in favour of themselves and/or other then Sunny Staff Shareholders, further particulars of which are shown in the section headed "History, Reorganisation and Group structure — History and development — Shareholding history of the Group — Entrustment Arrangements" in this prospectus
"EIT"	state enterprise income tax
"ERP"	enterprise resources planning
"Facilities Properties"	certain properties leased by the Group for general commercial and ancillary uses from Sunny Group, details of which are set out in the section headed "Connected transactions — Discloseable continuing connected transactions" in this prospectus

"Facilities Tenancy Agreements"	the property tenancy agreements entered into between member(s) of the Group with Sunny Group on 1 January 2007, details of which are set out in the section headed "Connected transactions — Discloseable continuing connected transactions" in this prospectus
"FEIT"	the Income Tax Law of the PRC on Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法)
"FIE(s)"	foreign investment enterprise(s)
"First Lock-up Period"	the first lock-up period commencing from the date of this prospectus and ending on the date which is six months from the Listing Date
"Global Offering"	the Public Offer and the Placing
"Group"	the Company and its subsidiaries, or where the context refers to any time prior to the Company becoming the holding company of its present subsidiaries, Sunny Group and/or the present subsidiaries of the Company or some or any of them
"HK$" or "HK dollars"	Hong Kong dollars, the lawful currency of Hong Kong
"HKFRS"	Hong Kong Financial Reporting Standards
"HKSCC"	Hong Kong Securities Clearing Company Limited
"HKSCC Nominees"	HKSCC Nominees Limited
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"IDC"	International Data Corporation, an international corporation which provides market intelligence, advisory services, and events for the information technology, telecommunications, and consumer technology markets, and is an Independent Third Party
"Import & Export Company"	寧波舜宇進出口有限公司 (Ningbo Shun Yu Import & Export Company Limited*), a company established under the laws of the PRC with limited liability on 23 April 2002. Prior to its dissolution in December 2005, Import & Export Company was beneficially owned as to 80% by Sunny Group and 20% by Ningbo Instruments
"Indemnifiers"	Mr Wang, Sun Xu, Sun Guang and Sun Ji, being the indemnifiers, who have provided indemnities in favour of the Group under a deed of indemnity entered into between the Indemnifiers and the Company on 25 May 2007, a summary of which is set out in the section headed "Other information — Indemnities" in Appendix V to this prospectus

"Independent Third Parties"	persons or companies which are independent of and not connected with (within the meaning of the Listing Rules) any of the directors, chief executives and substantial shareholders of the Company or any of its subsidiaries and their respective Associates, and "Independent Third Party" means any of them
"Independent Investors"	those individuals or entities having equity interest in any of CWI or Summit or their respective holding companies, who, save and except for their interest in the Company through such companies, are independent of and not connected with any directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective Associates. The Independent Investors of CWI are SF Capital Ltd., Wealthpro Investments Ltd. and Beolym Corporation which hold 2.55%, 13.51% and 3.06% equity interest in CWI, respectively. The Independent Investors of Summit are Ms Selina Mak and Mr Lap Hang Yung, who hold 0.23% and 0.58% equity interest in Summit, respectively
"Initial Owners"	employees of Sunny Group who established Sunny Group together with Yuyao Optoelectronic in June 1993, being 118 persons in June 1993
"Investor AB Funds"	collectively, Investor Group Asia, L.P. (a limited liability partnership established in the Island of Guernsey on 15 April 2004) and Investor Investments Asia Limited (a limited company incorporated in the Island of Guernsey on 5 May 2000). Investor AB Funds are investment funds that make investments in primarily Asia-based companies. The principal investor of Investor AB Funds is Investor AB (a company incorporated in Sweden whose shares are primarily listed and traded on the OMX Nordic Exchange)
"ISO"	the International Organisation for Standardisation, a worldwide federation of national standards bodies
"ISO 13485"	a standard used for certification or registration of medical equipment quality control, which specifies the requirements for the medical equipment quality management system. It applies to the design, research and development, production, installation and services of the medical equipment, and also applies to the areas such as design, research and development, and provision of related services

"ISO 14001"	a standard used for certification or registration and contractual purposes by organisations seeking recognition of their environmental management, which specifies the actual requirements for an environmental management system. It applies to those environmental aspects which the organisation has control and over which it can be expected to have an influence
"ISO 9001"	a standard used for certification or registration and contractual purposes by organisations seeking recognition of their quality management, which specifies the requirement for quality management systems for any organisation that needs to demonstrate its ability to consistently provide products that meet the requisite standards
"JPY"	Japanese Yen, the lawful currency of Japan
"Jinrui"	餘姚市金瑞資產經營公司(Yuyao City Jinrui Assets Operation Company*), a company established under the laws of the PRC on 16 January 1999 and an Independent Third Party
"KRW"	Republic of Korea Won, the legal currency of the Republic of Korea
"Latest Practicable Date"	29 May 2007, being the latest practicable date for the inclusion of information in this prospectus prior to the printing in this prospectus
"LEIT"	local enterprise income tax
"Listing"	listing of the Shares on the Main Board of the Stock Exchange
"Listing Date"	the date, currently expected to be on Friday, 15 June 2007, on which dealings of the Shares on the Main Board of the Stock Exchange first commence
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange as amended from time to time
"Memorandum" or "Memorandum of Association"	the memorandum of association of the Company, adopted on 21 September 2006 and as amended from time to time
"Mingpeijiao"	名配角 (Mingpeijiao), a strategy adopted by the Company to become a key supplier to leading internationally recognised customers

"Mr Wang"	Mr WANG Wenjian (王文鑒先生), the chairman of the Company and an executive Director
"Mr Wu"	Mr WU Jinxian (吳進賢先生), an executive Director
"Mr Ye"	Mr YE Liaoning (葉遼寧先生), an executive Director and chief executive officer of the Company
"MTI"	Microcircuit Technology Inc., being (a) a private company incorporated in the Republic of Korea on 3 March 2000 engaging in the manufacturing of flexible printed circuit boards, and (b) a co-investment between Investor AB and another venture capital firm, Softbank Asia Infrastructure Fund Capital Limited. Without playing any executive role, Mr Li Tyson Sandy Ying Lun, one of the non-executive Directors, was one of the directors from October 2004 to 30 April 2007
"Nanjing Instruments"	南京舜宇光學儀器有限公司 (Nanjing Sunny Optical Instruments Co., Ltd.*), a company established under the laws of the PRC with limited liability on 8 August 2005, a wholly owned subsidiary of Ningbo Instruments
"New Shares"	a total of 200,000,000 new Shares being offered by the Company under the Global Offering
"Ningbo Instruments"	寧波舜宇儀器有限公司 (Ningbo Sunny Instruments Co., Ltd.), a company established under the laws of the PRC with limited liability on 31 December 2001, which was converted into a sino-foreign joint venture enterprise on 23 May 2005, and then transformed into a jointly foreign owned enterprise on 28 July 2006, an indirect wholly-owned subsidiary of the Company
"Ningbo SST"	寧波舜宇科技有限公司 (Ningbo Sunny Science & Technology Limited*), a sino-foreign joint venture enterprise established under the laws of the PRC on 23 November 2001 which was owned as to 52% by Sunny Group prior to the disposal by Sunny Group of such interest to the senior management of Ningno SST pursuant to a share transfer agreement dated 30 January 2007
"Offer Price"	the final price per Offer Share in Hong Kong dollars (exclusive of brokerage, SFC transaction levy and the Stock Exchange trading fee) at which the Offer Shares are to be subscribed for and issued, or purchased and sold, pursuant to the Global Offering, to be determined as further described in the section headed "Structure of the Global Offering — Price determination of the Global Offering" in this prospectus

"Offer Shares"	the Public Offer Shares and the Placing Shares together, where relevant, with any additional Sale Shares to be sold pursuant to the exercise of the Over-allotment Option
"Over-allotment Option"	the option to be granted by the Over-allotment Option Grantors to the Global Coordinator on behalf of the Placing Underwriters exercisable by the Global Coordinator pursuant to the Placing Underwriting Agreement, which will be exercisable at any time from the Price Determination Date until 30 days after the last date for the lodging of applications under the Public Offer, to require one or more of the Over-allotment Option Grantors in the order of Summit, Sun Xu and Sun Zhong, to sell up to an aggregate of 40,500,000 additional Offer Shares representing 15% of the initial Offer Shares, at the Offer Price to solely cover over-allocations in the Placing, if any, and/or the obligations of the Global Coordinator to return Shares which it may borrow under the Securities Lending Agreement
"Over-allotment Option Grantors"	Sun Xu, Sun Zhong and Summit, being certain Selling Shareholders
"PBOC"	中國人民銀行 (The People's Bank of China), the central bank of the PRC
"PIDA"	Photonics Industry & Technology Development Association, a regional organisation of the photonics trade in Taiwan composed of industry, government, universities and research and development institutions which serves as the assistant and consultant to enterprises and the government departments for advancing the worldwide competitiveness of Taiwan's optoelectronics industry
"Placing"	the conditional placing of the Placing Shares (including, if the context so requires, the Shares which may be sold under the Over-allotment Option) by the Placing Underwriters on behalf of the Company and the Selling Shareholders with professional, institutional and/or other investors at the Offer Price and on the terms and conditions described in this prospectus and other documents prepared for the Placing
"Placing Shares"	initially the 243,000,000 Shares (comprising 173,000,000 New Shares and 70,000,000 Sale Shares) offered pursuant to the Placing (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus and the Over-allotment Option)

"Placing Underwriters"	the underwriters of the Placing as listed in the section headed "Underwriting — Placing Underwriters" in this prospectus
"Placing Underwriting Agreement"	the conditional underwriting agreement expected to be entered into on or about the Price Determination Date between the Company, the Controlling Shareholders, the Selling Shareholders, the executive Directors, the Global Coordinator and the Placing Underwriters in respect of the Placing
"PRC" or "China"	the People's Republic of China. Except where the context requires, geographical references in this prospectus to the PRC or China exclude Hong Kong, Macau Special Administrative Region of the PRC or Taiwan region
"PRC Company Law"	《中華人民共和國公司法》(the Company Law of the PRC) enacted at the Fifth Session by the Standing Committee of the Eighth National People's Congress on 29 December 1993 and effective from 1 July 1994, as amended, supplemented or otherwise modified from time to time
"PRC Government" or "State"	the central government of the PRC including all government subdivisions (including provincial, municipal and other regional or local government entities) and instrumentalities thereof or, where the context requires, any of them
"PRC Investors"	the individual shareholders of Zhicheng, namely 孫揚遠 (Sun Yangyuan), 張永杰 (Zhang Yongjie), 程宏 (Cheng Hong), 陳順新 (Chen Shunxin), 黃義璋 (Huang Yizhang), 林金波 (Lin Jinbo) and 王勤 (Wang Qin), who are Sunny Staff Shareholders, and 沈亦兵 (Shen Yibing), who is not a Sunny Staff Shareholder; the individual shareholder of Sanyuan, who is not a Sunny Staff Shareholder, namely 魯先明 (Lu Xianming); and the individual shareholders of Baoma, who are not Sunny Staff Shareholders, namely 沈元杰 (Shen Yuanjie), 魏淅芬 (Wei Zhefen) and 周利華 (Zhou Lihua)
"PRC Investor Trust"	a trust arrangement established under the laws of Hong Kong by a trust deed dated 28 July 2006 entered into between Mr Wang as trustee and the PRC Investors as settlors and initial beneficiaries
"Price Determination Date"	the date, currently expected to be on or around Saturday, 9 June 2007 but no later than Monday, 11 June 2007, on which the Offer Price is fixed for the purpose of the Global Offering

"Property Sale and Purchase Agreement"	a sale and purchase agreement entered into between Ningbo Instruments as purchaser and Sunny Group as vendor on 12 February 2007 in respect of the sale and purchase of property for manufacturing purposes in Yuyao City, the PRC
"Public Offer"	the offering by the Company of the Public Offer Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) for cash at the Offer Price and on the terms and conditions described in this prospectus and the Application Forms
"Public Offer Shares"	the 27,000,000 New Shares being offered for subscription at the Offer Price in the Public Offer (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus)
"Public Offer Underwriters"	the underwriters of the Public Offer listed in the section headed "Underwriting — Public Offer Underwriters" in this prospectus
"Public Offer Underwriting Agreement"	the conditional underwriting agreement dated 1 June 2007 relating to the Public Offer and entered into between, amongst others, the Company, the Selling Shareholders, the executive Directors, the Global Coordinator and Public Offer Underwriters
"QIBs"	qualified institutional buyers within the meaning of Rule 144A
"Regulation S"	Regulation S under the U.S. Securities Act
"Relevant Securities"	any of the Shares or any securities of the Company convertible into or exercisable or exchangeable for, or that represent the right to receive such Shares or securities
"Reorganisation"	the reorganisation arrangements undergone by the Group in preparation for the Listing which is more particularly described in the sections headed "History, Reorganisation and Group structure" and "Further information about the Company — Reorganisation" in Appendix V, respectively, to this prospectus
"Repurchase Mandate"	a general unconditional mandate granted to the Directors pursuant to a written resolution passed by all the Shareholders on 25 May 2007
"Restraint Area"	any country in which any member of the Group has carried and/or will carry on the Business from time to time

"RMB" or "Renminbi"	Renminbi, the lawful currency of the PRC
"RoHS Directive"	Restriction of Hazardous Substances Directive 2002/95/EC, a directive issued by the European Parliament and of the Council of the European Union, which restricts the use of six hazardous materials in the manufacture of various types of electronic and electrical equipment
"Rule 144A"	Rule 144A under the U.S. Securities Act
"SAFE"	State Administration of Foreign Exchange of the PRC
"Sale Shares"	a total of 70,000,000 Shares to be offered for purchase by the Selling Shareholders at the Offer Price under the Placing, excluding Shares which may be sold pursuant to the exercise of the Over-allotment Option
"Sanyuan"	餘姚市三園汽車電器廠 (Yuyao City Sanyuan Vehicles Electronics Factory*), an entity established under the laws of the PRC on 29 July 2002, the individual shareholder of which owns 10.60% of equity interest in Sun Zhong through the PRC Investor Trust and is not a Sunny Staff Shareholder. The business scope of Sanyuan includes manufacturing and processing of electronics for vehicles and electronic mechanical products
"Second Lock-up Period"	the second lock-up period of six months commencing on the date on which the First Lock-up Period expires
"Securities Lending Agreement"	the securities lending agreement entered into between Sun Xu and BNP Paribas Capital on 1 June 2007
"Selling Shareholders"	Sun Xu, Sun Zhong, Summit and CWI, the selling Shareholders whose particulars appear in the section headed "Other information — Particulars of the Selling Shareholders" in Appendix V to this prospectus
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"Shanghai Keyi"	上海科依光學工程有限公司 (Shanghai Keyi Optical Engineering Co., Ltd.*), a company established in the PRC with limited liability in November 2001 and was a subsidiary of Sunny Optics during April 2004 to August 2006
"Shareholder(s)"	holder(s) of the Share(s)

"Share Mortgage Deed"	a deed of share mortgage dated 31 October 2006 entered into between Sun Xu and Sun Zhong, collectively as mortgagors, and ABC, as mortgagee, whereby Sun Xu and Sun Zhong mortgaged, charged and assigned an aggregate of approximately 47.40% of the then issued share capital of the Company held by them to ABC as part of the securities for the due and punctual payment of the ABC's Loan
"Share Option Scheme"	the share option scheme conditionally approved and adopted by the Company on 25 May 2007, the principal terms of which are summarised in the section headed "Summary of the Share Option Scheme" in Appendix V to this prospectus
"Share(s)"	ordinary share(s) of the Company with a nominal value of HK$0.10 each
"SPV(s)"	special purpose vehicle(s)
"Staff Shareholding Committee"	餘姚市浙江舜宇集團員工持股會 (Yuyao City Zhejiang Sunny Group Staff Shareholding Committee*), a social entity established under the laws of the PRC with the approval by 餘姚市鄉鎮工業局(Village and Town Industrial Bureau of Yuyao City*) in January 1994 (previously known as 餘姚市第二光學儀器廠職工基金協會(Yuyao City Second Optical Instruments Factory Staff Fund Association*) prior to 9 December 1997), initially for the purpose of holding the equity interest in Yuyao Optoelectronic for the benefit of its staff. Such equity interest was transferred by Staff Shareholding Committee to Sunny Group in May 2000
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Substantial Shareholder(s)"	substantial shareholder(s) of the Company, which has the meaning ascribed thereto under the Listing Rules

"Summit"	Summit Optical Holdings, Inc., an investment holding company incorporated under the laws of BVI with limited liability on 31 January 2005, a Substantial Shareholder holding approximately 20.76% in the share capital of the Company immediately following completion of the Global Offering and taking no account of any Shares which may be sold pursuant to the exercise of the Over-allotment Option. As of the Latest Practicable Date, Summit was beneficially owned as to 73.79% by Chengwei Funds (or 2.36% by Chengwei Partners, L.P., 65.00% by Chengwei Ventures Evergreen Fund, L.P. and 6.43% by Chengwei Ventures Evergreen Advisors Fund, LLC), 25.40% by Investor AB Funds (or 17.77% by Investor Investments Asia Limited and 7.63% by Investor Group Asia, L.P.) and 0.81% by Independent Investors (or 0.23% by Ms Selina Mak and 0.58% by Mr Lap Hang Yung)
"Summit Investment (BVI)"	Summit Optics Investment Limited, a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Wonderful Ocean International Limited prior to 2 August 2006) and an indirect wholly-owned subsidiary of the Company
"Summit Investment (HK)"	Summit Optical Investment Limited, a company incorporated under the laws of Hong Kong with limited liability on 4 May 2006 (previously known as Fine Move Investments Limited (俊博投資有限公司) prior to 5 August 2006) and an indirect wholly-owned subsidiary of the Company
"Summit Technology (BVI)"	Summit Optics Technology Limited, a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Win Forever Holdings Limited prior to 2 August 2006) and an indirect wholly-owned subsidiary of the Company
"Summit Technology (HK)"	Summit Optical Technology Limited, a company incorporated under the laws of Hong Kong with limited liability on 4 May 2006 (previously known as Brand Name Investments Limited (頌港投資有限公司) prior to 5 August 2006) and an indirect wholly-owned subsidiary of the Company
"Sun Guang"	Sun Guang Limited (舜光有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Asia Interest Investments Limited prior to 3 August 2006), a shareholder holding approximately 7.68% equity interest in Sun Xu and an entity wholly-owned by Mr Wang, who is the sole director of Sun Guang

"Sun Ji"	Sun Ji Limited (舜基有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Able Sense Group Limited prior to 3 August 2006), a shareholder holding approximately 92.32% equity interest in Sun Xu and is beneficially owned by the 427 Sunny Staff Shareholders (including Mr Wang, Mr Ye and Mr Wu) through Mr Wang on their behalf under the Sunny Employee Trust
"Sun Li Instrument"	Sun Li Instrument Overseas Limited (舜利儀器海外有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Optimal View Investments Limited prior to 3 August 2006) and an indirect wholly-owned subsidiary of the Company
"Sun Xiang Optical"	Sun Xiang Optical Overseas Limited (舜享光學海外有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Optimal Level Investments Limited prior to 3 August 2006) and an indirect wholly-owned subsidiary of the Company
"Sun Xu"	Sun Xu Limited (舜旭有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as China Charm International Limited prior to 3 August 2006), a Controlling Shareholder holding an interest of approximately 42.23% in the share capital of the Company immediately following completion of the Global Offering and taking no account of any Shares which may be sold pursuant to the exercise of the Over-allotment Option. Sun Xu, whose sole director is Mr Wang, is beneficially owned as to 7.68% and 92.32% by Sun Guang and Sun Ji, respectively
"Sun Yu Optical"	Sun Yu Optical Technology Limited (舜宇光學科技有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Sun Yu Optical International Limited (舜宇光學國際有限公司) prior to 19 September 2006 and Positive Future International Limited prior to 3 August 2006) and a direct wholly-owned subsidiary of the Company

"Sun Zhong"	Sun Zhong Limited (舜眾有限公司), a company incorporated under the laws of BVI with limited liability on 6 July 2006 (previously known as Bold Impact Investments Limited prior to 3 August 2006), a shareholder holding an interest of approximately 5.84% in the share capital of the Company immediately following completion of the Global Offering and taking no account of any Shares which may be sold pursuant to the exercise of the Over-allotment Option. Sun Zhong, whose sole director is Mr Wang, is beneficially owned by the PRC Investors through Mr Wang on their behalf under the PRC Investor Trust
"Sunny Employee Trust"	a trust arrangement established under the laws of Hong Kong by a trust deed dated 28 July 2006, entered into between Mr Wang as trustee and Sunny Staff Shareholders as settlors and initial beneficiaries, who at the time of establishment, comprising 427 persons including 3 executive Directors, namely Mr Wang, Mr Ye and Mr Wu
"Sunny Group"	舜宇集團有限公司 (Sunny Group Limited*), a company established as a joint stock cooperative enterprise in the PRC on 9 June 1993 and converted into a limited liability company in April 2000. It was previously known as 浙江舜宇集團有限公司 (Zhejiang Sunny Group Limited*) between 29 May 2000 and 29 December 2002, as 浙江舜宇有限公司 (Zhejiang Sunny Limited*) between 18 April 2000 and 28 May 2000, and as 餘姚市眾利達光電公司 (Yuyao City Zhonglida Optoelectronic Company*) from its establishment to 17 April 2000. It ceased to own any interest in any member of the Group upon completion of the Reorganisation. As of the Latest Practicable Date, the entire equity interest of Sunny Group is held by Sunny Nominees in favour of Sunny Staff Shareholders under the Entrustment Arrangements and Mr Wang is one of its directors
"Sunny Infrared"	寧波舜宇紅外技術有限公司 (Ningbo Sunny Infrared Technologies Company Ltd.), a company established under the laws of the PRC with limited liability on 14 April 2006 and an indirect non wholly-owned subsidiary of the Company, which is owned as to 95% by Sunny Optics and as to the remaining 5% by 韓高榮 (Han Gaorong), an employee of the Group

"Sunny Instruments Overseas"	Sunny Instruments Overseas Limited (舜宇儀器海外有限公司), a company incorporated under the laws of Hong Kong with limited liability on 6 May 2006 (previously known as Extra Good International Limited (美貿國際有限公司) prior to 8 August 2006) and an indirect wholly-owned subsidiary of the Company
"Sunny Japan"	舜宇日本株式會社 (Sunny Japan Co., Ltd.), a company incorporated in Japan with limited liability on 21 August 2006 and an indirect wholly-owned subsidiary of the Company
"Sunny Nominees"	the registered holders of the equity interest in Sunny Group who hold such interest for the benefit of themselves and/or other relevant Sunny Staff Shareholders under the Entrustment Arrangements. There were 25 Sunny Nominees who remained as the registered holders of the equity interest in Sunny Group during the Track Record Period. 6 of them held the equity interest in Sunny Group for the benefit of themselves only and did not hold any interest for the benefit of other Sunny Staff Shareholders
"Sunny Opotech"	寧波舜宇光電信息有限公司 (Ningbo Sunny Opotech Co., Ltd.), a sino-foreign joint venture enterprise established under the laws of the PRC on 5 December 2005 and an indirect wholly-owned subsidiary of the Company
"Sunny Optical Overseas"	Sunny Optical Overseas Limited (舜宇光學海外有限公司), a company incorporated under the laws of Hong Kong with limited liability on 31 October 2005 (previously known as Sunny Opotech (HK) Limited (舜宇光電(香港)有限公司) prior to 8 August 2006) and an indirect wholly-owned subsidiary of the Company
"Sunny Optics"	浙江舜宇光學有限公司 (Zhejiang Sunny Optics Co., Ltd.), a joint stock limited liability company established under the laws of the PRC on 29 December 2001 (previously known as 浙江舜宇光學股份有限公司 (Zhejiang Sunny Optics Joint Stock Limited*) prior to 19 April 2005), which was first converted into a limited liability company on 19 April 2005, and was then converted into a sino-foreign joint venture enterprise on 23 May 2005, and was further converted into a jointly foreign owned enterprise on 28 July 2006, an indirect wholly-owned subsidiary of the Company
"Sunny Staff Shareholders"	employees or ex-employees of Sunny Group or its subsidiaries from time to time having beneficial interests in the registered capital of Sunny Group, and as of the Latest Practicable Date, comprising 427 persons including 3 executive Directors, namely Mr Wang, Mr Ye and Mr Wu

"Sunny Zhongshan"	舜宇光學(中山)有限公司 (Sunny Optics (Zhongshan) Co., Ltd.*), a sino-foreign joint venture enterprise established under the laws of the PRC on 24 March 2004 and an indirect wholly-owned subsidiary of the Company
"Track Record Period"	the Group's financial years ended 31 December 2004, 2005 and 2006
"Underwriters"	collectively, the Public Offer Underwriters and the Placing Underwriters
"Underwriting Agreements"	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
"United States" or "U.S."	the United States of America
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder
"USD" or "US$" or "U.S. dollars"	United States dollars, the lawful currency of the United States
"Voting Power Devotion"	the devotion of voting power at general meetings of Sunny Group by all the then Sunny Nominees (excluding Mr Wang), by deliberately voting in line with each and every proposal and/or decision made by Mr Wang in the general meetings of Sunny Group
"WEEE Directive"	Waste Electrical and Electronic Equipment Directive 2002/96/EC, a directive of the European Parliament and of the Council of the European Union, which imposes responsibility for the disposal of waste electrical and electronic equipment on the manufacturers of such equipment
"Yuyao Optoelectronic"	浙江舜宇光電股份有限公司 (Zhejiang Sunny Optoelectronic Joint Stock Limited*), a company established in October 1984 under the laws of the PRC and was de-registered in March 2003, previously known as 浙江舜宇(集團)股份有限公司 (Zhejiang Sunny (Group) Joint Stock Limited*) between 25 December 1995 and 15 May 2000, 浙江大學餘姚光電(集團)股份有限公司 (Zhejiang University Yuyao Optoelectronic (Group) Joint Stock Limited*) between 30 June 1994 and 24 December 1995, 浙江大學餘姚光電股份有限公司 (Zhejiang University Yuyao Optoelectronic Joint Stock Limited*) between 10 June 1994 and 29 June 1994, 浙江大學餘姚光電儀器總公司 (Zhejiang University Yuyao Optoelectronic Instrument General Company*) between 3 January 1993 and 9 June 1994, 餘姚第二光學儀器廠浙江大學餘姚光電儀器總廠 (Yuyao Second Optical Instrument Factory Zhejiang University Yuyao Optoelectronic Instrument General Factory*) between 14 January 1992 and 2 January

1993, 餘姚市第二光學儀器廠浙江大學光儀系餘姚光電儀器廠 (Yuyao City Second Optical Instrument Factory Zhejiang University Optical Instrument Faculty Yuayo Optoelectronic Instrument Factory*) between 4 October 1989 and 13 January 1992, 餘姚市第二光學儀器廠 (Yuyao City Second Optical Instrument Factory*) between 1 September 1986 and 3 October 1989, and 餘姚縣第二光學儀器廠 (Yuyao County Second Optical Instrument Factory*) from its establishment to 31 August 1986

"Zhicheng"	杭州志成光電技術投資有限公司 (Hangzhou Zhicheng Optoelectronic Technology Investment Limited*) (previously known as 浙江大學光電技術開發公司 (Zhejiang University Optoelectronic Technology Development Company*) prior to 12 December 2003), a company established under the laws of the PRC with limited liability on 20 June 1990, the 8 individual shareholders of which own in aggregate approximately 82.21% of equity interest in Sun Zhong through the PRC Investor Trust. Some of them are Sunny Staff Shareholders having approximately 4.69% beneficial interest in aggregate under the Sunny Employee Trust. The business scope of Zhicheng includes research and development, provision of services and consultant services and production of optical electronic instruments, analytical instruments, instruments and devices for laboratory use and machinery and ancillary devices of high precision
"%"	per cent.
"ϕ"	the symbol of diameter

The English names of the PRC entities mentioned in this prospectus marked "" are translations from their respective Chinese names. If there is any inconsistency, the Chinese name shall prevail.*

Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as of the date of this prospectus.

For the purpose of illustration only and unless otherwise specified in this prospectus, amounts denominated in RMB, USD, JPY and KRW have been translated into HK$ at the rate of RMB1 = HK$1, USD1 = HK$7.8, JPY100 = HK$6.45 and KRW100 = HK$0.84. No representation is made that the RMB, USD, JPY and KRW amounts could have been, or could be, converted into HK$ at such rates or at any other rate on such date or on any other date.

Unless otherwise specified, all references to any shareholdings in the Company assume no exercise of the Over-allotment Option.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Group and its business. These terminologies and their given meanings may not correspond to those standard meanings and usage adopted in the industry.

"3G"	third-generation mobile communication technology
"ACF"	anisotropic conductive film, a lead-free and environmentally-friendly epoxy system that has been used in liquid crystal display manufacturing to make the electrical and mechanical connections from the driver electronics to the glass substrates of the liquid crystal display
"AF"	auto focus, a feature of some optical systems that allows them to obtain correct focus on a subject, instead of requiring the operator to adjust focus manually
"AF-zoom all-in-one"	camcorder with internal lens set(s) and with AF/zoom function, a kind of camcorder used in CCTV
"aspheric lens"	lens whose surfaces have a profile that is neither a portion of a sphere nor of a circular cylinder and the curvature of its surface(s) changes from the centre of the lens all the way out to the edge. A single aspheric lens can often replace a more complex multi-lens systems
"biological microscope(s)"	microscope(s) used to observe and study organic and microorganic substances
"black material moulding technology"	technology used in the process where the platicised and fluid resin (which is formed under high temperature) is injected into the fixed mould to achieve the expected quality of coloured-products and model/pattern
"camera module"	an optoelectronic assembly of lens components and sensors or other parts, such as PCB, with various packaging technologies including CSP, COB and COF. It is used to capture images which will be transmitted or saved in magnetic tape or memory card of the camera for replaying or printing by electronic devices in the future
"CCTV"	closed circuit television, through the use of video camera to transmit a signal to a specific, limited set of monitor(s), usually for surveillance in areas which need security
"CD"	compact disk(s)
"CDMA"	code division multiple access, the digital cellular telephony systems
"centering"	processing the edge of lens with a centering machine. It can fix the shape of lens by controlling the eccentric point of the lens

GLOSSARY OF TECHNICAL TERMS

"CMOS"	complementary MOS, a fabrication process that incorporates n-channel and p-channel complementary MOS transistors within the same silicon substrate, CMOS technology is used in chips and for various analog circuits
"coating"	sputtering one layer or more of optical thin film on the surface of optical lens by a coating machine. This processing technology can increase the transmittance of the lens by reducing its reflections
"COB"	chip on board, technology wherein the microchip or die is directly mounted on and electrically interconnected to its final circuit board
"COF"	chip on flex, which is a technology mainly applied in LCDs whereby the LCD driver chip is mounted directly onto a flexible circuit, functioning as a connector to the contact edge of the liquid crystal panel
"core and compensator adjusting technologies"	technologies, in relation to cross line laser, used to (i) adjust the geometry relationship of laser light to ensure the laser ejected from the laser module can reach the accurate position; and (ii) ensure the performance stability of compensator in unfavourable conditions
"CR-39"	allyl diglycol carbonate, plastic polymer commonly used in the manufacture of eyeglasses lenses
"CSP"	chip scale package, which is any semiconductor package in which the package is no more than 1.2 times the size of the semiconductor die
"die"	one individual chip cut from a wafer before being packaged
"digital microscope(s)"	microscope(s) containing image sensor to transform the image formed by optical microscope for processing, storage or transmission through network
"DSC"	digital still camera
"DVD"	digital video disc
"EMS"	electronic manufacturing services, companies that design, test, manufacture, distribute and provide return/repair services for electronic component and assemblies for OEMs
"fluorescence microscope(s)"	light microscope(s) used to study properties of organic or inorganic substances using the phenomena of fluorescence (i.e. light that is mostly found as an optical phenomenon in cold bodies) and similar process

"FPC"	flexible printed circuit board, a patterned arrangement of printed wiring utilising flexible base material with or without flexible cover layers
"glass moulding technology"	technology widely used in the manufacture of aspheric lenses for film-based and digital cameras. In precision glass moulding, optical glass is softened by heating and then being shaped in an aspheric mould made of special heat-resistant material
"GSM Network"	global system for mobile communication network, a popular standard for mobile phones in the world which enables subscribers to use their phones in many parts of the world
"hyper-hemispherical and subminiature spherical lens processing technologies"	technologies used in processing of the hyper-hemispherical lens of object lens and the upperfront lens set contained in a microscope to improve the quality of the image formed by the object lens
"inverted microscope(s)"	microscope(s) with its light source and condenser on the top above the stage pointing down, and the objectives and turret are below the stage pointing up
"ionised dust removal technology"	technology to removal static electricity by counteraction/ neutralisation between the static electricity in the air and the ions produced by specialised ion production equipments. The removal of static electricity would prevent the dust from staying on the surface
"LCD"	liquid crystal display
"lead-free production"	a kind of surface mount production method, means using alloy solder paste to solder the components of the surface mount, which is lead free. Since the solderability, heat and electric conductivity, and the related mechanical property of traditional lead-contained solder materials are better and of relatively low cost as opposed to lead-free solder, substantial amount of lead-contained solder materials had been used over a long period of time
"lens set"	an assembly of optical products which consists of several pieces of lens and other materials, such as plastic cases
"mechanical curve axis processing technologies"	technologies used in processing the curved groove in the mechanical axis in accordance with movement of curve
"metallurgical microscope(s)"	microscope(s) used to observe and study surface of the metal sample by incidence illumination

“MF”	manual focus, adjustment of focus manually
“MFP”	multi-functional peripheral, a device that performs a variety of functions, usually a combination of printing, scanning, copying and faxing
“microscope optical adjusting technologies”	including (i) object lens optical adjusting technologies, i.e. to adjust sphere aberration, chromatism and coma and to make the outer circle of lathes in focus and achieve parfocalisation; and (ii) host adjusting technologies, i.e. the adjustment to the host axis to ensure the coaxiality of the optical system and the required quality of central segregation
“MOS”	metal oxide semiconductor
“ODM(s)”	original design manufacturer(s)
“OEM(s)”	original equipment manufacturer(s)
“PC”	personal computer
“PCB”	printed circuit board, a flat plate or base of insulating material containing a pattern of conducting materials, which becomes an electronic circuit when components are attached and soldered to it
“pixel(s)”	picture element, basic unit of programmable colour on a computer display or in computer image
“plate(s)”	a thin light, flat sheet which (a) filters passing through; and/or (b) causes light to reflect; and/or (c) splitter light passing through
“PMMA”	polymethyl methacrylate, also known as acrylic glass, a kind of transparent plastic
“polarising microscope(s)”	microscope(s) used in petrology and optical mineralogy to identify rocks and minerals in thin sections
“prism(s)”	device(s) used to refract light, reflect it or to disperse it into its constituent spectral colours
“rework technology”	technology for replanting spheres onto the original welding plate of ball grid array (i.e., a type of surface mount packaging used for integrated circuits) chips after cleaning off the remains on the welding plate surface and flattening the surface

"SMT"	surface mount technology, a process by which electronic components are mounted directly on the surface(s) of a PCB, increasing board capacity, facilitating product miniaturisation and enabling advanced automation of production
"spherical lens"	lens whose surfaces have spherical curvature, i.e. the front and back surfaces of the lens can each be imaged to be part of the surface of a sphere
"stereo microscope(s)"	microscope(s) uses two separate optical paths with two objectives and two eyepieces to provide slightly different viewing angles to the left and right eyes. It produces a three-dimensional visualisation of the sample being examined
"TD-SCDMA"	time division-synchronous code division multiple access, a 3G mobile telecommunications standard, being pursued in the PRC by the Chinese Academy of Telecommunications Technology and other enterprises
"ultra-sonic technology"	technology applied in utlra sonic cleaning by the energy released from the creation and collapse of microscopic cavitation bubbles, which breaks up and lifts off dirt and contaminants from the surface to be cleaned
"ultraviolet curing equipment"	equipment for sodifying light-sensitive glue by using strong ultraviolet light
"VGA"	video graphics array with resolution of 640 x 480 pixels
"zoom"	change in focal length. Zoom technology is a technology to change focal length through the movement of the whole set of lenses with reference to the image plane or the corresponding movement of a certain group of lenses
"zooming examination"	the process to obtain clear image by adjusting the focus distance between the sensor and the lens (which is calculated based on the parameters between the lens and the sensor) by using the rotatable focus adjustor

You should carefully consider all of the information in this prospectus, including the risks and uncertainties described below, before making an investment in the Shares. You should pay particular attention to the fact that the Group conducts its principal operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. The business, financial condition or results of operations of the Group could be materially adversely affected by any of these risks. The trading price of the Shares could decline due to any of these risks, and you may lose all or part of your investment.

RISKS RELATING TO THE GROUP'S BUSINESS

Demand for the Group's products depends on trends and developments in the markets for end products containing the Group's products.

Many of the Group's products are utilised or incorporated as core components for optical and/or optoelectronic instruments and systems. In particular, the Group offers a comprehensive range of optical and optoelectronic components which can be used in optical systems for a wide range of consumer electronic products, such as mobile phones with cameras, DSCs, scanners and projectors. As such, demand for the Group's products depends to a large extent on trends and developments in the markets for end products which the Directors believe are characterised by rapidly changing technology, frequent new product specifications and changing customer demands. For example, due to the significant demand for camera modules resulting from the strong growth and popularity of mobile phones with cameras, substantially all optoelectronic products produced by the Group, either currently or during the Track Record Period, are for mobile phone camera modules. During the Track Record Period, approximately 12.8%, 47.4% and 52.0%, respectively, of the revenue of the Group and approximately 7.5%, 41.7% and 30.8%, respectively, of the gross profit of the Group was contributed by sales of optoelectronic products for use in mobile phone cameras. If demand for mobile phones with cameras were to decrease for any reason, the Group would experience a corresponding decrease in demand for its mobile phone camera modules which would have an adverse effect on its optoelectronic products business. Moreover, since approximately 57.1%, 75.9% and 96.0%, respectively, of the units of lens sets used for its optoelectronic products were sourced internally during the Track Record Period, the Group's optical components business would also be adversely affected. If the Group fails to adjust its product lines to accommodate such changes in market trends, the Group's business and profitability may be adversely affected.

The Group's success also depends on its ability to adequately respond and adapt to technological developments in a timely and cost-effective manner through continuous improvement of its existing products and services and the introduction of new products applying the latest technologies that improve performance, features and reliability. The failure of the Group to adapt to such changes may have a material adverse effect on the Group's business, operating results and financial condition.

The Group's customers may cancel their orders, change production quantities or delay production.

The Group relies on the relationships it has developed with its major customers and generally does not obtain firm, long-term purchase commitments from them. The Group's customers may continue to require shorter delivery time for their orders, cancel their orders, change production quantities or delay production for any reason. Cancellations, reductions or delays by a significant customer or by a group of customers could seriously and adversely affect the Group's results of operations.

In addition, the Group makes significant investment decisions, including determining the levels of business that it will seek and accept, production schedules, component and raw material procurements, personnel needs and other resource requirements, based on its estimates of future customer requirements. The short-term nature of the Group's customers' commitments and the possibility of rapid changes in demand for their products reduce the Group's ability to predict future customer requirements. On occasion, customers may require rapid increases in production, which can stress the Group's resources and might reduce margins. Moreover, the Group may not have sufficient capacity at any given time to meet its customers' demands. In addition, because many of the Group's costs and operating expenses are relatively fixed, a reduction in customer demand could impact the Group's gross margins and operating income.

Any failure by the Group to further refine its technology and develop and introduce new products or improved processes could render its products or production methods uncompetitive or obsolete and reduce the Group's sales and market share.

The optical component industry is rapidly evolving and competitive. The Group will need to invest significant financial resources in research and development to keep pace with technological advances in the optical component industry and to effectively compete in the future. For each year during the Track Record Period, the Group applied approximately RMB5.4 million, RMB10.7 million and RMB12.3 million, respectively, in research and development activities. In addition to general research and development expenses, as part of the Group's overall strategy of expansion, it intends to apply approximately RMB123.0 million in research and development for various projects, including projects on glass aspheric lens moulding, infrared glass materials, AF-zoom all-in-one, photo processing and software technology, spectrometers and instruments for environmental and life sciences. Such amount is scheduled to be applied as to approximately RMB86.4 million, RMB31.6 million and RMB5.0 million for each year during the three years ending 31 December 2009. However, research and development activities are inherently uncertain and the Group might encounter practical difficulties in commercialising the results of its research and development activities and launching new products as originally intended. For example, the Group collaborates with various academic and research institutions for a certain portion of its research and development activities. Some of these collaborations are not conducted pursuant to any formal or contractual arrangement and, as a result, disagreements may easily arise concerning the various responsibilities, obligations, allocation of benefits (such as intellectual property ownership) or other matters.

In addition, the Group's research and development expenditures may not reap corresponding benefits and other companies may develop technologies and processes to manufacture products that prove to be more cost-effective and have better performance than that of the Group. Therefore, the Group's research and development efforts may be rendered obsolete by the technological advances of others. Any failure by the Group to further refine its technology and develop and introduce new products or improved processes could render the Group's products uncompetitive or obsolete and result in a decline in the Group's market share.

Disputes over intellectual property rights could be costly and could deprive the Group of technologies it needs to remain competitive.

The Group has not applied for patent registration in respect of most of the technological know-how in relation to its major products such as lenses, lens sets, mobile phone camera modules and optical instruments. This is because application for patent registration in the PRC requires public disclosure of design details which, in the Directors' opinion, may not be in the best interest of the Group. Patent application only provides a certain degree of protection depending on the geographical coverage of the application rather than absolute global protection for such technological know-how. The Directors consider that such degree of protection afforded by patent application to such technological know-how does not outweigh the potential risk of plagiarism or imitation which may arise from public disclosure under a patent application of such technological know-how. Any material infringement of such technological know-how could have an adverse effect on the Group's sales and hence, the results of its operations.

Moreover, the Group's competitors and other companies may develop substantially equivalent technologies or otherwise gain access to the Group's technical secrets and know-how and obtain patents for such technologies in the PRC or other jurisdictions. Litigation may be necessary to determine the validity and scope of the proprietary rights of others, or to otherwise enforce the Group's intellectual property rights. The outcome of such potential litigation may not be in the Group's favour. An adverse determination in any such litigation could impair the Group's intellectual property rights, such as by legally preventing the Group from utilising its own technical secrets and know-how. In addition, the Group may also need to defend the Group's intellectual property rights in legal proceedings. If the Group does not prevail in such proceedings, it could be required to pay damages, develop non-infringing products and technology or obtain licenses to certain products and technology. In the event that the Group is required to obtain any licenses, these may not be available on commercially reasonable terms or at all. Such litigation may be costly and may divert management attention as well as expend other resources away from the Group's business, and may harm the Group's business and prospects.

The Group derives a substantial portion of its revenue from a small number of customers.

The Group derives a substantial portion of its revenue from a small number of customers. For the Track Record Period, the five largest customers of the Group accounted for approximately 32.2%, 33.2% and 22.8% of its total revenue, respectively, and the largest customer itself accounted for approximately 9.5%, 13.8% and 6.9% of its total revenue, respectively. In addition, two of the five largest customers as of 31 December 2006 are related to each other and, together, accounted for approximately 11.8% of the Group's revenue for the year ended 31 December 2006. While the five largest customers varied from year to year during the Track Record Period, most of them were customers of optoelectronic products (mainly mobile phone camera modules) as a result of the increasing market demand. If strong demand for mobile phone camera modules persists, the Directors expect the Group to continue to focus on supplying mobile phone camera modules to satisfy market demand even though the Group has the ability to produce various other optoelectronic products. In such case, the optoelectronic business of the Group will continue to be dependent upon a relatively limited number of customers for a significant portion of its sales volume and revenue.

There is no assurance that the Group could successfully secure new customers. Should the Group fail to diversify its customer base to explore new markets, the Group's business, financial position and results of operations could be adversely affected.

The Group may not be able to sustain its revenue and profitability.

For the Track Record Period, the Group's revenue amounted to approximately RMB307.9 million, RMB588.3 million and RMB900.7 million respectively, representing a year-on-year growth rate of approximately 91.1% and 53.1%, respectively. For the Track Record Period, profit for the year of the Group amounted to approximately RMB57.8 million, RMB108.6 million and RMB166.0 million, respectively, representing a year-on-year growth rate of approximately 87.9% and 52.9% respectively. The Directors attribute such increase in revenue and profitability in part to the Group's ability to maintain its product quality and expand its production capacity. In particular, the Group's sales of optoelectronic products recorded significant growth since it entered the market in 2004.

However, the Group may not be able to sustain such growth rates. Even if the Group maintains such growth rates, the Group may not be able to manage the growth in an efficient and effective manner. In particular, the Group may not be able to successfully address the challenges of the optoelectronic product market resulting from the rapid changing market environment given the Group's relatively limited operating experience in the optoelectronic product business compared with that of optical products. In the event the Group is unable to maintain or manage its growth, or otherwise experiences pricing pressure or loss of market share, whether due to the failure to cope with changes in the optoelectronic product market or otherwise, the Group may experience stagnant or negative growth, hence impairing its business operations and profitability.

The Group's business relies on the Hong Kong and China markets.

During each year of the Track Record Period, approximately 35.2%, 51.7% and 36.4%, respectively, of the Group's revenue was derived from the PRC market (including sales to the PRC operations of leading global companies), and approximately 16.6%, 21.3% and 37.5%, respectively, of the Group's revenue was derived from the Hong Kong market. The Group expects that the Hong Kong and PRC markets will continue to be its major markets in the foreseeable future. In the event there are major or unfavourable changes in political, economic or social conditions, foreign trade, legal and regulatory requirements or the taxation regime in Hong Kong or the PRC, or any adverse change in demand for the Group's products in the Hong Kong or the PRC markets or the ability or costs to supply the Group's products in the Hong Kong and/or the PRC markets, the Group's revenue and profitability may be adversely affected.

Change in sales mix in response to market development may result in declining average selling prices, which may adversely affect the Group's revenue.

The Group has leveraged its expertise with optical components and expanded into the strong growing optoelectronic product market to enhance the Group's product offerings. Accordingly, the Group has changed its sales mix during the Track Record Period. Among the three major categories of products of the Group, sales of optical components represented approximately 64.3%, 35.8% and 34.3% of the Group's revenue; sales of optoelectronic products represented approximately 12.8%, 47.4% and 52.0% of the Group's revenue; and sales of optical instruments represented approximately 22.9%, 16.8% and 13.7% of the Group's revenue, respectively, during the Track Record Period. In addition, to meet the growing market demand for electronic products which become more miniaturised, such as mobile handsets and other consumer electronic products, the Group has enhanced its focus on producing smaller sized lenses and lens sets to tap into the relevant markets. As the cost of sales and thus the selling price of such smaller sized lenses is relatively lower, the change in sales mix geared towards these products contributed to a lowered overall average selling price of optical components during the Track Record Period.

The Group cannot guarantee that it will not continue to experience declining average selling prices for its products in the future or that the average selling prices will stay the same. As the Group's revenue is dependent on the selling prices and sales volume for its products, reducing selling prices may adversely affect the Group's revenue.

The Group's increasing sales of optoelectronic products may result in a decrease in the overall gross profit margin.

As a result of changes in product mix, the gross profit of the Group increased by approximately 59.6% from approximately RMB113.0 million in 2004 to approximately RMB180.4 million in 2005, while its gross profit margin decreased from approximately 36.7% to approximately 30.7% during such period. Similarly, the gross profit of the Group increased by approximately 37.4% from approximately RMB180.4 million in 2005 to approximately RMB247.8 million in 2006, while its gross profit margin decreased from approximately 30.7% to approximately 27.5% during such period. Such declines were mainly due to increased sales of optoelectronic products during the Track Record Period, which generally command lower profit margins, and an increase in the cost of raw materials. In this respect, unless the Group can commence selling optoelectronic products with higher margins, there is no assurance that the gross profit margin of the Group will not continue to decrease with increasing sales of the Group's optoelectronic products in the future.

Variations in the gross profit margins of the Group's products may result in volatility of the Group's profitability ratio.

During the Track Record Period, the gross profit margins of optical components, optoelectronic products and optical instruments of the Group varied in ranges of approximately 7.3 percentage points, 10.7 percentage points and 2.7 percentage points, respectively. The gross profit margins of these products were affected by various factors, including changes in market demand, average selling price and cost of sales, all of which may not be under the control of the Group. If the gross profit margins of the Group's products vary significantly in the future, the Group's profitability ratio may result in significant variation accordingly.

The Group relies on a limited number of suppliers and agents for key components and raw materials and is susceptible to supply shortages.

The Group currently purchases certain of its key components and raw materials in respect of the production of optoelectronic products from a limited number of suppliers and agents. In particular, it sourced CMOS image sensors, one of the most crucial components contained in camera modules which determine the product quality of such camera modules, from a single supplier during the Track Record Period. The purchase cost of CMOS image sensors represented approximately 13.0%, 27.9% and 42.8% of the total cost of sales of the Group, respectively, during the Track Record Period. For the Track Record Period, the five largest suppliers of the

Group accounted for approximately 30.7%, 35.0% and 48.4% of its cost of sales, respectively, while the largest supplier accounted for approximately 13.0%, 21.9% and 40.4% of its cost of sales, respectively. As a result of the significant increase in the production output and sales of the Group's optoelectronic products from 2005 to 2006, there was a corresponding increase in reliance on its largest supplier in respect of the components for the manufacture of optoelectronic products.

The Directors expect the Group to continue to depend upon a relatively limited number of suppliers and agents for certain of its key components and raw materials. Moreover, the Group generally does not enter into long-term purchase agreements with its major suppliers. The Directors believe that entering into such agreements is not a common practice in the industry. If all or any of these major suppliers or agents cease to supply major components or raw materials to the Group in the future and the Group is unable to find alternative suppliers or agents in a timely manner or on commercially reasonable terms, the Group's business and financial performance may be adversely affected.

The value of components or raw materials kept in stock may decrease, which could adversely affect the Group's business, liquidity and profitability.

During the Track Record Period, the Group usually maintained a certain level of stock of components and raw materials sufficient for the manufacture of various products as a buffer in the event of any shortage of supply from its suppliers, and the Group intends to continue this practice. However, the value of such components or raw materials may decrease while it is kept in stock. For example, during the Track Record Period, the Group normally kept approximately a 2 weeks supply of CMOS image sensors for the production of its camera modules. During 2006, the Group's purchase price of VGA image sensors decreased by approximately 27.8% and the price for 1.3 mega pixel image sensors decreased by approximately 14.5%. In the event that the Group experiences a decrease in sales resulting in longer turnover time or higher inventory levels of stock components or raw materials, including CMOS image sensors, the Group's exposure to the risk of such decreases would increase, and any such decrease would adversely affect the Group's business, liquidity and profitability.

The Group may not be able to pass onto its customers all increases in raw material or component costs, which would eventually reduce its profit margin ratio.

The principal raw materials and components used in the Group's production, including raw optical glass, optical plastic and CMOS image sensors, are subject to price volatility caused by factors such as commodity price fluctuations and currency fluctuations.

The Group cannot guarantee that the price the Group pays for its raw materials and components will be stable in the future. Moreover, the Group does not execute any supply contract with term longer than one year and currently does not hedge against changes in its raw material and component prices. Fluctuation in the prices of the Group's raw materials or components may result in corresponding fluctuations in the Group's costs of sales. In the event that the prices of the raw materials or components used by the Group increase significantly and such increase is not offset by a corresponding increase in the sale prices of the Group's products, the Group's profit margin ratio may decrease and its business and profitability ratio may be adversely affected.

The Group's success depends significantly on key management and its ability to retain and attract additional management and technical staff.

The Group's past success is attributable to the vision, experience, expertise and managerial and technical skills of its core management team led by Mr Wang and Mr Ye. In particular, Mr Wang is responsible for the Group's business strategy and overall development and has more than 20 years of experience in the optical industry. The future success of the Group is dependent on the continued efforts, performance and abilities of such key management. The loss of Mr Wang or Mr Ye may result in: (i) a loss of organisational focus; (ii) poor operating execution; and (iii) an inability to identify and execute potential strategic initiatives such as expansion of capacity. These adverse effects could, among other things, reduce potential revenue, prevent the Group from expanding its service lines and increase its exposure to downturns in its market. Those circumstances, in turn, could adversely affect the Group's profitability and financial results. Moreover, competition for personnel in the optical industry in the PRC is intense, and the availability of suitable and qualified candidates is limited. There is no assurance that the Group will be able to retain existing employees or identify or recruit suitable and qualified new employees. The sales and marketing, technical support as well as the research and development functions of the Group require staff with relevant technical knowledge. Accordingly, the success of the Group's operations is reliant on the availability and continuity of technical expertise and support. If the Group fails to recruit or retain the necessary personnel, the Group's business may be materially and adversely affected.

The Group's facilities and production are susceptible to interruption, damage or loss caused by natural disasters, power shortages or other events beyond the Group's control, and the Group's insurance may not be sufficient to cover such interruption, damage or loss.

Interruptions, damage or loss to the Group's production facilities caused by fire, severe weather, earthquakes or other acts of God, government intervention or other events which are beyond the Group's control could harm the business, operating results and prospects of the Group.

In addition, the Group's manufacturing processes require a stable source of electricity, especially since the Group's manufacturing facilities are operating on longer shifts with shorter downtimes in order to meet increased demand until new production facilities are constructed and come into operation. Given the recent significant demand for electricity in the PRC, the local electricity supply may not be reliable or stable for consumption at all times. The backup power of the Group is not sufficient to support normal operations and the Group cannot guarantee that it will not experience blackouts or a shortage of electricity in the future. If at any time the Group does not have adequate electricity to sustain normal production, it may need to limit, delay or halt production, which could adversely affect its business and operating results.

Furthermore, any interruption, damage or loss caused by such events may not be adequately covered by proceeds from insurance maintained by the Group.

Compliance with environmental regulations adopted by the relevant authorities or requirements imposed by customers can be expensive, and non-compliance with these regulations or requirements may adversely affect the Group's business, reputation and financial condition.

As the Group's manufacturing processes generate noise, waste water and other industrial wastes, the Group is required to comply with all PRC national and local regulations regarding environmental protection. During the Track Record Period, the Group spent approximately RMB37,300, RMB255,200 and RMB508,800, respectively, for compliance with environmental rules and regulations. The increase in environmental-related expenditures from 2004 to 2005 was mainly due to the increase in expenses spent on the new factory of Sunny Zhongshan in 2005. Such expenditures increased further from 2005 to 2006 as there was an increase in waste disposal expenses, including waste material testing fees. Part of such increase was attributable to the increase in the expenses on compliance of ISO 14000 standards. If more stringent regulations are adopted by the relevant authorities or more stringent requirements are required by the customers in the future, the costs of compliance with these new regulations or requirements could be substantial. Moreover, if the Group fails to comply with present or future environmental regulations, it may be required to pay substantial fines, suspend production or cease operations. If the Group fails to comply with present or future environmental certifications or other requirements imposed by the customers, it may fail to meet the requirements of its customers and may result in the Group losing such customers. In such event, the Group's business, reputation and financial condition may be adversely affected.

Any failure to maintain effective quality control systems at the Group's facilities could have a material adverse effect on its business and operations.

The performance and quality of the Group's products are critical to the success of its business. These factors depend significantly on the effectiveness of the Group's quality control systems, which in turn, depends on a number of factors, including the design of the systems, the quality training programme, and the Group's ability to ensure that its employees adhere to its quality control policies and guidelines. Any significant failure or deterioration of the Group's quality control systems could have a material adverse effect on the Group's business reputation, results of operations and financial condition.

In addition, some members of the Group have received internationally recognised certifications relating to the Group's environmental and quality management standards, such as ISO 14001 and ISO 9001 certifications. Some members of the Group have also been recognised by certain of the Group's major customers for meeting such customers' rigorous manufacturing and quality control standards. The Directors believe these recognitions and certifications are a significant contributor to the Group's overall success. Accordingly, any significant failure or deterioration of the Group's quality control systems could result in the Group losing such recognitions and certifications, which in turn could have a material adverse effect on the Group's reputation and prospects.

If the Group fails to maintain effective internal controls, then its business, financial results and reputation could be materially and adversely affected.

The Company will become a public company after Listing, and the Group's internal control system will be even more essential to the integrity of its business and financial results, and its public reporting obligations are expected to place a strain on the Group's management, operational and financial resources and systems in the foreseeable future. In preparation for the Listing, the Group has implemented measures to enhance its internal controls. During the Track Record Period, the Group has implemented the systems focusing on making plans for future operations by reference to the historical external business environment, early warning in respect of the financial performance of the Group and formulating solutions and implementing policies in response to any operational issues, to monitor the manufacturing activities of the Group. The Group has also adopted detailed guidelines for internal financial and audit procedures. Meetings of heads of the Company and the Group's operating subsidiaries were held for, among other matters, reporting the operation of the relevant operating subsidiaries, discussing coming production plans and market trends and evaluating implementation of policies.

Due to the Group's limited experience with the internal control measures implemented to date, there can be no assurance that all such measures will continue to be effective. The Group's efforts to enhance its internal controls have required, and will continue to require, increased costs and significant management time and commitment. If the Group fails to maintain effective internal controls in the future, then the Group's business, financial results and reputation may be materially and adversely affected.

A number of the Company's subsidiaries enjoy a lower effective enterprise income tax rate which will expire or change in the future.

According to FEIT, (i) FIEs incorporated in coastal economic open zones of a manufacturing nature are entitled to pay EIT at a reduced rate of 24% and, subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, LEIT at a reduced rate of 2.4%; and (ii) FIEs of manufacturing nature with an operating term exceeding 10 years are entitled to full exemption from the applicable EIT for the first 2 years and a 50% reduction in the applicable EIT for the next 3 years, commencing from the first profitable year after offsetting all expired tax losses carried forward from the previous years in accordance with the FEIT. Subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, FIEs may also enjoy a similar tax exemption and relief from LEIT during the corresponding period.

Other than Nanjing Instruments and Sunny Infrared, which are domestic enterprises (being companies invested by foreign-invested enterprises), each of the Group's other PRC subsidiaries was a FIE in either an economic and technological development zone or a coastal economic open zone of manufacturing nature with an operating term exceeding 10 years.

In accordance with the above rules and regulations, each of Sunny Optics, Ningbo Instruments and Sunny Opotech would have been subject to a reduced applicable EIT and LEIT of 24% and 2.4%, respectively. Each of Sunny Optics, Ningbo Instruments and Sunny Optotech was approved to be exempted from FEIT for the first 2 years commencing from the first profitable year and a 50% tax relief in the 3 years immediately following thereafter. Each of Sunny Optics and Ningbo Instruments was exempted from FEIT for the period from 1 June 2005 to 31 December 2006 and thereafter became eligible for a 50% tax relief on the then applicable tax rate for the 3 years ending 31 December 2009. The first profitable year of Sunny Opotech was the year ended 31 December 2006. Accordingly, Sunny Opotech is exempted from enterprise income tax for the 2 years ending 31 December 2007 and thereafter will be eligible for a 50% tax relief on the then applicable tax rate for the 3 years ending 31 December 2010.

Sunny Zhongshan is also subject to a reduced applicable EIT of 24% and the relevant local tax bureau has waived any LEIT payable by Sunny Zhongshan. Sunny Zhongshan is eligible for the FEIT exemption for the first 2 years commencing from the first profitable year and a 50% tax relief for the next 3 years. Sunny Zhongshan had no taxable assessable profit for the period from 24 March 2005 (its date of establishment) to 31 December 2006.

There is no assurance that existing PRC income tax law, its application or its interpretation will remain in effect or will not change, in which case the Group may be required to pay the higher enterprise income tax rate of 30% generally applicable to PRC companies, or such other rate as is required by the PRC law. In addition, as the tax incentives applicable to the relevant subsidiaries expire, such subsidiaries' effective tax rate will increase significantly. To the extent that there are any such changes or current incentives expire, the financial condition and results of operations would be adversely affected.

The Group may not be able to collect its trade receivables in whole or in part.

As of 31 December 2004, 2005 and 2006, the trade receivables of the Group were approximately RMB73.2 million, RMB127.3 million and RMB142.8 million, respectively. During the Track Record Period, trade receivable turnover was 87 days, 79 days and 58 days, respectively, and the Group's allowance for doubtful debts amounted to approximately RMB3.9 million, RMB4.1 million and RMB4.1 million, respectively. There is no assurance that the Group will be able to collect all of its trade receivables on a timely basis or at all. The Group's business, operating results and financial position may be adversely affected if the Group experiences difficulties in realising its trade receivables, which could affect the Group's cash flow from operation and result in an increase in bad debts, and hence reduce the profitability.

The Group may be subject to potential product liability.

If the products the Group developed and sold contain defects or errors which adversely affect the performance of such products, the Group may incur additional costs in correcting the defects or defending any legal proceedings and/or claims brought by its customers against the Group for damages. The Group does not maintain any product liability insurance. There can be no assurance that there will not be any such product liability claims in the future and, accordingly, the Group will not be covered or compensated by insurance in respect of losses, damages, claims and/or liabilities arising from or in connection with product or third party liability. These events could adversely affect the reputation and profitability of the Group.

If the Group is unable to implement its plan to expand production capability and capacity, its growth prospects may be limited and its profitability may be adversely affected.

The Group's growth prospects and its future profitability depend on, among other matters, its ability to increase its production capability and capacity, either generally or with respect to demand from customers for its particular types of products.

To successfully expand its production capability and capacity, the Group will need to purchase additional equipment, hire and train personnel necessary to operate such additional equipment, expand its existing facilities, and construct new facilities, all of which will be affected by, but not limited to, the following factors:

- availability of capital for purchasing manufacturing equipment;
- shortages or delays in the delivery of manufacturing equipment;
- delays or difficulties which may arise in the installation of manufacturing equipment; and
- implementation of new manufacturing processes.

As a result of these factors, there is no assurance that the Group's expansion plan, if implemented, will be operationally or financially successful. In addition, there is also no assurance that such expansion plan will be substantiated by sufficient market demand for or profit margin of the Group's products. If the Group is unable to implement the expansion plan, its business and profitability may be adversely affected.

Some parts of the Group's business can be seasonal in nature, and such seasonality could adversely affect its business and operating results.

Since many of the Group's optical components and optoelectronic products are used in optical systems for consumer electronic products, such part of the Group's business can be seasonal in nature due to changes in demand as a result of changes in retail performance of consumer electronic products. In the Group's business, the second half of the year tends to experience higher revenue than the first half of the year. Seasonality in demand for the Group's products might have an effect on its revenue in the future. Since a portion of the Group's costs of sales are fixed, any such seasonal declines in revenue may adversely affect its business and profitability.

If the Group is unable to maintain steady operating cash flows, its operations and profitability may be adversely affected.

The net cash inflow from operating activities of the Group amounted to approximately RMB73.4 million and RMB258.2 million for each of the years ended 31 December 2004 and 2006, respectively. However, there was a net cash outflow from operating activities of the Group of approximately RMB18.9 million in 2005. The fluctuation of the Group's operating cash flows was mainly due to the fluctuation of the amount of trade receivables. If the Group is not able to maintain stable operating cash flows in the future, it may not be able to finance its operations, investment projects and/or expansion plans as and when required. As a result, the Group's operations and profitability may be adversely affected.

The Group may not be able to implement its business strategies on schedule or within budget or at all.

The Group may not be able to implement fully its business strategies or implement them on schedule or within budget or at all. Its strategies are subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond its control and could delay or increase the costs of implementation. Such potential events relating to its expansion plans include, but are not limited to, delays in the delivery and installation of manufacturing equipment, labour disputes, design or construction changes, changes in costs or requirements related to compliance with environmental or other laws and regulations, delays in securing the necessary governmental approvals and land use rights, a downturn in the economy, and changes to plans for additional facilities necessitated by changes in market conditions. Delays in the expansion of the Group's production facilities could result in the loss or delayed receipt of revenues, an increase in financing costs, or a failure to meet profit and earnings projections, any of which would adversely affect its business and results of operations.

The Group faces risks associated with the marketing, distribution and sale of its products internationally, and if it is unable to effectively manage these risks, its ability to expand its business abroad could become impaired.

During the Track Record Period, approximately 64.8%, 48.3% and 63.6% of the Group's revenue, respectively, was generated by sales to customers outside the PRC. The marketing, distribution and sale of its products overseas expose the Group to a number of risks, including:

- fluctuations in currency exchange rates of foreign currencies against the Renminbi;
- increased costs associated with maintaining marketing and sales activities in various countries;
- difficulty and costs relating to compliance with different commercial and legal requirements in the jurisdictions in which the Group's products are offered;
- inability to obtain, maintain or enforce intellectual property rights; and
- trade barriers, such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of the Group's products and make the Group less competitive in some countries.

If the Group is unable to effectively manage these risks, its ability to conduct or expand its business abroad would be impaired, which may in turn have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

One of the existing Shareholders has substantial influence over the Group and his interest may not be aligned with the interests of Shareholders.

Immediately after the Listing (assuming the Over-allotment Option is not exercised), Mr Wang, one of the Group's founders and an executive Director and chairman of the Company, will be able to exercise control over approximately 48.07% of the voting power at general meetings of the Company by virtue of his being the sole shareholder of Sun Guang, the trustee of the PRC Investor Trust, and the trustee and one of the beneficiaries of the Sunny Employee Trust. Accordingly, Mr Wang has substantial influence over the major policy decisions of the Group, including the Group's overall strategic and investment decisions by means of the following:

- controlling the election of a majority of the Directors and, in turn, indirectly controlling the selection of senior management and the direction of the Group;
- determining the timing and amount of dividend payments;
- approving annual budgets;
- deciding on increases or decreases in share capital;
- determining the size and timing of any issuances of new securities; and
- approving mergers, acquisitions and disposals of the Group's assets or businesses.

Mr Wang's interests may conflict with the interests of the Company's other shareholders. Accordingly, Mr Wang may take actions that favour his own interests or the Sunny Staff Shareholders which may not necessarily be in the best interests of the Company's other shareholders.

As a holding company, the Company's liquidity and its ability to make shareholder distributions and other payments depend to a significant extent upon the distribution of earnings and other payments made by its PRC operating subsidiaries.

The ability of the Company's PRC operating subsidiaries, Sunny Zhongshan, Sunny Opotech, Sunny Optics and Ningbo Instruments, to make distributions and other payments to the Company is subject to various factors, including available cash and distributable reserves, investment, cash flow and working capital requirements. These factors depend on other factors which are outside their respective control, including a possible economic downturn and delays in payments from customers. If any of the Company's operating subsidiaries encounter any of these or other problems, they may not be able to make distributions and other payments to the Company as is currently planned.

The ability of the operating subsidiaries to pay dividends to the Company is also subject to PRC regulations. Under PRC accounting rules, dividends may only be paid out of distributable profits. As a result, the Company's operating subsidiaries may not be able to pay dividends to the Company in any given year to the extent they do not have distributable profits as determined under PRC accounting rules, even if they may have profits in accordance with accounting standards of other jurisdictions. Accordingly, if the Company does not receive dividend distributions from its operating subsidiaries, its liquidity, financial condition and ability to make dividend distributions will be materially and adversely affected.

RISKS RELATING TO THE INDUSTRY

Life cycles of optical products' application and imaging devices are short due to rapid changes of technology.

The Group's future success will partly depend on its ability to develop and market products and improve manufacturing processes which meet changing customer needs and to successfully anticipate or respond to technological changes in manufacturing processes in a cost-effective and timely manner. Many of the Group's products are applied in optical products such as imaging devices, which have short product life cycles due to frequent product introductions, rapidly changing technology and evolving industry standards. There can be no assurance that the Group will be successful in developing new products as a result of its research and development efforts or its cooperation with industry leaders, or that it will keep pace with technological changes taking place in the market. Any delay or failure to adequately respond to the technological changes could have a material adverse effect on the Group's business or on the operating results.

The markets for the Group's products are highly competitive.

The Group faces competition from other optical products manufacturers in the PRC and abroad who offer products that are similar to or otherwise compete with those of the Group. The Directors also envisage that the selling price of the Group's products and revenue generated from product orders may be driven down due to competition. There is no guarantee that the Group would be able to maintain existing profit level or profitability ratios or sustain its market share. If the Group fails to maintain its competitiveness by continuing to expand its product portfolio, maintaining and improving the quality of its products and maintaining competitive prices; or if the number of competitors increases substantially, or if their service quality improves rapidly, or if the commercial terms they offer are more competitive, the profitability of the Group would be eroded.

Moreover, although barriers of entry exist in the design and manufacturing of optical products in terms of technical expertise, substantial capital requirements, difficulties relating to building customer relationships and the large and broad customer base required for the establishment of enterprises having a size comparable with the Group, new entrants cannot be precluded from developing or acquiring the required technical capability and customer base through substantial investments in the necessary technology and market development to compete with the Group's existing business. In addition, a number of foreign companies with significant financial resources and industry expertise have established operations in the PRC. If new entrants succeed in establishing operations that compete with the Group, the Group's business and prospects may be adversely affected.

RISKS RELATING TO THE PRC

PRC economic, political and social conditions and the PRC Government policies can affect the Group's business.

The economy of the PRC is different from the economies of most developed countries, and has been transitioning from a planned economy to a market-oriented economy. The PRC Government has implemented certain economic reform measures which emphasises utilisation of market forces in the development of the economy of the PRC. These reforms may have a positive effect on the PRC's overall and long-term development. However, the PRC Government continues to exert control over the development of the PRC economy. For instance, in order to ward off excessive growth of the money and credit markets, the PBOC has raised the required reserve ratio several times from 7% in January 2004 to 11% in May 2007. The increase of required reserve ratio might affect the liquidity of financial institutions and affect the banking interest rates and the amount of bank borrowings, which might result in sterilisation of persistent growth of money and thus the fluctuations in the economy, equity and debt markets. There is no assurance that changes in the PRC economic, political and social conditions, laws, regulations and policies will not have any adverse effect on the Group's current or future business and financial condition.

Changes in foreign exchange regulations may adversely affect the Company's ability to pay dividends to its Shareholders in foreign currencies.

The Group currently receives part of its revenue in Renminbi. The PRC Government imposes control over the conversion between Renminbi and foreign currencies. Under current foreign exchange regulations in the PRC, following completion of the Global Offering and subject to the relevant registration at the SAFE, the Group will be able to pay dividends in foreign currencies without prior approval from SAFE if it complies with certain procedural requirements.

However, there is no assurance that the PRC foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future. Changes in PRC foreign exchange policies may adversely affect the Company's ability to pay dividends to its Shareholders in foreign currencies.

The PRC Government's control of currency and future movements in exchange rates may affect the Group's business and financial conditions.

The Group receives part of its revenue in Renminbi, which is currently not a freely convertible currency. The value of Renminbi against other currencies may be affected by, among other things, changes in the PRC's economic, financial and political conditions and supply and demand of Renminbi in the local market. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on the exchange rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates in the PRC and current exchange rates on the world financial markets. From 1994 to July 2005, the official exchange rate for conversion of Renminbi to U.S. dollars was generally stable. On 21 July 2005, the PRC Government adopted a more flexible managed floating exchange rate system to allow the value of Renminbi to fluctuate within a regulated band that is based on market supply and demand and reference to a basket of currencies. As Renminbi is allowed to move in a managed way, there can be no assurance that Renminbi will not further appreciate or that other measures will not be introduced to address the concerns of the PRC's trading partners. Moreover, there is no assurance that such exchange rate will continue to remain stable in the future. Since part of the Group's income and profits are denominated in Renminbi, a portion of which may be converted into other currencies to meet the Group's foreign currency obligations, any fluctuation of Renminbi may materially and adversely affect the Group's business and financial conditions, and the value of, and any dividends payable on, the Shares.

Interpretation of PRC laws and regulations involves uncertainty.

The Group conducts its business within the PRC and its operations are governed by PRC laws and regulations. The PRC legal system is a codified system with written statutes, and prior court decisions can only be cited as reference.

The PRC Government has promulgated laws and regulations in relation to economic matters such as foreign investment, corporate organisation and governance and taxation, with the aim of developing a comprehensive system of commercial law. However, interpretation of PRC laws and regulations is subject to a degree of uncertainty as some of these laws and regulations are recently enacted and are relatively new, and there are limited volumes of published court decisions which are non-binding in nature. In addition, litigation in the PRC may be protracted and result in substantial costs and diversion of resources and management attention.

It may be difficult to effect service of process on or enforce judgments obtained from non-PRC courts against the Group, the Directors or the executive officers who live inside the PRC.

As of the Latest Practicable Date, most of the Directors and senior management personnel resided within the PRC, and a significant proportion of the Group's assets and of such persons are located in the PRC. For this reason, it may not be possible for investors to effect service of process on or enforce judgments obtained from non-PRC courts against the Group, the Directors or the executive officers who live inside the PRC. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgments of the courts of the United States and most other western countries. As a result, recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be impossible.

The PRC economy and the Group's prospects may be adversely affected by a recurrence of SARS or an outbreak of other epidemics.

Some regions in the PRC (including the cities where the Group operates) are susceptible to epidemics such as Severe Acute Respiratory Syndrome (SARS), and avian flu, which may cause severe damage to the national and local economies in the PRC. The occurrence of such epidemics in the PRC, or in the cities where the Group has operations, may result in material disruptions to its business operations, which will in turn adversely affect its financial condition.

The Group's operating cost may increase due to the provision of staff benefits as required by the PRC Government.

As from the date of establishment of each of the members of the Group in the PRC, the Group has provided certain basic insurance, namely unemployment, pension, personal injury, maternity and medical insurance (except for Sunny Optics, Sunny Opotech, Sunny Infrared, Ningbo Instruments and Sunny Zhongshan, which did not maintain any maternity insurance for its PRC employees as there is no such system carried out by the relevant local government authority) for its employees in the PRC pursuant to the employee insurance implementation plans formulated by the local governments in the PRC. Should the local governments further expand the scope of employee insurance plans or the rate of the Group's contribution towards such insurance increases, the Group's operating cost would increase, thereby affecting its competitiveness and profitability.

PRC regulations of investment and loans by offshore holding companies to PRC entities may delay or prevent the Company from using the proceeds of the Global Offering to make additional capital contributions or loans to its PRC operating subsidiaries.

Any capital contributions or loans the Company, as an offshore entity, makes to its PRC operating subsidiaries, are subject to PRC regulations. For example, capital contributions from the Company to its PRC investments must be registered with the relevant industry and commerce administrative authority. In addition, the total of any offshore loans to the PRC entities cannot exceed the difference between the approved amount of total investment and the registered capital of the PRC entities and such loans must be filed with the SAFE or its local counterpart. The Group cannot assure that the Company will be able to obtain these approvals on a timely basis, or at all. If the Company fails to or does not timely obtain such approvals, its ability to capitalise or fund the operations of its PRC operating subsidiaries or to utilise the proceeds of this offering in the manner described in the section headed "Future plans and use of proceeds" in this prospectus may be negatively affected, which could adversely affect the liquidity of the Company's PRC operating subsidiaries and the Company's ability to grow its operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Shares and the liquidity and market price of the Shares may be volatile.

Prior to the Global Offering, no public market for the Shares existed. The Group has made an application to the Stock Exchange for the listing and trading of the Shares. There is no assurance that the Listing will result in the development of an active, liquid public trading market for the Shares after the Global Offering. In addition, the price and trading volumes of the Shares may be volatile since factors such as variations in the Group's revenues, earnings and cash flows or any other developments, whether due to seasonal sales fluctuations or for any other reasons, may affect the volume and price at which the Shares will be traded.

Forward-looking statements may not be accurate.

In this prospectus, there are various forward-looking statements which include the use of the words "anticipate", "believe", "consider", "estimate", "expect", "may", "plans", "prospects", "will" and similar expressions. Such statements are based on the beliefs of the Group's management, as well as assumptions and information currently available to the Group's management.

These forward-looking statements reflect the Group's current view with respect to future events and are subject to certain risks, uncertainties and factors, including the risk factors described in this section. In light of these and other risks and uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Group that its plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements.

Future issues, offers or sales of Shares may adversely affect the prevailing market price of the Shares.

Future issues of securities by the Company or the disposal of Shares by any of its Shareholders or the perception that such issues or sales may occur, may negatively impact the prevailing market price of the Shares. The Shares held by the Controlling Shareholders, Summit and CWI are subject to certain lock-up undertakings for periods commencing on the date of this prospectus and up to 12 months after the Listing Date. The Group cannot give any assurance that they will not dispose of Shares they may own now or in the future.

Dividends declared in the past may not be indicative of the dividend policy in the future.

Although the Company has not declared any dividend since its incorporation on 21 September 2006, subsidiaries of the Company have declared dividends to the equity holders of the Company, of approximately RMB70.8 million, RMB13.3 million and RMB103.2 million, respectively, during the Track Record Period. Any declaration of dividends proposed by the Board and the amount of any such dividends will depend on various factors, including, without limitation, the Group's results of operations, financial condition, future prospects and other factors which the Board may determine are important. For further details of the dividend policy of the Group, please see the section headed "Financial information — Dividends and dividend policy" in this prospectus. The Company cannot guarantee if and when the Company will pay dividends in the future.

Certain facts and statistics from official sources contained in this prospectus have come from various government official publications whose reliability cannot be assumed or assured.

Facts and statistics from official sources contained in this prospectus relating to the PRC, its economy and the industry in which the Group operates within the PRC are derived from various publicly available government official publications generally believed to be reliable. However, the Group cannot guarantee the quality and reliability of these publications. Whilst the Directors have taken reasonable care to ensure that the facts and statistics in this prospectus are accurately reproduced from other respective official sources, these facts and statistics have not been independently verified by the Group. The Group, the Selling Shareholders, the Global Coordinator, the Sponsor, the Underwriters, their respective directors and advisers or any other parties involved in the Global Offering do not make any representation as to the accuracy or any other facts and statistics derived from government official publications, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics derived from government official publications may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Furthermore, the Group cannot assure you that they are stated or compiled on the same basis or with the same degree of accuracy as may be the case elsewhere.

MANAGEMENT PRESENCE

For the purpose of the Listing, the Company has applied to the Stock Exchange for, and the Stock Exchange has agreed to grant, a wavier from strict compliance with Rule 8.12 of the Listing Rules. Pursuant to Rule 8.12 of the Listing Rules, a new applicant applying for a primary listing on the Stock Exchange must have a sufficient management presence in Hong Kong and in normal circumstances, this means that at least two executive Directors must be ordinarily resident in Hong Kong.

Since the establishment of the Group, the Group has been located in the PRC. At present, a majority of the business operations of the Group are managed and conducted in the PRC. None of the Group's operating business is located, conducted or managed in Hong Kong. Given that all the executive Directors are ordinarily resident in the PRC, the Company needs to appoint at least two additional executive Directors in order to comply with Rule 8.12 of the Listing Rules. Regarding the management and operations of the Group, the appointment of such additional executive Directors would not only increase the administrative expenses of the Group, but would also reduce the effectiveness of the Board's management of the Group, especially when business decisions are required to be made within a short period of time.

In addition, even if such executive Directors are appointed, since they will not be physically present in the PRC all the time, they will not be able to fully understand the daily operations of the Group or fully appreciate the circumstances surrounding or affecting the business operations and development of the Group in a timely manner. As such, such additional executive Directors may not be able to make business decisions on a fully informed basis, and that will not be in the interests of the Group as a whole.

In light of the aforesaid, it is considered that the appointment of any executive Director to the Board who will be ordinarily resident in Hong Kong is not beneficial or appropriate for the Group. The Company has appointed Mr Li Tyson Sandy Ying Lun (a non-executive Director) and Ms Lee Suk Yee (the qualified accountant and one of the joint company secretaries of the Company), both of them are ordinarily resident in Hong Kong, as the authorised representatives for the purpose of Rule 3.05 of the Listing Rules. They will act as the principal channel of communication with the Stock Exchange and will have means to contact all the Directors at all times. As and when required by the Stock Exchange, they will endeavour to forthwith contact all the Directors. The Directors believe that such internal arrangements can ensure that all members of the Board can be promptly informed of any such matters and can maintain effective communication between the Stock Exchange and the Company. In addition, the Company will implement a policy before Listing whereby (i) each executive Director will provide his mobile phone number, residential phone number, fax number and email address to the authorised representatives; (ii) each executive Director will provide his valid phone number or communication means to the authorised representatives when he travels; (iii) each executive Director will provide his mobile phone number, residential phone number, fax number and email address to the Stock Exchange; and (iv) each of the Directors will maintain valid travel documents to visit Hong Kong and will be able to meet the Stock Exchange within a reasonable period of time as and when required.

Each of the two authorised representatives will be contactable by the Stock Exchange through his/her mobile phones or other means of communication and will be available to meet with the Stock Exchange in Hong Kong within a reasonable time frame upon the request of the Stock Exchange. Each of the two authorised representatives will be authorised to communicate on behalf of the Company with the Stock Exchange.

In addition, the Company has appointed the Sponsor as the compliance adviser pursuant to Rule 3A.19 of the Listing Rules who will also act as the Company's channel of communication with the Stock Exchange.

The Directors believe that such arrangements can ensure that all members of the Board can be promptly informed of any matters and can maintain effective communications between the Company and the Stock Exchange.

JOINT COMPANY SECRETARIES

Under Rule 8.17 of the Listing Rules, the secretary of the Company must be a person who is ordinarily resident in Hong Kong, who has the requisite knowledge and experience to discharge the functions of the secretary of a listed company and who:

(i) is an Ordinary Member of The Hong Kong Institute of Chartered Secretaries, a solicitor or barrister as defined in the Legal Practitioners Ordinance or a professional accountant; or

(ii) is an individual who, by virtue of his academic or professional qualifications or relevant experience, is, in the opinion of the Stock Exchange, capable of discharging those functions.

As Mr Sun Yang, one of the joint company secretaries of the Company, does not possess the requisite experience and qualifications as required under Rules 8.17(2) and (3) of the Listing Rules, he does not meet all the requirements under Rule 8.17 of the Listing Rules. In the circumstances, the Company has appointed Ms Lee Suk Yee, the qualified accountant of the Company, who meets the requirements under Rule 8.17 of the Listing Rules, as a joint company secretary to assist Mr Sun Yang and provide training to him for the purpose of enabling him to acquire the "relevant experience" under Rule 8.17(3) of the Listing Rules. Both of them will jointly discharge the duties and responsibilities with reference to their past experience and educational background and the respective working environment.

Ms Lee Suk Yee, as a joint company secretary of the Company, will work closely with, and provide assistance to, Mr Sun Yang in the discharge of his duties as a joint company secretary. Ms Lee Suk Yee is familiar with and as a resident in Hong Kong, has easy access to the Stock Exchange, the SFC as well as the Hong Kong Companies Registry. Ms Lee Suk Yee is a suitably qualified person to render assistance to Mr Sun Yang so as to enable Mr Sun Yang to acquire the "relevant experience" as is normally required of him as a company secretary under Rule 8.17(3) of the Listing Rules.

Mr Sun Yang has been engaged to act as a joint company secretary of the Company. Upon expiry of the three-year period from the Listing Date, a further evaluation of the qualifications and experience of Mr Sun Yang and the need for on-going assistance would be made. It is expected that the Company and Mr Sun Yang would then endeavour to demonstrate to the Stock Exchange's satisfaction that Mr Sun Yang, having the benefit of Ms Lee Suk Yee's assistance, would by then have acquired the "relevant experience" within the meaning of Rule 8.17(3) of the Listing Rules.

The Company has therefore applied to the Stock Exchange for, and has been granted, a waiver from strict compliance with the requirements of Rule 8.17 of the Listing Rules for a period of three years from the Listing Date. Upon the expiration of the three-year period, the Company will re-evaluate the qualifications and experience of Mr Sun Yang to determine whether the requirements as stipulated in Rule 8.17 of the Listing Rules can be satisfied.

CONTINUING CONNECTED TRANSACTIONS

The Group has entered into and is expected to enter into certain transactions which would constitute non-exempt continuing connected transactions of the Company under the Listing Rules after the Listing. The Company has applied to the Stock Exchange for, and has been granted, a waiver from strict compliance with the announcement requirements set forth in Chapter 14A of the Listing Rules for such non-exempt continuing connected transactions for the period commencing from the Listing Date and ending on 31 December 2009. Further information on such non-exempt continuing connected transactions and the conditions of the waiver are set forth in the section headed "Connected transactions" in this prospectus.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus contains particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules of Hong Kong (as amended) and the Listing Rules for the purpose of giving information to the public with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief:

1. there are no other facts the omission of which would make any statement in this prospectus misleading;

2. the information contained in this prospectus is accurate and complete in all material aspects and is not misleading; and

3. all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

UNDERWRITING

This prospectus is published solely in connection with the Public Offer which forms part of the Global Offering. For applicants under the Public Offer, this prospectus and the Application Forms set out the terms and conditions of the Public Offer.

The Listing is sponsored by the Sponsor. The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to the Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. The Global Offering is managed by the Global Coordinator.

If, for any reason, the Offer Price is not agreed among the Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed. For further information about the Underwriters and the underwriting arrangements, please refer to the section headed "Underwriting" in this prospectus.

RESTRICTIONS ON SALE OF OFFER SHARES

No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered to the public in Hong Kong for subscription solely on the basis of the information contained and the representations made in this prospectus and the related Application Forms. No person is authorised to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by the Company, the Selling Shareholders, BNP Paribas Capital, the Underwriters, any of their respective directors or any other person involved in the Global Offering.

Each person acquiring the Offer Shares will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus and that he is not acquiring, and has not been offered any Offer Shares in circumstances that contravene any such restrictions.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or territory of the United States and, accordingly, may not be offered, sold, pledged or transferred within the United States or to, or for the account or benefit of, US Persons, except in the United States to QIBs in reliance on Rule 144A or outside the United States pursuant to Regulation S.

The Offer Shares are being offered and sold outside the United States to non-US Persons pursuant to Regulation S and within the United States to QIBs in reliance on Rule 144A. In addition, until 40 days after the later of the commencement of the Global Offering and the date of closing of the Global Offering, an offer or sale of the Offer Shares within the United States by any dealer (whether or not participating in the Global Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A. Terms used above have the meanings set forth in Regulation S and Rule 144A.

Neither the US Securities and Exchange Commission nor any state securities commission in the United States or any other U.S. regulatory authority has approved or disapproved of the Offer Shares or passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offence in the United States.

Canada

This prospectus has not been filed with a securities regulatory authority in any province or territory of Canada. The Offer Shares may not be offered or sold, directly or indirectly, in any province or territory of Canada or to, or for the benefit of, any resident of any province or territory of Canada except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer or sale is made and only by a dealer duly registered under the applicable securities laws of that province or territory or in circumstances where any exemption from the applicable registered dealer requirements is available.

United Kingdom

This prospectus has not been approved under Section 21 of the Financial Services and Markets Act 2000 ("FSMA") by a person authorised under the FSMA in the United Kingdom. This prospectus is being distributed in the United Kingdom only to, and is directed only at, (i) investment professionals, as defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005 (the "FSMA Order"), and (ii) persons falling within Article 49 of the FSMA Order (all such persons together being referred to as "relevant persons"). This prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. Persons in the United Kingdom of any description, including those who do not have professional experience in matters relating to investments, should return this prospectus to the Global Coordinator and take no further action.

The Offer Shares may not be offered or sold in the United Kingdom except to persons who are qualified investors within the meaning of Section 86 of the FSMA as amended by the Prospectus Regulations 2005 or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom for the purposes of the FSMA or the Prospectus Regulations 2005.

In addition, no person may issue or pass on to any person in the United Kingdom any documents received by him in connection with the issue or sale of any Offer Shares or communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in relation to the Offer Shares unless the recipient is a relevant person.

European Economic Area

In relation to each member state of the European Economic Area which has implemented the Prospectus Directive 2003/71/EC (“Prospectus Directive”) (each a “Relevant Member State”), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”), the Offer Shares have not been and will not be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and any relevant implementing measures in the Relevant Member State, except for the Offer Shares that have been or will be offered to the public, with effect from and including the Relevant Implementation Date, in that Relevant Member State at any time: (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; (b) to any other legal entity or individual considered as “qualified investors” under the Relevant Member State regulations implementing the Prospectus Directive; or (c) in any other circumstances which do not require the publication by the Company of a prospectus under article 3 of the Prospectus Directive and any relevant implementing measures in the Relevant Member State. The expression “offered to the public” in relation to the Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive.

Italy

This prospectus has not been and will not be filed with or approved by the Italian securities market regulator (Commissione Nazionale per le Società e la Borsa — the “CONSOB”), pursuant to Legislative Decree No. 58 of 24 February 1998 (as amended, the “Finance Law”) and to CONSOB Regulation No. 11971 of 14 May 1999 (as amended, the “Issuers Regulation”). Accordingly, this prospectus or any other document relating to the Offer Shares may not be distributed, made available or advertised in Italy, nor may the Offer Shares be offered, purchased, sold, promoted, advertised or delivered, directly or indirectly, to the public other than (i) to "Professional Investors" (such being the persons and entities as defined pursuant to Article 31(2) of CONSOB Regulation No. 11522 of 1 July 1998, as amended, the "Intermediaries Regulation"), pursuant to Article 100 of the Finance Law; (ii) to prospective investors where the offer of the Offer Shares is subject to a minimum investment requirement of EUR250,000 or to a maximum, in Italy, of 200 investors, pursuant to Article 100 of the Finance Law and article 33 of the Issuers Regulation; or otherwise in reliance on a total exemption from the investment solicitation rules pursuant to, and in compliance with the conditions set forth by Article 100 of the Finance Law or Article 33 of the Issuers Regulation, or by any applicable exemption; or (iii) to Italian residents who submit an unsolicited offer to purchase such Offer Shares, provided that any such offer, sale, promotion, advertising or delivery of the Offer Shares or distribution of this prospectus, or any part thereof, or of any other document or material relating to the Offer Shares in Italy is made: (a) by investment firms, banks or financial intermediaries authorised to carry out such activities in the Republic of Italy in accordance with the Finance Law, the Issuers Regulation, the Legislative Decree No. 385 of 1 September 1993 (as amended, the "Banking Law"), the Intermediaries Regulation, and any other applicable laws and regulations; (b) in compliance, as the case may be, with Article 129 of the Banking Law and the implementing regulations and instructions issued by the Italian national central bank ("Bank of Italy"); and (c) in compliance with any other applicable notification requirement or duty which may, from time to time, be imposed by CONSOB, Bank of Italy or by any other competent authority.

The Netherlands

No offer of the Offer Shares has been or will be made to the public in the Netherlands prior to the publication of a prospectus in relation to the Offer Shares which has been approved by the competent authority in the Netherlands in accordance with the European Union Prospectus Directive, except that it may, with effect from and including the date on which the Prospectus Directive is implemented in the Netherlands, make an offer of the Offer Shares to the public in the Netherlands at any time:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than EUR43,000,000 and (iii) an annual net turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts; or

(c) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of the Offer Shares to the public" in relation to any Offer Shares in the Netherlands means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Shares, as the same may be varied in the Netherlands and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in the Netherlands.

If the Offer Shares are offered in the Netherlands upon reliance of Article 3 sub 2(a) of the Prospectus Directive, then “qualified investors” shall have the meaning of “professional market parties” as defined in Article 1(a) sub 3 of the Exemption Regulation of the Netherlands Act on the Supervision of Securities Trade 1995 (Vrijstellingsregeling Wet toezicht effectenverkeer 1995).

Singapore

This prospectus has not been and will not be lodged with and registered by the Monetary Authority of Singapore (“MAS”) in Singapore as a Prospectus under the Securities and Futures Act, Chapter 289 of Singapore (“SFA”) and the Global Offering is made pursuant to an exemption invoked under Sections 274 and 275 of the SFA. Accordingly, this prospectus and any other document or material in connection with the Offer Shares may not be issued, circulated or distributed in Singapore, nor may any of the Offer Shares be offered for subscription or purchase, whether directly or indirectly, nor may any invitation or offer to subscribe for or purchase any Offer Shares be made, whether directly or indirectly, to any person in Singapore other than (i) pursuant to, and in accordance with the conditions of, exemptions invoked under Subdivision 4, Division 1 of Part XIII of the SFA, particularly Sections 274 and 275 of the SFA, and to persons to whom the Offer Shares may be offered or sold under such exemptions; or (ii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA (including any re-sale restrictions under Section 276 of the SFA). The MAS takes no responsibility for the contents of this prospectus or any of the documents referred to above.

Japan

The Offer Shares which are being offered hereby have not been or will not be registered under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended, the “Securities and Exchange Law”). None of the Offer Shares may be offered, re-offered, sold or re-sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except: (i) in compliance with the registration requirements of the Securities and Exchange Law or pursuant to any exemption available from such registration requirements; and (ii) in compliance with any other applicable requirements of Japanese law, regulations and ministerial guidelines. Such other applicable requirements may include (a) the reporting or other regulations under the Foreign Exchange and Foreign Trade Law of Japan (Law No. 228 of 1949, as amended) and the regulations promulgated thereunder, (b) restrictions on transferability under the Securities and Exchange Law, and (c) regulations of the Japan Dealers Association. As used in this paragraph, a “resident of Japan” means any individual residing in Japan and business offices in Japan, including any corporation or other entity established under the laws of Japan.

France

The Offer Shares may not be offered or sold, directly or indirectly, and copies of this prospectus or other documents or materials relating to the Global Offering may not be distributed or caused to be distributed, directly or indirectly, in France except to corporate entities having the status of “qualified investors” (investisseurs qualifiés) and acting for their own account, as defined in, and in accordance with, Article L. 411-2 of the French Code Monétaire et Financier, or otherwise in circumstances which have not resulted and will not result in a public offering (appel public a l’épargne) in France as defined in Article L. 411-1 of the French Code Monetaire et Financier. In accordance with Article 211-4 of the General Regulations (Règlement Général) of the French Autorité des Marchés Financiers, such qualified investors (investisseurs qualifiés) are informed that: (i) neither this prospectus nor any other offering material in relation to the

Offer Shares has been or will be lodged or registered with the French Autorité des Marchés Financiers; (ii) they must participate in the offering for their own account, in the conditions set out in Articles D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code Monétaire et Financier; and (iii) the direct or indirect resale to the public in France of the Offer Shares can only be made in accordance with Articles L.411-1 , L.411-2, L.412-1 and L.621-8 to L.621-8-3 of the French Code Monétaire et Financier.

PRC

This prospectus may not be circulated or distributed in the PRC and the Offer Shares may not be offered or sold directly or indirectly to any resident of the PRC, or offered or sold to any person for re-offering or re-sale directly or indirectly to any resident of China except pursuant to applicable PRC laws and regulations.

Cayman Islands

The Offer Shares may not be offered or sold, directly or indirectly, to the public in the Cayman Islands.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee of the Stock Exchange for the granting of the listing of, and permission to deal in, the Shares in issue and the Shares to be issued pursuant to the Global Offering (including the Shares which may be issued pursuant to the exercise of any options to be granted under the Share Option Scheme). Save as disclosed in this prospectus, no part of the share or loan capital of the Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

HONG KONG BRANCH REGISTER AND STAMP DUTY

All Offer Shares sold pursuant to applications made in the Public Offer will be registered on the Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members is maintained in the Cayman Islands by Butterfield Fund Services (Cayman) Limited.

Dealings in Offer Shares registered in the branch register of members of the Company maintained in Hong Kong will be subject to Hong Kong stamp duty.

PROFESSIONAL TAX ADVICE RECOMMENDED

Potential investors in the Global Offering are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding and dealing in the Offer Shares. None of the Company, the Selling Shareholders, the Global Coordinator, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering accepts responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposal of Offer Shares.

OVER-ALLOTMENT AND STABILISATION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, prevent a decline in the market price of the securities below the offer price. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price.

In connection with the Global Offering, the Global Coordinator, as stabilising manager, or its affiliates or any person acting for it, may over-allocate, make purchases or effect any other transactions with a view to stabilising or maintaining the market price of the Shares at a level higher than that which might otherwise prevail in the open market for a limited period on and after the commencement of trading in the Shares on the Stock Exchange. Such transactions may be effected in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Global Coordinator, its affiliates or any person acting for it to do this. Such stabilisation, if commenced, will be conducted at the sole and absolute discretion of the Global Coordinator, its affiliates or any person acting for it and may be discontinued at any time, and must be brought to an end after a limited period.

The Global Coordinator, its affiliates or any person acting for it may take all or any of the following stabilising actions in Hong Kong during the stabilisation period:

(i) purchase, or agree to purchase, any of the Offer Shares or offer or attempt to do so for the sole purpose of preventing or minimising any reduction in the market price of the Offer Shares;

(ii) in connection with any action described in paragraph (i) above;

(A) (1) over-allocate the Offer Shares; or

(2) sell or agree to sell the Offer Shares so as to establish a short position in them,

for the sole purpose of preventing or minimising any reduction in the market price of the Offer Shares;

(B) exercise the Over-allotment Option and purchase or agree to purchase the Offer Shares in order to close out any position established under paragraph (A) above;

(C) sell or agree to sell any of the Offer Shares acquired by it in the course of the stabilising action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or

(D) offer or attempt to do anything as described in paragraphs (ii)(A)(2), (ii)(B) or (ii)(C) above.

The Global Coordinator, its affiliates or any person acting for it may, in connection with the stabilising action, maintain a long position in the Offer Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Global Coordinator, its affiliates or any person acting for it and selling in the open market, which may include a decline in the market price of the Offer Shares.

Stabilisation cannot be used to support the price of the Offer Shares for longer than the stabilisation period, which begins on the day on which trading of the Offer Shares commences on the Stock Exchange and ends on the 30th day after the last day for the lodging of applications under the Public Offer, which is expected to fall on 7 July 2007. After this date, when no further stabilising action may be taken, demand for the Shares, and therefore their market price, could fall. A public announcement will be made within 7 days after the end of the stabilising period in accordance with the Securities and Futures (Price Stabilising) Rules of the SFO.

Any stabilising action taken by the Global Coordinator, its affiliates or any person acting for it may not necessarily result in the market price of the Shares staying at or above the Offer Price either during or after the stabilisation period. Stabilising bids or market purchases effected in the course of the stabilisation action may be made at any price at or below the Offer Price and can therefore be done at a price below the price the investor has paid in acquiring the Offer Shares.

In connection with the Global Offering, the Global Coordinator may over-allocate up to and not more than an aggregate of 40,500,000 additional Shares and cover such over-allocations through securities lending arrangements under the Securities Lending Agreement. Such borrowed Shares can be covered by exercising the Over-allotment Option or by purchases in the secondary market at prices that do not exceed the Offer Price or a combination of these means. Any such purchase will be made in compliance with all applicable laws, rules and regulatory requirements. The number of Shares that may be over-allocated will not exceed the total number of Shares that may be sold by the Over-allotment Option Grantors upon exercise of the Over-allotment Option, being 40,500,000 Shares in aggregate, which is 15% of the number of Offer Shares initially available under the Global Offering.

In particular, for the purpose of covering such over-allocations, the Global Coordinator may borrow up to 40,500,000 Shares from Sun Xu, equivalent to the maximum number of Shares to be sold on a full exercise of the Over-allotment Option, under the Securities Lending Agreement. The terms of the Securities Lending Agreement will be in compliance of the requirements set out in Rule 10.07(3) of the Listing Rules and will therefore not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules. The major terms under the Securities Lending Agreement are set out as follows:

(a) the securities lending arrangement under the Securities Lending Agreement will only be effected by the Global Coordinator for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option in connection with the Placing, if any;

(b) the maximum number of Shares to be borrowed from Sun Xu by the Global Coordinator will be limited to the maximum number of Shares which may be sold by the Over-allotment Grantors upon full exercise of the Over-allotment Option;

(c) the same number of Shares so borrowed from Sun Xu will be returned to it or its nominee (as the case may be) no later than 3 business days following the earliest of (i) the last day on which the Over-allotment Option may be exercised; (ii) the date on which the Over-allotment Option is exercised in full; or (iii) such earlier time as may be agreed in writing between Sun Xu and the Global Coordinator;

(d) the securities lending arrangement under the Securities Lending Agreement will be effected in compliance with all applicable laws, rules and other regulatory requirements; and

(e) no payments in relation to the securities lending arrangement under the Securities Lending Agreement will be made to Sun Xu by the Global Coordinator.

PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES

The procedure for applying for Public Offer Shares is set out in the sections headed "How to apply for Public Offer Shares" and "Terms and conditions of the Public Offer" in this prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Public Offer, the Placing and the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

ROUNDING

Certain monetary amounts included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

DIRECTORS

Name	Address	Nationality
Executive Directors		
Mr WANG Wenjian *(Chairman)*	Room 1001, Block 20 Shun Jiang Mansion Yuyao City Zhejiang Province PRC	Chinese
Mr YE Liaoning	Room 301, Block 7 Jin Shan Mansion Yuyao City Zhejiang Province PRC	Chinese
Mr XIE Minghua	046-301, East Area South Yangtze New City Yuyao City Zhejiang Province PRC	Chinese
Mr WU Jinxian	Room 906, Block 17 Century Mansion Yuyao City Zhejiang Province PRC	Chinese
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Mr ZHANG Yuqing	Room 1302 626 Long Chifeng Road Shanghai City PRC	Chinese

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Public Offer Underwriters	BNP Paribas Capital (Asia Pacific) Limited 59th to 63rd Floors Two International Finance Centre 8 Finance Street Central Hong Kong
	BOCI Asia Limited 26th Floor, Bank of China Tower 1 Garden Road Hong Kong
	Guotai Junan Securities (Hong Kong) Limited 27/F., Low Block, Grand Millennium Plaza 181 Queen’s Road Central Hong Kong

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CAF Securities Company Limited
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Compliance adviser	BNP Paribas Capital (Asia Pacific) Limited 59th to 63rd Floors Two International Finance Centre 8 Finance Street Central Hong Kong
Receiving bankers	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong Industrial and Commercial Bank of China (Asia) Limited 33rd Floor ICBC Tower 3 Garden Road Central Hong Kong Oversea-Chinese Banking Corporation Limited Hong Kong Branch 9th Floor 9 Queen's Road Central Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681GT George Town Grand Cayman British West Indies
Principal place of business in the PRC	Nos. 66–68 Shunyu Road Yuyao City Cheng District Zhejiang Province PRC
Principal place of business in Hong Kong	Suite 3403, 34th Floor Two Exchange Square 8 Connaught Place Central Hong Kong
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Authorised representatives	Mr Li Tyson Sandy Ying Lun Flat I, 1st Floor Hilltop Mansion 60 Cloudview Road Hong Kong Ms Lee Suk Yee Flat 1705, Block 13 Heng Fa Chuen Chai Wan Hong Kong
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Remuneration committee	Mr Koji Suzuki *(Chairman)* Mr Shao Yang Dong Mr Zhang Yuqing
Nomination committee	Dr Chang Mei, Dick or Dr Dick Mei Chang *(Chairman)* Mr Wang Wenjian Dr Liu Xu
Strategy and development committee	Mr Wang Wenjian *(Chairman)* Mr Koji Suzuki Dr Chang Mei, Dick or Dr Dick Mei Chang Mr Ye Liaoning Mr Xie Minghua Mr Wu Jinxian

CORPORATE INFORMATION

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Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
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THE OPTICAL COMPONENT INDUSTRY

The optical component industry has been in existence for a long time, with early applications, such as film cameras, microscopes, telescopes and eye glasses. Areas of application have increased significantly since the rapid development and strong growth of electronic consumer products, including mobile phones with cameras, DSCs, digital video camcorders, and PC peripheral digital image products, including printers, scanners and PC cameras. Optical components are one of the key components of electronic consumer products as they are highly correlated to the quality of the end products in which they are used. For instance, the resolution of camera mobile phones and DSCs are mainly determined by the use of lenses and lens sets. As a result, strong demand for electronic consumer products has in turn increased the demand for optical components.

The table below sets forth an overview of the optical component industry value chain:

	Types of Industry	**Products**
Upper stream Optical materials	• Optical glass • Optical plastic	• Optical glass plates, glass blanks • Plastic blanks for PC, CR-39, PMMA
Middle stream Optical components	• Optical components	• All kinds of lenses including: · Prisms · Masks · Colour filters • Camera lenses and lens sets • Camera modules
Down stream Optical component related application products	• Traditional products and office equipment	• Glasses, cameras, binoculars, microscopes, projectors, photocopiers, fax machines, printers
	• Consumer electronics and digital storage products	• DSCs, digital video cameras, projectors, camera mobile phones, CD/DVD players

Types of Industry	Products
• Computer peripherals	• Laser printers, image scanners, computer cameras, projectors
• Instruments and analytical products	• Spectrometers, spectrophotometers, interferometers, rangefinders, altazimuths, tachymeters
• Medical, industrial, commercial products	• Medical lasers, laser processing machines, barcode scanners
• Others	• Exposure equipment, ultraviolet curing equipment, lighting equipment, night visions for military use, car lights, vehicle equipment

Source: PIDA 2005

Optical lenses are one of the major components for the optical component industry value chain

Optical lenses are one of the major components for the optical component value chain driving the quality of the end products in which they are used. Optical lenses can be made of glass, plastic or a hybrid combination of glass and plastic. Glass lenses are generally used for high end products as such lenses have better precision, resolution and temperature tolerance. However, the average selling price for glass lenses is normally higher as the production process is more time consuming and labour intensive. Plastic lenses do not have the same quality traits, but the average selling price is generally much lower, which helps reduce the overall cost of the end products in which they are used. For hybrid lenses, plastic is melted, formed in a mould and then added to the surface of a glass lens to create the required curvature. The hybrid production process is quicker and more efficient, but the curvature of a hybrid lense is more likely to lose its shape due to the different physical characteristics of glass and plastic.

The curvature of a lens surface can be classified as spherical or aspheric. An aspheric lens has a variable curvature of a parabolic or other similar shape rather than the constant circular curvature of a spherical one. Due to variations in the curved surface, aspheric lenses can be produced to reduce the image distortion inherent in spherical lenses, thereby improving image quality and reducing lens size. Moreover, the use of aspheric glass elements to adjust refraction characteristics generally allows optical designers to employ fewer lenses in certain products. This reduces manufacturing cost and lightens product weight.

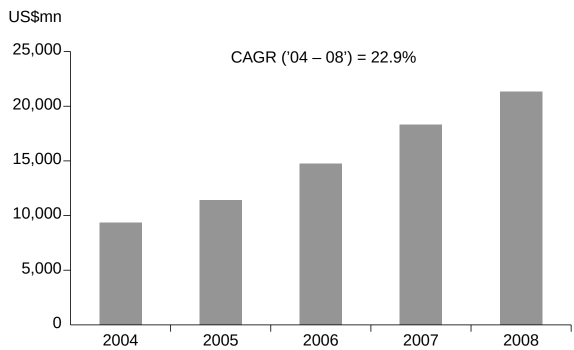
Both spherical and aspheric lens can be made with glass or plastic. Although plastic is mainly used to make aspheric lenses due to its relatively low production costs, the curvature of plastic aspheric lenses is usually seriously impacted by temperature changes. As a result, glass aspheric lenses were developed to provide a better solution for lenses for products where smaller sizes are important, such as mobile phones with cameras and DSCs.

Global optical lenses and lens set overview

The widespread digitalisation of end products since the end of the last century has turned into a new page for the development of optical lenses. Continuous demand for consumer electronics products such as DVD players, DSCs and mobile phones with cameras have resulted in strong demand for optical lenses and lens sets. According to PIDA, a regional photomes trade association based in Taiwan, global sales revenue for lenses and lens sets have reached US$11.5 billion in 2005, an increase of 22% compared to 2004. PIDA predicts that global sales revenue for lenses and lens sets will continue to increase and reach US$21.3 billion in 2008, representing a CAGR of 22.9%.

The following chart sets forth the historical and forecasted global revenue of lenses and lens sets from 2004 to 2008:

Worldwide Lens and Lens Set Revenue Trend, 2004–2008



Source: PIDA, 2005/12

Note: Figures above exclude traditional camera lenses and low end optical lenses.

Entry barriers for optical lenses and lens set production are high and the learning curve is long as it requires high initial investment, advanced technology and know-how, and intensive labour resources to produce optical lenses in large quantities. Most of the optical component manufacturers in the world today were established many years ago and were initially involved in manufacturing lenses for film cameras. The Directors believe that major optical component suppliers nowadays in Asia include, but not limited to, Largan Precision Co., Ltd, Asia Optical Co., Inc., Kinko Optical Co., Ltd. and Genius Electronic Optical Co., Ltd. in Taiwan; Enplas Corporation, Kanto Tatsumi Electronics Co., Ltd., Konica Minolta, and Hoya in Japan; and Phenix Optics and the Group in the PRC.

Manufacturers in Germany and Japan are the pioneers of the optical lenses and lens set market. With the increase in competition and pressure to lower production costs, many of the lenses and lens sets production have been moved to countries such as Taiwan and the PRC on a contract manufacturing basis. As a result, China has emerged as one of the main global manufacturing centres for lens and lens set.

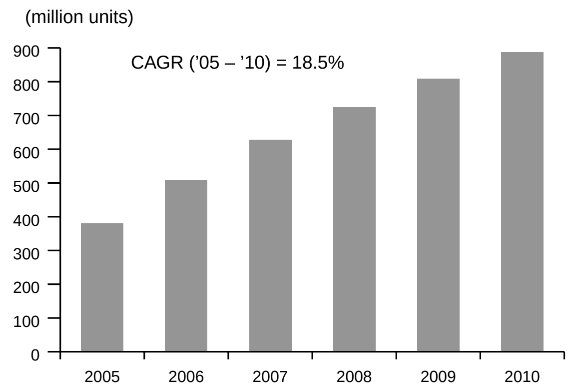
MAJOR END MARKETS

Camera mobile phone market

The camera mobile phone market is one of the largest and fast growing end product markets for optical components. Market expansion and increasing demand for better picture resolutions have driven demand for optical lenses and lens sets. According to IDC, worldwide shipments of mobile phones with cameras increased by 33.5% in 2006 compared to 2005. IDC expects that the unit shipment for mobile phones with cameras will continue to increase and reach approximately 888 million units in 2010, representing a CAGR of 18.5% for the period between 2005 and 2010. The Directors believe that the launch of new telecom services such as 3G will also be a growth driver for optical lens demand since 3G phones are usually equipped with 2 cameras which, in turn, increase the number of lenses used in the phone.

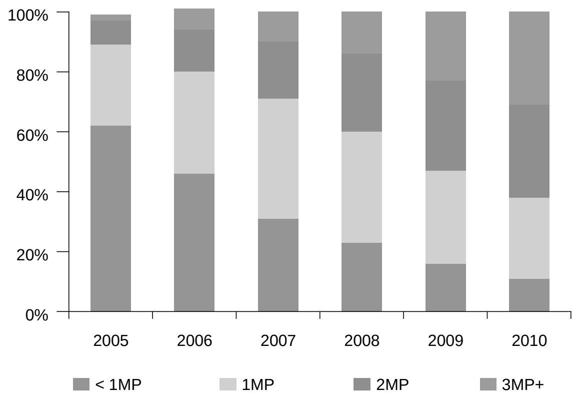
The following charts set forth the forecasted worldwide camera mobile phone unit shipment trend and the market share by camera resolution:

Worldwide Camera Mobile Phone Shipments, 2005–2010



Source: IDC, 2006

Worldwide Camera Mobile Phone Unit Shipments by Camera Resolution, 2005–2010



Source: IDC, 2006

Currently, the mainstream resolution for mobile phone cameras is VGA (i.e. 0.3 mega pixels), which is progressively shifting to higher resolutions such as 1.3 mega pixels, 2.0 mega pixels and 3.0 mega pixels. Such higher resolutions will require more sophisticated optical systems and more precise optical components. For example, VGA camera modules typically contain 2 plastic lenses, whereas camera modules with 1.3 mega pixel resolutions typically contain 3 plastic lenses or a combination of 2 plastic lenses and 1 glass lens. The introduction of features such as AF and zoom functions in camera mobile phones will also increase the number of lenses required. For example, typical zoom lens feature of 2, 3, and 4 times magnification require 4-6, 6-8 and 7-9 lenses, respectively.

China mobile phone market

The mobile phone market is driven by new subscriptions and replacement demand. According to IDC, although China is the world's largest mobile telecom market in terms of total service subscribers, its market penetration rate is still at a relatively low level compared to the developed countries, which highlights the growth potential of the market. IDC expects that the replacement market in China will grow even faster than the new mobile phone sales market. Replacement market growth is driven by increasing demand for better features and the quality of camera mobile phones and IDC believes that changing networks by subscribers, such as from GSM networks to CDMA networks or even the anticipated introduction of 3G services, will also contribute to the mobile phone replacement market in China.

China has emerged as the world largest mobile phone manufacturing base and its annual production capacity represents a significant portion of the global mobile phone production according to IDC. Many of the international leading mobile phone brands, such as Nokia, Motorola, Samsung and Sony Ericsson, have established production sites in China and account for a significant percentage of market share in China. Despite strong competition from the international leading brands, 5 out of the top 10 mobile phone manufacturers in terms of market share in China are domestic players. IDC predicts that the continuous increase in exports of mobile phones outside China will lead to stronger productivity and market presence of domestic players, which may result in a change in the competitive landscape between foreign and China players in the future. In addition, the Directors believe that the anticipated launch of China TD-SCDMA standard will benefit the domestic mobile phone manufacturers especially the telecom equipment manufacturers who also have the capability to manufacture mobile phones given their expertise in the TD-SCDMA standard.

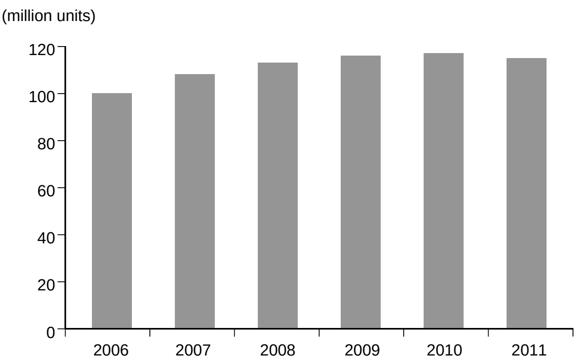
DSC market

Unlike traditional film cameras, pictures taken by a DSC can be stored in, edited and transmitted through the DSC. A DSC can also communicate with other devices such as PCs. According to IDC, the DSC market has experienced a sharp increase with unit shipment reaching 105 million in 2006, representing an annual growth rate of approximately 12% compared to 2005. While the market is expected to maintain high shipment levels for the next few years, IDC expects that the growth rate will begin to slow down or to decrease reaching around 115 million units shipped in 2011.

Generally, a DSC optical system will contain 7 to 8 optical lenses and certain prisms. Zoom lenses with higher magnifications will have more sophisticated optical systems with more lenses and prisms. For example, a high end 8 mega pixel digital single lens reflex digital camera with zoom lens usually has more than 10 lenses and one or more prisms. The Directors believe that the increasing demand for higher end DSCs will lead to increasing demand for both optical lenses and lens sets in terms of volume and quality.

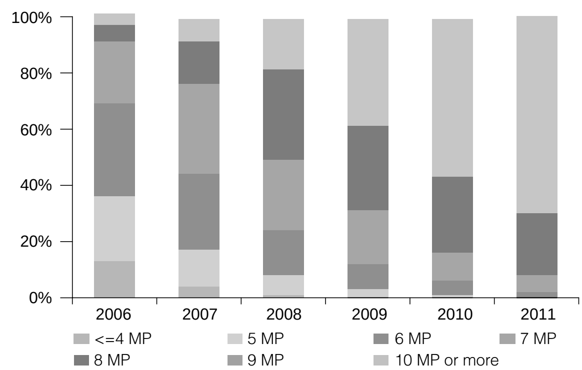
The graphs below set forth global DSC unit shipment trends from 2006 to 2011:

Worldwide DSC Shipments, 2006–2011



Source: IDC, 2007

Worldwide DSC Shipments by Mega Pixels, 2006–2011



Source: IDC, 2007

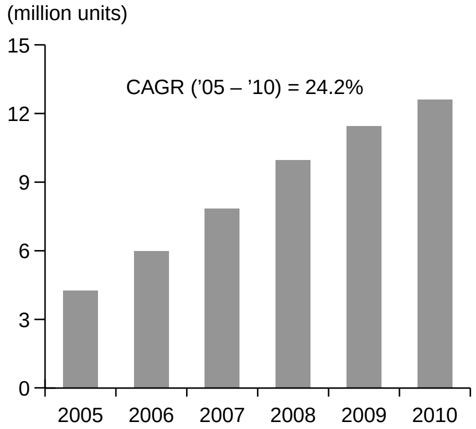
The China DSC market

The China DSC market is a fast growing market and is expected to maintain a healthy growth rate over the next five years. According to IDC, the China DSC market is also entering into an upgrade cycle and is driving toward a healthier high end market. As consumers become more knowledgeable about DSCs, they will look for stylish designs to match their lifestyles, in addition to better features and functions. Meanwhile, DSC manufacturers are moving toward higher-megapixel cameras, eliminating those with lower-megapixel capacities as they recognise the need to stay a step ahead of camera phone vendors.

According to IDC, China's DSC market achieved a sharp increase in 2005 with unit shipments increased to 4.25 million units and revenue increased to US$1,284 million, representing an annual growth rate of 71.6% and 46.1%, respectively, compared to 2004. IDC predicts that the market will continue to grow at a 24.2% CAGR from 2005 to 2010.

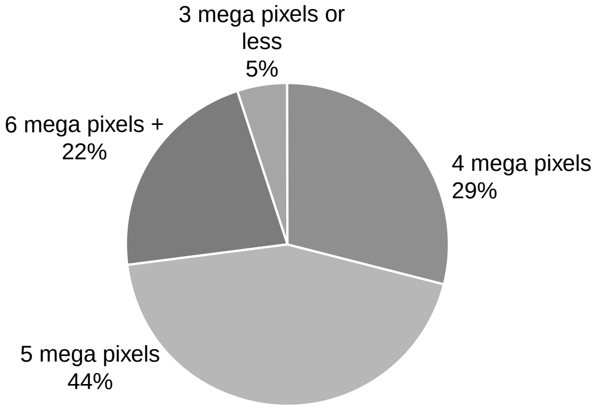
In China, the 4 mega pixels and 5 mega pixels segments are the mainstream products and represented a combined market share of approximately 73% of the overall market share in the second half of 2005 according to IDC. The graphs below set forth the China DSC unit shipment trend from 2005 to 2010 and the market share by pixel for 2005:

China DSC Shipments, 2005–2010



Source: IDC, 2006

China DSC Unit Shipments by Pixel, 2005



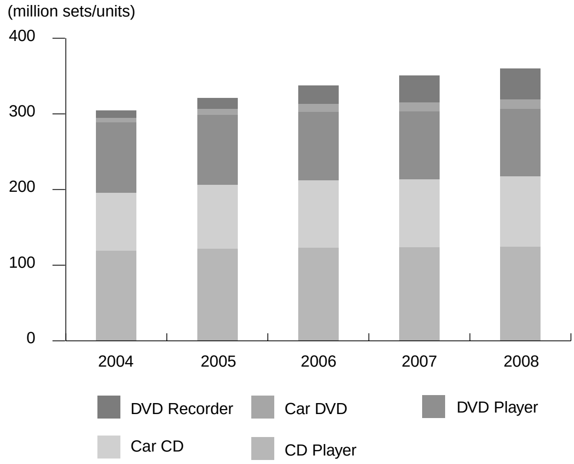
Source: IDC, 2006

Note: The above breakdown excluded DSLR

DVD/CD player market

According to PIDA, CD players, DVD players and DVD recorders accounted for the second largest share of the total global optical component market behind camera mobile phones in terms of sales volume in 2005. The development trend of DVD/CD players is different from mobile phone with cameras and DSCs mentioned above. Instead of moving to the direction of higher resolutions and higher degrees of precision, DVD/CD player improvements have largely focused on signal processing and channeling of laser light and is mainly reflected in high numerical aperture of lenses for decoding the signals contained in the optical discs. The pick-up heads of optical discs are made up of tiny and diversified lenses and other components applying geometric optics, diffractive optics and polarisation optics technologies. The DVD has become a mainstream product and its future growth is expected to be driven by improvements in the pick-up head, or the introduction of advanced features such as the use of blue-ray disc, all of which are anticipated to require increasingly sophisticated lenses.

The table below sets forth the worldwide consumer DVD/CD player market trend between 2004 and 2008:



Source: PIDA, 2005

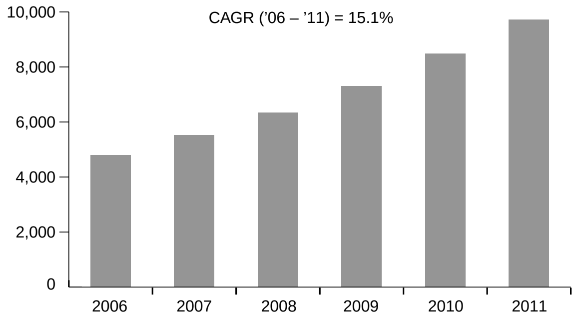
Projector market

Demand for optical components for use in various kinds of projectors is large and unit prices of such optical components are high. Although the unit prices of such optical components are high as a result of the unique functions performed by such components, their complicated specifications and the variety of projection technologies, manufacturers of such optical components have endeavoured to lower prices so as to expand the market size of projectors. In addition to office use, projectors are being used as part of home theatre systems. As the applications for projectors have widened, the market size of projectors expanded and the unit price of optical components for use in projectors continues to decrease.

According to PIDA, it is expected that there will be an increase in PRC manufacturers engaging in the manufacture of lens sets for use in projectors in the coming two to three years to satisfy domestic demand as a result of the migration of assembly and production of projectors to the PRC. The production of lens sets for use in projectors has historically been controlled by Japanese and Taiwanese manufacturers. However, as these Japanese and Taiwanese manufacturers have begun to invest in the PRC to start up their production of lens sets for use in projectors, it is believed that domestic manufacturers in the PRC will acquire the techniques for producing projector lens sets and gain an increasing market share in the near future.

The following graph sets forth the worldwide projector shipments trend for the period 2006–2011:

Worldwide Projector Shipments, 2006–2011



Source: IDC, 2007

Optical instruments market

Optical instruments include a diverse range of technically advanced products including microscopes, analytical instruments and survey instruments. Similar to the consumer electronic products, optical components are key components to optical instruments helping to drive the quality of the products.

Currently, optical instrument manufacturers who possess advanced technology in manufacturing optical instruments are mainly located in the U.S. and Japan. The Directors believe that the PRC manufacturers will continue to leverage on its competitive cost advantage and focus on manufacturing products for the lower-end market while the U.S. and Japanese manufacturers will focus on manufacturing products for the higher-end markets.

Other general products

Optical components are widely used in many kinds of products, including consumer electronic products, traditional office equipment and medical equipment. Currently, much of the demand for optical components comes from consumer electronic products due to strong growing demand. However, consumer electronic products should not be viewed as the only growing market as it only accounts for a portion of the total optical component market. For instance, the market for CCTV security cameras, which has experienced strong growth especially after the events of 9-11, has emerged as one of fastest growing markets, overtaking traditional office equipment in terms of sales volume in 2005.

With the increasing use of optical components, the Directors believe the optical component industry will experience a healthy growth.

GROWTH FACTORS DRIVING THE OPTICAL COMPONENT INDUSTRY

Continued outsourcing by consumer electronics manufacturer or OEMs

Intensive competition in the consumer electronic product market has forced manufacturers to respond quickly to changing consumer demands. In order to facilitate their response to such rapidly changing consumer demands, consumer electronic products manufacturers have begun to outsource greater portions of the manufacturing process to component manufacturers specialising in the production of certain advanced components, especially for camera mobile phones.

An OEM's decision to outsource a component is determined by multiple factors, including the degree of component standardisation, the degree of manufacturing complexity and the capability in technology know-how for specific components of the products. For highly engineered components, such as optical components and camera modules, many OEMs have outsourced the production process to highly skilled component manufacturers.

China as the global electronics manufacturing centre

The consumer electronic product market has become more competitive, with many end product manufacturers gradually moving their manufacturing bases to mainland China in order to benefit from lower production costs. For instance, Taiwanese manufacturers had an early presence in mainland China to develop the optical business. Subsequently, a number of foreign optical manufacturers have also been investing in the optical industry in mainland China. As a result, optical components and equipment producers with manufacturing facilities located in China may benefit from this trend as global manufacturers of optical components shift their production to China.

Continuous demand from end products

The optical component industry is highly correlated with down stream product manufacturers, and demand for optical components is driven by the requirements of these products. As customers become more knowledgable about consumer electronic products and sensitive to product specifications, manufacturers are moving towards more advanced end products which require more advanced optical components. The Directors believe that the requirements for optical components will follow the following trends:

– Better quality and durability: the ongoing evolution of mobile camera phones, DSCs, DVD players and other consumer electronics devices with enhanced features will require optical components with higher performance, including higher end lenses and lens sets to support the improving functionalities

– Smaller in size: manufacturers will continue to miniaturise optical components to fit into smaller devices, such as mobile camera phones, DSCs and others

– Flexibility and speed of change: the life-cycle of new consumer electronic products is relatively short and optical component manufacturers are expected to adapt to the fast pace of technological change to deliver new products

MAJOR THREATS AND CHALLENGES TO THE OPTICAL COMPONENT INDUSTRY

Optical components are core components for a wide range of end products such as consumer electronic products. The development of the optical component industry depends on a large extent on the trends and developments in the end markets which the Directors believe are characterised by rapidly changing technology, frequent new product specifications and changing customer demands. In order to satisfy the requirements by these end product markets, the optical component manufacturers are required to adequately respond and adapt to technological developments in a timely and cost-effective manner through continuous improvement of its products and services.

In addition, following the migration of optical component manufacturers from places such as Japan and Taiwan to the PRC or other Asian countries in order to benefit from lower production costs, the competition between such manufacturers may potentially lead to a decline in prices of the optical components. It poses the challenge to the optical component manufacturers to maintain their profits, and therefore require to consistently seek for more efficient production approach.

LAWS AND REGULATIONS RELATING TO THE OPTICAL INDUSTRY IN THE PRC

The Group has been advised by the legal advisers as to PRC law that there is no law and regulation in the PRC which specifically governs the production and sale of optical-related products of the Group, except the specific regulations in the PRC set out below:

Regulations governing medical equipments

License for medical device manufacturer

《醫療器械監督管理條例》(Medical Devices Supervision and Administration Law*), which was promulgated in January 2000 by the State Council and came into effect on 1 April 2000, formed the legal basis for the administration of the medical devices. Medical devices are accordingly being administered based on their classification. Class I medical devices are those for which safety and effectiveness can be ensured through routine administration; Class II medical devices are those for which further control is required to ensure their safety and effectiveness; and Class III medical devices are those which are implanted into human body, or used for life support or sustenance, or pose potential risk to human body and thus must be strictly controlled in respect to safety and effectiveness.

Under《醫療器械生產監督管理辦法》(Measures for Supervision and Administration of Manufacture of Medical Devices*) promulgated by 國家醫藥管理局 (State Drug Administration*) and became effective on 20 July 2004, manufacturers of Classes II and III medical devices are required to obtain a 醫療器械生產企業許可證 (Licence for medical devices manufacturer*) after the relevant drug regulatory authority's approval.

A business licence will only be issued by the Industrial and Commercial Administration Department to the manufacturers that possess such licence.

The license for medical devices manufacturer will be valid for a period of 5 years. A new licence will be issued after reassessment, examination and approval by the relevant drug regulatory authority under the State Council.

The Group has obtained a licence for medical device manufacturer for manufacturing certain optical equipment, instruments and endoscope facilities for medical use. By holding such licence, the Group is approved to manufacture two models of biomicroscopes with specific features which fall into the categories of licensed products.

The quality control division of the Group is responsible for monitoring the ongoing compliance of the Group with the relevant regulations. There are plans and schedules to follow up the tasks relevant to renewal of licenses and qualifications, including the timetable for training and internal and external system reviews.

Medical devices products registration certificate

Under《醫療器械產品市場准入審查規定》(Rules for Assessment of Market Entrance Permission of Medical Devices Products) promulgated by 國家醫藥管理局 (State Drug Administration*) and became effective on 6 January 1996, any kind of medical devices products entering into the PRC market must lodge an application for the market entrance permission through their manufacturers or agents. According to《醫療器械產品市場准入審查規定－實施說明》(Rules for Assessment of Market Entrance Permission of Medical Devices Products — Accomplishment Instructions*) promulgated by the State Drug Administration on 1 March 1996, these medical devices are required to pass the safety test and effectiveness test and they include those manufactured in the PRC, and also those from other countries purported to enter into the PRC market. The manufacturers must lodge an application and thereafter obtain the certificate of registration and registered logo.

Pursuant to the《醫療器械註冊管理辦法》(Measures for Administration of Medical Devices Registration*) promulgated by 國家醫藥管理局 (State Drug Administration*) and became effective on 9 August 2004, all medical devices that being sold and used in the PRC must be registered, otherwise they cannot be sold or used.

The medical devices registration certificate will be valid for a period of 4 years. A renewal certificate should be applied for 6 months prior to its expiry date. A 2-year suspension in production will automatically render the certificate invalid.

The Group has obtained a registration certificate for medical device for the biological microscopes manufactured by Ningbo Instruments. If such registration certificate is withdrawn by the relevant authorities or the Group fails to obtain renewal of such certificate, the Group will be prohibited from selling the relevant biological microscopes in the PRC market.

The quality control division of the Group is responsible for monitoring the ongoing compliance of the Group with the relevant regulations. There are plans and schedules to follow up the tasks relevant to renewal of licenses and qualifications, including the timetable for training and internal and external system reviews.

Regulations governing measuring equipment

Licence for manufacturing measuring instruments or licence for repairing measuring instruments

《中華人民共和國計量法》 (PRC Metrology Law*) was promulgated by the National People's Congress in September 1985. It came into effect on 1 July 1986 and laid down the legal framework for the manufacture and administration of metrological products. Enterprises and institutions that manufacture, repair or distribute metrological products must abide by the PRC Metrology Law in order to ensure the uniformity of the national system of units of measurement and the accuracy and reliability of the values of quantities.

To be eligible for a business licence to be issued by the Industrial and Commercial Administration Department, the enterprises and institutions must obtain a 製造計量器具許可證 (Licence for manufacturing measuring instruments*) or a 修理計量器具許可證 (Licence for repairing measuring instruments*) from the metrological administrative department of a People's Government at the county level after being tested and qualified. The licence will be valid for a term of 3 years commencing from the date of issue and are subject to periodic renewal and reassessment.

《中華人民共和國依法管理的計量器具目錄(型式批准部分)》(PRC Directory of Metrological Equipment Administered by the Laws — The Part of Pattern Approval*) promulgated by 國家質量監督檢驗檢疫總局 (The General Administration of Quality Supervision, Inspection and Quarantine of the PRC*) and came into effect on 1 May 2006 further sets out the types of measuring equipments which require the above licences.

The Group has obtained a licence for manufacturing of measuring instruments for manufacturing auto level and spectrophotometer. If such licence is withdrawn by the relevant authorities or the Group fails to obtain renewal of such licence, the Group will be prohibited from manufacturing, repairing or distributing such products.

The quality control division of the Group is responsible for monitoring the ongoing compliance of the Group with the relevant regulations. There are plans and schedules to follow up the tasks relevant to renewal of licenses and qualifications, including the timetable for training and internal and external system reviews.

Regulations governing the standards of optical-related products

《中華人民共和國標準化法》(PRC Standardisation Law*), which came into effect on 1 April 1989, has formulated the legal framework for the development of standard directives and their applications by all industries and sectors nationwide.

National standards shall be formulated for the technical requirements that need to be unified nationwide. The Department of Standardisation Administration under the State Council shall formulate national standards. Where, in the absence of national standards, technical requirements for a certain trade need to be unified, trade standards may be formulated. Trade standards shall be formulated by competent administrative authorities under the State Council and reported to the Department of Standardisation Administration under the State Council.

National standards and trade standards shall be classified into compulsory standards and voluntary standards. Those for safeguarding human health and ensuring the safety of person and of property and those for compulsory execution as prescribed by the laws, administrative rules and regulations shall be compulsory standards, the others shall be voluntary standards.

Pursuant to the Directory of Compulsory National Standards as of December 2005, the Group's products and techniques that fall into its scope include, but are not limited to, electronic microscope, biological microscope, stereomicroscope, focimeter, level, surface imperfections of optical elements, and chamfers for optical parts. The Group is required to observe the compliance of the national and trade standards which are applicable to the Group's products. The Group launched a comprehensive quality assurance programme to ensure full implementation of its quality policy, which was formulated in accordance with the ISO and the relevant national and trade standards, within the Group.

It is an offence to manufacture or sell products that do not conform to the compulsory standards. Products and unlawful proceeds shall be confiscated and fine shall be imposed by the Industrial and Commercial Administration Department.

Environmental protection regulations

The Group is subject to various environmental laws and regulations stipulated by the State and local environmental protection bureaus relating to the storage, use, discharge of chemicals, solid waste, noise and other hazardous materials used in its production, as well as air quality regulations and restrictions on disposal of waste water. The major applicable laws and regulations include:

《中華人民共和國環境保護法》(Environmental Protection Law of the PRC*) promulgated by the Standing Committee of the National People's Congress with effect from 26 December 1989, governs the responsibilities and legal liabilities of enterprises in relation to environmental protection as well as prevention and control of industrial pollution. Such responsibilities include, but not limited to, (i) enterprises which cause any pollution in their production processes shall take effective measures to prevent and control any pollution so generated; (ii) any newly established or existing industrial enterprises shall use machinery and adopt production procedures which can minimise wastage generated, and adopt cost-effective pollution treatment technology when implementing corporate technological improvement; (iii) enterprises which cause any pollution in their production processes shall make necessary registration in accordance with the rules and regulated formulated by the relevant environmental protection administrative authorities;

《中華人民共和國環境噪聲污染防治法》(Law of PRC on Prevention and Control of Environmental Pollution of Noise*) promulgated by the Standing Committee of the National People's Congress with effect from 1 March 1997, governs the responsibilities and legal liabilities of enterprises in relation to prevention and control of noise pollution. Such responsibilities include, but not limited to, (i) industrial enterprises which generate any noise shall take effective measures to lessen any impacts caused by such noise; and (ii) enterprises using production machinery which will generate noise shall report to the relevant environmental protection administrative authorities of the ownership of such machinery and provide information, including level of noise generated by such machinery and measures taken up to reduce the noise so generated by the machinery;

《中華人民共和國水污染防治法》(Law of PRC on the Prevention and Control of Water Pollution*) promulgated by the Standing Committee of the National People's Congress with effect from 1 November 1984 (as modified on 15 May 1996) and《浙江省實施《中華人民共和國水污染防治法》辦法》(Rules on Enforcement of "Law of PRC on the Prevention and Control of Water Pollution" of Zhejiang Province*) promulgated by Zhejiang Standing Committee of People's Congress with effect from 1 September 1996, govern responsibilities and legal liabilities of enterprises in relation to prevention and control water pollution. Such responsibilities include, but not limited to, (i) enterprises which discharge sewage shall report to the relevant environmental protection administrative authorities of the ownership of any sewage discharging and treatment facilities and provide information, including type and amount of sewage discharged and measures taken up to reduce the sewage so discharged; (ii) enterprises shall obtain the approval from the relevant environmental protection administrative authorities for demolishing or laying idle any sewage treatment facilities; and (iii) enterprises shall adopt environmental protection procedures and strengthen its administration so as to reduce the amount of sewage generation;

《中華人民共和國大氣污染防治法》(Law of the PRC on the Prevention and Control of Air Pollution*) promulgated by the Standing Committee of the National People's Congress with effect from 1 September 2000, governs the responsibilities and legal liabilities of enterprises in relation to prevention and control air pollution. Such responsibilities include, but not limited to, (i) enterprises causing any air pollution shall report to the relevant environmental protection administrative authorities of the ownership of such machinery which causes polluted fumes and provide information, including type and amount of pollutants generated and measures taken up to reduce the level of air pollution; (ii) enterprises shall obtain the approval from the relevant environmental protection administrative authorities for demolishing or laying idle any air treatment facilities; and (iii) the concentration rate of the polluted fumes discharged by any enterprises shall not exceed national and local standards; and

《中華人民共和國固體廢物污染環境防治法》(Law of PRC on the Prevention and Control of Environmental Pollution of Solid Waste*) promulgated by the Standing Committee of the National People's Congress with effect from 1 April 2005, governs the responsibilities and legal liabilities of enterprises in relation to prevention and control solid waste pollution. Such responsibilities include, but not limited to, (i) enterprises/individuals which/who cause any solid waste pollution shall take measures to prevent and reduce any solid waste pollution; (ii) enterprises/individuals which/who engage in collection, storage, transportation, exploitation and disposal of solid waste, shall take measures to prevent diffusion, loss and leakage of such solid waste; (iii) unauthorised dumping or abandonment of solid waste are strictly prohibited; (iv) design and manufacture of products and its packaging shall comply with the relevant rules and regulations.

Insurance, labour and industrial safety regulations

In accordance with《中華人民共和國勞動法》(PRC Labour Law*), PRC employees shall be protected by insurance schemes that cover unemployment, retirement, personal injury, maternity and medical expenses.

Most optical or optical-related enterprises in the PRC maintain insurance policies in respect of their buildings, machinery, equipment, inventory and other facilities owned covering physical loss or damage arising from natural hazards or accidents in relation to their operation in the PRC. It is a business practice in the PRC that optical or optical-related enterprises do not maintain any public liability insurance or product liability insurance.

HISTORY AND DEVELOPMENT

Shareholding History of the Group

Creation and evolvement of Sunny Group

The history of the Group can be traced back to its predecessor, Sunny Group. In June 1993, Sunny Group was established as a joint stock co-operative enterprise in the PRC, pursuant to the approval《關於同意餘姚鎮建辦股份合作制企業的批覆》(餘鄉工生字[1993]017號) (Approval for the Establishment of Joint Stock Co-operative Enterprise in Yuyao Town (Yu Xiang Gong Sheng Zi [1993]017)*) issued by Village and Town Industrial Bureau of Yuyao City, with the name of 餘姚市眾利達光電公司 (Yuyao City Zhonglida Optoelectronic Company*) by the Initial Owners and Yuyao Optoelectronic. At the time of establishment, Sunny Group did not have any operation and had a registered capital of RMB500,000, representing cash of RMB400,000 and RMB100,000 contributed by the Initial Owners and Yuyao Optoelectronic, respectively, in proportion to their respective equity interests out of their own resources. Sunny Group was formed for the purpose of enhancing the business development of Yuyao Optoelectronic in view of the nature of Yuyao Optoelectronic of being a village collective enterprise (鄉辦集體企業) .

The Initial Owners were employees of Sunny Group as well as Yuyao Optoelectronic and consisted of 118 persons at the time of establishment. Among them, only 2 Initial Owners, namely, Mr Wang and 魯本緒 (Lu Benxu) had more than 3% equity interest in Sunny Group.

Yuyao Optoelectronic was a village collective enterprise (鄉辦集體企業) established before the enactment of the PRC Company Law. At the time of establishment, the principal business activities of Yuyao Optoelectronic were manufacturing of lenses and optical instruments and its principal assets were the equipment for manufacturing of optical components and optical instruments. As advised by the legal advisers to the Company as to PRC law, the ultimate ownership of Yuyao Optoelectronic was collectively but not severally vested in the people domiciled in the village; therefore, no particular person domiciled in the village was entitled to any particular interest in Yuyao Optoelectronic.

In January 1994, Yuyao Optoelectronic carried out an ownership confirmation process in accordance with《關於進一步完善鄉村集體企業產權制度改革的若干意見》(省委辦[1994]39號) (Certain Opinion on Further Improvement in the Reform of Property Ownership System of Collective Enterprises in Villages and Towns (Sheng Wei Ban [1994]39)*) and《關於股份制企業試點中有關問題處理意見的通知》(浙政辦發[1993]137號) (Notice Concerning the Opinion on Handling of Questions Arising from Trial Run of Joint Stock Enterprises (Zhe Zheng Ban Fa [1993]137*). These opinion and notice were adopted by the PRC Government to remedy the intrinsic ownership deficiencies of village collective enterprises by confirming property rights associated with them to their investors and staff collectively through staff incorporations. The ownership confirmation process was based on 2 asset confirmation agreements in January 1994 whereby, Yuyao Optoelectronic was confirmed to have total net assets as of January 1994 valued at RMB20,510,918, of which RMB13,070,918 was confirmed to be owned by Staff Shareholding Committee, RMB4,860,000 was confirmed to be owned by 浙江大學光電技術開發公司(Zhejiang University Optoelectronic Technology Development Company*) (being a party in collaboration with Yuyao Optoelectronic) and RMB2,580,000 was confirmed to be owned by 餘姚市城郊工業總公司 (Yuyao City Suburban Industry General Company*) (being a company wholly owned by The People's Government of Yuyao City). Staff Shareholding Committee belonged to one of the staff incorporations as mentioned in the said opinion and notice and established for the purpose of holding the equity interest in Yuyao Optoelectronic for the benefit of its staff. At that time, members of Staff Shareholding Committee were staff of Yuyao Optoelectronic as of 31 December 1993. The legal advisers to the Company as to PRC law have confirmed that the ownership confirmation process was legal and valid under applicable laws and regulations in the PRC.

In June 1994, Yuyao Optoelectronic underwent a conversion from village collective enterprise (鄉辦集體企業) to joint stock limited company with an initial registered capital of RMB25,000,000. The shareholding information of Yuyao Optoelectronic at that time is set out as follows:

Name of shareholder		**Contribution amounts to registered capital** *(RMB)*		**Percentage of shareholding** *(%)*
Staff Shareholding Committee		13,070,918		52.28
浙江大學光電技術開發公司(Zhejiang University Optoelectronic Technology Development Company*)		4,860,000		19.44
餘姚市城郊工業總公司(Yuyao City Suburban Industry General Company*)		2,580,000		10.32
中國農業銀行寧波市信託投資公司 (The Agricultural Bank of China Ningbo City Trust Investment Company*)		1,000,000		4.00
Sunny Group		864,082		3.46
Treasury shares *(Note)*		2,000,000		8.00
Shares held by staff		625,000		2.50
namely,				
Mr Wang	137,100		0.55	
Mr Ye	103,000		0.41	
魯本緒(Lu Benxu)	88,500		0.35	
Mr Wu	82,200		0.33	
張國賢(Zhang Guoxian)	80,200		0.32	
樓國軍(Lou Guojun)	78,800		0.32	
魯炳江(Lu Bingjiang)	55,200		0.22	
Total:		25,000,000		100.00

Note: Treasury shares refer to those shares issued by Yuyao Optoelectronic but without designated owners.

The investment of Staff Shareholding Committee, 浙江大學光電技術開發公司 (Zhejiang University Optoelectronic Technology Development Company*) and 餘姚市城郊工業總公司 (Yuyao City Suburban Industry General Company*) in the registered capital in Yuyao Optoelectronic was contributed by the interest confirmed to them in the ownership confirmation process. Other shareholders were promoters and their investments in the registered capital of Yuyao Optoelectronic was contributed in cash. The interest of Staff Shareholding Committee, 浙江大學光電技術開發公司 (Zhejiang University Optoelectronic Technology Development Company*) and 餘姚市城郊工業總公司 (Yuyao City Suburban Industry General Company*), which were confirmed pursuant to the ownership confirmation process, did not involve transfer of interest and thus no consideration was involved. Sunny Group, as one of the promoters of Yuyao Optoelectronic during its conversion to joint stock limited company, subscribed for 3.46% equity interest in Yuyao Optoelectronic, as a result of which a cross-holding between Sunny Group and Yuyao Optoelectronic was formed. As advised by the legal advisers to the Company as to PRC law, such cross-shareholding was not in breach of any laws, rules or regulations in the PRC at the relevant time.

In January 1995, Staff Shareholding Committee acquired 4.89% equity interest in Yuyao Optoelectronic out of the treasury shares at a consideration of approximately RMB1,222,253 by reference with the then registered capital of Yuyao Optoelectronic, thereby resulted in approximately 57.17% equity interest in Yuyao Optoelectronic. Sunny Group at the same time also acquired approximately 0.3% equity interest in Yuyao Optoelectronic at a consideration of approximately RMB75,138 out of the treasury shares by reference to the then registered capital of Yuyao Optoelectronic, thereby resulted in approximately 3.76% equity interest in Yuyao Optoelectronic.

In March 1995, Staff Shareholding Committee acquired in aggregate 2.50% equity interest in Yuyao Optoelectronic from Mr Wang, Mr Ye, 魯本緒 (Lu Benxu), Mr Wu, 張國賢 (Zhang Guoxian), 樓國軍 (Lou Guojun) and 魯炳江 (Lu Bingjiang) at an aggregate consideration of RMB625,000 by reference to the then registered capital of Yuyao Optoelectronic and 1.44% equity interest in Yuyao Optoelectronic from 浙江大學光電技術開發公司 (Zhejiang University Optoelectronic Technology Development Company*) at a consideration of RMB360,000 which was, as far as the Directors are aware, determined with reference to the then registered capital of Yuyao Optoelectronic. As a result of these acquisitions, Staff Shareholding Committee then held approximately 61.11% equity interest in Yuyao Optoelectronic.

In December 1995, the then equity owners of Yuyao Optoelectronic further contributed towards the registered capital and that the registered capital of Yuyao Optoelectronic was increased from RMB25,000,000 to RMB50,000,000. As 浙江大學光電技術開發公司 (Zhejiang University Optoelectronic Technology Development Company*) and 中國農業銀行寧波市信託投資公司 (The Agricultural Bank of China Ningbo City Trust Investment Company*) did not take up all their respective entitlement for new equity interest in Yuyao Optoelectronic, Staff Shareholding Committee acquired the 9.57% unsubscribed equity interest of 浙江大學光電技術開發公司 (Zhejiang University Optoelectronic Technology Development Company*) in Yuyao Optoelectronic at a consideration of RMB4,782,608.70 and the 2.17% unsubscribed equity interest of 中國農業銀行寧波市信託投資公司 (The Agricultural Bank of China Ningbo City Trust Investment Company*) in Yuyao Optoelectronic at a consideration of RMB1,086,957. These considerations were, as far as the Directors are aware, determined with reference to the then registered capital of Yuyao Optoelectronic, thereby Staff Shareholding Committee had approximately 72.85% equity interest in Yuyao Optoelectronic.

In June 1996, the registered capital of Sunny Group was increased from RMB500,000 to RMB1,090,000. Such increase in registered capital was contributed as to (1) RMB166,700 from the capital reserve of Sunny Group and (2) RMB423,300 in cash by Yuyao Optoelectronic. After such increase, the registered capital of Sunny Group was owned as to 51.06% by Yuyao Optoelectronic and as to 48.94% by the Initial Owners.

Sunny Group underwent a conversion from joint stock co-operative enterprise to limited liability company in April 2000 with its name changed to 浙江舜宇有限公司 (Zhejiang Sunny Limited*) pursuant to enactment of the PRC Company Law in July 1994 and《關於進一步完善鄉村集體企業產權制度改革的若干意見》(省委辦[1994]39號) (Certain Opinion on Further Improvement in the Reform of Property Ownership System of Collective Enterprises in Villages and Towns (Sheng Wei Ban [1994]39)*).

The following transactions occurred in connection with the evolvement of Sunny Group in 2000:

In order to resolve the cross-shareholding between Yuyao Optoelectronic and Sunny Group, in April 2000, Yuyao Optoelectronic transferred its 51.06% equity interest in Sunny Group to Staff Shareholding Committee at a cash consideration of RMB556,600, which was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the then registered capital of Sunny Group. After such transfer, there has been no more cross-shareholding between Sunny Group and Yuyao Optoelectronic.

In April 2000, Staff Shareholding Committee made a capital contribution of RMB100 million to Sunny Group in cash. As far as the Company is aware, such capital contribution was partly settled by a short term loan of RMB44 million (which was repaid in June 2000) and was partly settled by dividends distributed by Yuyao Optoelectronic and profit from investments of Staff Shareholding Committee. After such capital contribution, the registered capital of Sunny Group was increased to RMB101,090,000 and Sunny Group was owned as to 99.47% by Staff Shareholding Committee and 0.53% by the Initial Owners.

The Initial Owners, being members of Staff Shareholding Committee, confirmed that they consolidated their direct equity interest in Sunny Group with their indirect equity interest in Sunny Group through Staff Shareholding Committee since April 2000 by means of transferring their direct equity interest in Sunny Group to Staff Shareholding Committee in return for proportional increases in their indirect interest in Sunny Group through Staff Shareholding Committee.

After the above transfers of equity interest, increase in registered capital and consolidation of equity interest, the entire equity interest in Sunny Group was owned by Staff Shareholding Committee. As advised by the legal advisers to the Company as to PRC law, all of the aforesaid transactions were legal and valid under the then applicable laws and regulations in the PRC.

Given that the then PRC Company Law required a limited liability company to have at least 2 registered owners at the all relevant times, 9 individuals (in addition to Staff Shareholding Committee) became the registered owners of Sunny Group holding 0.53% equity interest in Sunny Group for the benefit of Staff Shareholding Committee in April 2000. The 9 individuals were Mr Wang, Mr Ye, Mr Wu, 張國賢 (Zhang Guoxian), 魯松岳 (Lu Songyue) and 吳桂娣 (Wu Guidi) (all of whom being Sunny Nominees) and 朱美珍 (Zhu Meizhen), 謝文獻 (Xie Wenxian) and 黃志鵬 (Huang Zhipeng), all of whom were senior management staff of Sunny Group, and they have 3.46%, 6.20%, 2.81%, 2.37%, 1.15%, 1.31%, 0.38%, 0.50% and 0.27% beneficial interest under the Sunny Employee Trust, respectively. These individuals became the registered owners of Sunny Group as a result of the aforesaid consolidation of equity interest in Sunny Group. No actual transfer of equity interest in Sunny Group took place and no consideration was involved. They have not entered into any written agreement to codify their holding of interest in Sunny Group for the benefit of members of Staff Shareholding Committee at that relevant time.

As advised by the legal advisers to the Company as to PRC law, the arrangement for the holding of relevant interest in Sunny Group by the 9 registered owners for the benefit of Staff Shareholding Committee is legal and valid under the applicable laws and regulations in the PRC.

In May 2000, Staff Shareholding Committee transferred its 72.85% equity interest in Yuyao Optoeletronic to Sunny Group in order to increase the flexibility for future listing in the PRC equity market. The consideration of RMB36,425,908, which was, as far as the Directors are aware, negotiated at arm's length and with reference to the then registered capital of RMB50,000,000 of Yuyao Optoelectronic and an appraisal by a PRC independent valuer, was paid in cash by Sunny Group out of its own resources. After such transfer, Sunny Group held 76.61% equity interest in Yuyao Optoeletronic and the equity interests in Yuyao Optoelectronic became the principal assets of Sunny Group.

In December 2000, Staff Shareholding Committee resolved to make the Distribution to its members so that such members would hold the respective equity interest in Sunny Group in their own capacity. At that time, Staff Shareholding Committee had 404 members, all being Sunny Staff Shareholders. The Entrustment Arrangements were adopted in order to practically implement the Distribution by limiting the number of registered owners of Sunny Group. With the establishment of the Entrustment Arrangements, the equity interest in Sunny Group held by Staff Shareholding Committee was transferred to 27 Sunny Nominees (of whom 6 were some of the original registered owners of Sunny Group and 21 Sunny Nominees were made new registered owners), thereby these 27 Sunny Nominees held the entire equity interest in Sunny Group for themselves and/or on behalf of the then 404 Sunny Staff Shareholders under the Entrustment Arrangements. The number of Sunny Nominees has been reduced from 27 to 25, after 漆曉波 (Qi Xiaobo) and 谷通岑 (Gu Tongcen) ceased to be Sunny Nominees in January 2001 and June 2004, respectively. Please refer to the section headed "History, Reorganisation and Group structure — History and development — Entrustment Arrangements" in this prospectus for the details of the Entrustment Arrangements.

The entitlements under the Distribution were confirmed by the members of Staff Shareholding Committee and the relevant department in respect of the Distribution. As advised by the legal advisers to the Company as to PRC law, the Distribution did not require any governmental approvals and the Distribution and the Entrustment Arrangements were legal and effective and not in breach of any law, rule or regulation in the PRC at the relevant time.

In March 2001, the registered capital of Sunny Group was increased to RMB109,122,000 after the capital contribution of RMB8,032,000 by Mr Wang in cash and Mr Wang's beneficial interest in the registered capital of Sunny Group was increased to approximately 7.58%.

In September 2003, the registered capital of Sunny Group was further increased to RMB128,122,000 after the capital contribution of RMB19,000,000 by Sunny Staff Shareholders in cash and Mr Wang's beneficial interest in the registered capital of Sunny Group was increased to approximately 7.68%. The cash contribution was made by relevant Sunny Staff Shareholders out of their own resources.

During the period from March 2001 to 28 July 2006, the number of Sunny Nominees and the beneficial interest of Sunny Staff Shareholders in Sunny Group underwent certain changes due to transfers of equity interest between Sunny Staff Shareholders and/or increases in registered capital of Sunny Group. Such changes in equity interest in Sunny Group would not affect the Entrustment Arrangements as the transferees have committed to abide by the investment entrustment agreement. The legal advisers to the Company as to PRC law have confirmed that such commitment was legal, valid and legally binding on such transferees.

During the Track Record Period, the number of Sunny Staff Shareholders increased from 407 as of 1 January 2004 to 427 as of 28 July 2006, as 28 new persons (namely, 裘文偉(Qiu Wenwei), 徐永松(Xu Yongsong), 康立杰(Kang Lijie), 胡艷宇(Hu Yanyu), 盧國鑫(Lu Guoxin), 邱軍文(Qiu Junwen), 付殿良(Fu Dianliang), 劉詩豐(Liu Shifeng), 張宏達(Zhang Hongda), 張寶忠(Zhang Baozhong), 賀宗貴(He Zonggui), 孫泱(Sun Yang), 許淼(Xu Miao), 楊世洪(Yang Shihong), 張扣文(Zhang Kouwen), 吳身健(Wu Shenjian), 周財根(Zhou Caigen), 戴付建(Dai Fujian), 徐加軍(Xu Jiajun), 蔡立高(Cai Ligao), 于學泳(Yu Xueyong), 潘林嶺(Pan Linling), 劉鋭(Liu Rui), 趙治平(Zhao Zhiping), 沈波(Shen Bo), 黃衛兵(Huang Weibing), 張志平(Zhang Zhiping) and 李四清(Li Siqing)) acquired equity interest in Sunny Group and became Sunny Staff Shareholders and 8 persons (namely, 魯建裕(Lu Jianyu), 俞菊芬(Yu Jufen), 周科(Zhou Ke), 沈建兒(Shen Jianer), 鄭映萍(Zhen Yingping), 徐乃君(Xu Naijun), 陳惠力(Chen Huili) and 谷通岑(Gu Tongcen) sold their equity interests in Sunny Group and ceased to be Sunny Staff Shareholders (and in the case of 谷通岑(Gu Tongcen), he ceased to be a Sunny Nominee as well). The entire equity interest in Sunny Group was held by 25 Sunny Nominees (including 3 executive Directors and 7 members of the Group's senior management) for the benefit of the 427 Sunny Staff Shareholders (including themselves) immediately before and after 28 July 2006 (i.e. the commencement date of the Reorganisation). The details of shareholding in Sunny Group from 1 January 2006 to 28 July 2006 are as follows:

Shareholding in Sunny Group during the period from 1 January 2006 to 28 July 2006 (being the commencement date of the Reorganisation)

	Name of Sunny Nominees *(Note 1)*	Position in the Group	No. of Sunny Staff Shareholders represented by the Sunny Nominees (excluding Sunny Nominee)	Personal interest (Beneficial interest) (a)	% of Total (Registered Interest) (b)	Interest held for other Sunny Staff Shareholders (c)	% of Total (Registered interest) (d)	Total (Registered interest) (a) + (c)	% of Total (Registered interest) (b) + (d)
1	王文鑾(Wang Wenjian)	Director *(Note 4)*	208	13,933,394	10.8751	38,665,012	30.1783	52,598,406	41.0534
2	葉遼寧(Ye Liaoning)	Director	55	7,339,419	5.7285	7,206,529	5.6247	14,545,948	11.3532
3	樓國軍(Lou Guojun)	Senior management	23	2,766,731	2.1595	5,101,739	3.9819	7,868,470	6.1414
4	王文杰(Wang Wenjie)	Senior management	17	4,409,983	3.4420	2,482,432	1.9376	6,892,415	5.3796
5	許同一(Xu Tongyi)	Staff *(Note 2)*	—	5,296,916	4.1343	—	—	5,296,916	4.1343
6	吳桂娣(Wu Guidi)	Staff	31	1,550,685	1.2103	3,079,729	2.4037	4,630,414	3.6140
7	張國賢(Zhang Guoxian)	Senior management	7	2,808,525	2.1921	1,047,384	0.8175	3,855,909	3.0096
8	吳進賢(Wu Jinxian)	Director	10	3,318,949	2.5905	497,225	0.3881	3,816,174	2.9786
9	倪文軍(Ni Wenjun)	*(Note 3)*	14	2,364,463	1.8455	863,216	0.6737	3,227,679	2.5192
10	潘為民(Pan Weimin)	Senior management	4	2,468,206	1.9264	517,703	0.4041	2,985,909	2.3305
11	程宏(Cheng Hong)	*(Note 3)*	14	202,997	0.1584	2,632,523	2.0547	2,835,520	2.2131
12	陳惠廣(Chen Huiguang)	Senior management	2	2,468,206	1.9264	248,056	0.1936	2,716,262	2.1200
13	魯炳江(Lu Bingjiang)	*(Note 3)*	7	1,874,741	1.4632	640,701	0.5001	2,515,442	1.9633
14	吳俊(Wu Jun)	Senior management *(Note 2)*	—	2,468,206	1.9264	—	—	2,468,206	1.9264
15	黃小強(Huang Xiaoqiang)	*(Notes 2 & 3)*	—	1,863,186	1.4542	—	—	1,863,186	1.4542
16	董紀友(Dong Jiyou)	*(Notes 2 & 3)*	—	1,863,186	1.4542	—	—	1,863,186	1.4542
17	魯玉曉(Lu Yuxiao)	Staff	10	709,825	0.5540	1,099,142	0.8579	1,808,967	1.4119
18	魯松岳(Lu Songyue)	*(Note 3)*	1	1,357,815	1.0598	34,660	0.0271	1,392,475	1.0869
19	龔曄(Gong Ye)	*(Notes 2 & 3)*	—	1,194,103	0.9320	—	—	1,194,103	0.9320
20	俞傳生(Yu Chuansheng)	Staff	1	867,993	0.6775	210,162	0.1640	1,078,155	0.8415
21	吳佩燕(Wu Peiyan)	Staff	2	375,246	0.2929	445,434	0.3477	820,680	0.6406
22	吳達雲(Wu Dayun)	Staff *(Note 2)*	—	647,051	0.5050	—	—	647,051	0.5050
23	沈曉江(Shen Xiaojiang)	Senior management	3	500,898	0.3910	137,085	0.1070	637,983	0.4980
24	胡賢宏(Hu Xianhong)	*(Note 3)*	2	112,663	0.0880	289,871	0.2262	402,534	0.3142
25	黃志明(Huang Zhiming)	*(Note 3)*	1	59,705	0.0466	100,305	0.0783	160,010	0.1249
	Total		*(Note 4)*	62,823,092	49.0338	65,298,908	50.9662	128,122,000	100.0000

Notes:

1. Sunny Nominees represent the registered owners of Sunny Group who hold such interest for the benefit of themselves and/or other relevant Sunny Staff Shareholders under the Entrustment Arrangements from time to time. These 25 Sunny Nominees remain as the registered owners of Sunny Group during the Track Record Period. 6 of them held the equity interest in Sunny Group for the benefit of themselves only and did not hold any interest for the benefit of other Sunny Staff Shareholders.

2. During the Track Record Period, each of these Sunny Nominee only held an interest on their own behalf.

3. Such Sunny Nominee is an ex-employee of the Group as of the Latest Practicable Date.

4. The total number of Sunny Staff Shareholders was 427 comprising:

(i)	Sunny Nominees who held such interests for the benefit of themselves and/or other relevant Sunny Staff Shareholders under the Entrustment Arrangements from time to time	25
(ii)	Sunny Staff Shareholders who had their interests being held by only one of the Sunny Nominees	392
(iii)	Sunny Staff Shareholders who at the same time had their interests being held by two Sunny Nominees (Mr Wang being one of them)	9
(iv)	A Sunny Nominee who at the same time held such interest for the benefit of himself and had his interest being held by another one of the Sunny Nominees	1
		427

Before the Reorganisation, relevant Sunny Staff Shareholders indirectly owned the interests in Sunny Optics and Ningbo Instruments (since their establishments) through their respective interests in Sunny Group. After the Reorganisation, they indirectly owned the interests in Sunny Optics and Ningbo Instruments through their respective interests in Sun Guang and/or Sun Ji pursuant to the Sunny Employee Trust. Please refer to the sections headed "History, Reorganisation and Group structure — History and development — Establishment of Sunny Optics and Ningbo Instruments", "History, Reorganisation and Group structure — History and development — Entrustment Arrangements" and "History, Reorganisation and Group structure — Corporate reorganisation" for the details of the establishment of Sunny Optics and Ningbo Instruments and the relevant trust arrangements.

Establishment of Sunny Optics and Ningbo Instruments

For the purposes of expanding and streamlining the business of the Group, Sunny Optics and Ningbo Instruments, two of the Company's major operating subsidiaries, were founded by Sunny Group and four other promoters in the PRC, namely, Baoma, Sanyuan, Zhicheng and Jinrui in December 2001 as a joint stock limited company and a limited liability company respectively to have registered capitals of RMB50,000,000 and RMB25,000,000 respectively. Such registered capitals were contributed in cash and appropriate approvals by the relevant PRC authorities were obtained. At the time of its establishment, the name of Sunny Optics was 浙江舜宇光學股份有限公司 (Zhejiang Sunny Optical Company Limited*). The equity owners and their respective contribution amounts to the registered capital of, and percentages of equity interest in, Sunny Optics and Ningbo Instruments respectively when established were as follows:

Holders of equity interest	Contribution amounts to registered capital Sunny Optics *(RMB)*	 Ningbo Instruments *(RMB)*	% of equity interest *(%)*
Sunny Group	38,304,347	19,152,174	76.61
Zhicheng	5,000,000	2,500,000	10.00
Jinrui	5,608,696	2,804,348	11.22
Sanyuan	646,957	323,478	1.29
Baoma	440,000	220,000	0.88
Total	50,000,000	25,000,000	100.00

The assets then owned by Yuyao Optoelectronic in respect of the business of sale and manufacturing of optical components, which comprises fixed assets, buildings under construction and stock-in-trade, were sold to Sunny Optics at a consideration of RMB90,942,529.33, and the assets then owned by Yuyao Optoelectronic in respect of the business of sale and manufacturing of optical instruments, which comprised fixed assets and stock-in-trade, were sold to Ningbo Instruments at a consideration of RMB11,199,656.51. Subsequently, Yuyao Optoelectronic was de-registered in March 2003.

Save for the aforesaid transfers of assets to Sunny Optics and Ningbo Instruments, Yuyao Optoelectronic has no relationship with any member of the Group.

In April 2005, Sunny Optics was converted into a limited liability company and its current name, 浙江舜宇光學有限公司 (Zhejiang Sunny Optics Co., Ltd.), was adopted. In August 2003, the registered capital of Sunny Optics was increased to RMB70,000,000. In June 2004, the registered capital of Sunny Optics was further increased to RMB105,000,000. These increases in registered capital were contributed in cash by the relevant equity owners and appropriate approvals were obtained from the relevant PRC authorities. The following table shows the details of these 2 increases in the registered capital of Sunny Optics:

Equity owners	Contribution amounts to registered capital in Sunny Optics before the increase in August 2003	Additional amounts contributed	Contribution amounts to registered capital in Sunny Optics after the increase in August 2003	% of equity interest after the increase in August 2003	Additional amounts contributed	Contribution amounts to registered capital in Sunny Optics after the increase in June 2004	% of equity interest after the increase in June 2004
	(RMB)	*(RMB)*	*(RMB)*	*(%)*	*(RMB)*	*(RMB)*	*(%)*
Sunny Group	38,304,347	15,321,739	53,626,086	76.61	26,813,043	80,439,129	76.61
Zhicheng	5,000,000	2,000,000	7,000,000	10.00	3,500,000	10,500,000	10.00
Jinrui	5,608,696	2,243,478	7,852,174	11.22	3,926,087	11,778,261	11.22
Sanyuan	646,957	258,783	905,740	1.29	452,870	1,358,610	1.29
Baoma	440,000	176,000	616,000	0.88	308,000	924,000	0.88
	50,000,000	20,000,000	70,000,000	100.00	35,000,000	105,000,000	100.00

In September 2003, the registered capital of Ningbo Instruments was increased to RMB37,500,000 which was contributed in cash by the relevant equity owners and appropriate approvals were obtained from the relevant PRC authorities. The following table shows the details of such increase in the registered capital of Ningbo Instruments:

Equity owners	**Contribution amounts to registered capital in Ningbo Instruments before the increase**	**Additional amounts contributed**	**Contribution amounts to registered capital in Ningbo Instruments after the increase**	**% of equity interest after the increase**
	(RMB)	*(RMB)*	*(RMB)*	*(%)*
Sunny Group	19,152,174	9,576,087	28,728,261	76.61
Zhicheng	2,500,000	1,250,000	3,750,000	10.00
Jinrui	2,804,348	1,402,174	4,206,522	11.22
Sanyuan	323,478	161,739	485,217	1.29
Baoma	220,000	110,000	330,000	0.88
	25,000,000	12,500,000	37,500,000	100.00

Jinrui intended to dispose of its equity interest in Sunny Optics and Ningbo Instruments to Sunny Group and Sunny Group intended to increase its equity interest in Sunny Optics and Ningbo Instruments, therefore, in April and March 2005, Sunny Group acquired from Jinrui all of its equity interest in each of Sunny Optics and Ningbo Instruments at the considerations of RMB27,710,000 and RMB6,880,000, respectively. Each of the considerations was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the then prevailing net asset value determined by a PRC independent appraiser. After such transfers, the equity owners and their respective contribution amounts to the registered capital of and the percentages of equity interest in Sunny Optics and Ningbo Instruments in April 2005 respectively were as follows:

Equity owners	**Contribution amounts to registered capital**		**Approximate percentage of equity interest in each of Sunny Optics and Ningbo Instruments**
	Sunny Optics	**Ningbo Instruments**	
	(RMB)	*(RMB)*	*(%)*
Sunny Group	92,217,390	32,934,783	87.83
Zhicheng	10,500,000	3,750,000	10.00
Sanyuan	1,358,610	485,217	1.29
Baoma	924,000	330,000	0.88
Total	105,000,000	37,500,000	100.00

Since the deregistration of Yuyao Optoelectronic, equity interest in Sunny Optics and Ningbo Instruments have become the principal assets of Sunny Group.

In May 2005, the then existing equity owners of each of Sunny Optics and Ningbo Instruments transferred in aggregate 27.87% equity interest in each of Sunny Optics and Ningbo Instruments to Summit at considerations of US$7,800,000 and US$2,200,000, respectively. The considerations were, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the then prevailing net asset value of each of Sunny Optics and Ningbo Instruments. Summit invested in the companies as a passive investor and, Mr Shao Yang Dong, a non-executive Director, was appointed as a non-executive director of each of Sunny Optics and Ningbo Instruments as board representative of Summit. There were no special rights attached to any shares in each of Sunny Optics and Ningbo Instruments held by Summit. Each of Sunny Optics and Ningbo Instruments became a sino-foreign joint venture enterprise and the equity owners and their respective contribution amounts to the registered capital of and percentages of equity interest in Sunny Optics and Ningbo Instruments respectively in May 2005 were as follows:

Equity owners	Contribution amounts to registered capital		Approximate percentage of equity interest in each of Sunny Optics and Ningbo Instruments
	Sunny Optics	Ningbo Instruments	
	(RMB)	*(RMB)*	*(%)*
Sunny Group	66,528,000	23,760,000	63.36
Summit	29,263,500	10,451,250	27.87
Zhicheng	7,570,500	2,703,750	7.21
Sanyuan	976,500	348,750	0.93
Baoma	661,500	236,250	0.63
Total	105,000,000	37,500,000	100.00

Entrustment Arrangements

Sunny Group, the holding company of each of Sunny Optics and Ningbo Instruments prior to the Reorganisation, was established as a joint stock co-operative enterprise in the PRC in June 1993 and was converted into a limited liability company in April 2000. The entrusting Sunny Staff Shareholders entered into the investment entrustment agreements with the relevant entrusted Sunny Nominees (being the majority of the then Sunny Nominees) whereby the relevant entrusting Sunny Staff Shareholders assigned his/her voting power in general meetings of Sunny Group to the relevant entrusted Sunny Nominees and Sunny Nominees were made registered owners of Sunny Group. As registered owners of Sunny Group, the major roles and responsibilities of Sunny Nominees are to satisfy the capital injection obligation and abide by other obligations under the articles of Sunny Group. As entrusted persons under the investment entrustment agreements, Sunny Nominees have the obligations to preserve the equity interest in Sunny Group entrusted by relevant Sunny Staff Shareholders and to distribute any dividends declared by Sunny Group to relevant Sunny Staff Shareholders. Sunny Nominees, in attending general meetings of Sunny Group and voting on any resolutions proposed therein, were not subject to any restriction and they would not be affected in any way by any instructions from the Sunny Staff Shareholders.

Given that Mr Wang was a founder, the largest individual equity owners (both by his personal interest and registered interest held for the benefit of other Sunny Staff Shareholders) and the chairman of board of directors of Sunny Group with many years of experience in the optical industry, there was Voting Power Devotion from all of the then Sunny Staff Shareholders (excluding Mr Wang) to Mr Wang since the relevant Sunny Nominees became registered owners of Sunny Group, thereby Mr Wang effectively had actual and absolute control over Sunny Group before the implementation of the Reorganisation.

Moreover, the Sunny Nominees have confirmed the existence of the Voting Power Devotion under the confirmation letter dated 27 October 2006. The actual and absolute control by Mr Wang over Sunny Group was witnessed in every general meeting of Sunny Group during the Track Record Period, where all of the then Sunny Nominees (excluding Mr Wang) have consistently followed the proposals made by Mr Wang and acted consistently and unanimously in respect of all the major decisions made relating to Sunny Group by exercising the equity owners' rights for themselves and on behalf of the relevant Sunny Staff Shareholders (for example, the adoption of internal codes on management and investment in 2004, the amendments to the articles of association in 2005 and the extension of duration of operation in 2005). The consistent voting pattern in general meetings of Sunny Group during the Track Record Period was by no means a result of coincidences but the predetermined arrangement between the Sunny Nominees. There existed no special relationship, mutual trust or bonding between these 24 Sunny Nominees (who in aggregate held 58.90% voting power in general meetings of Sunny Group as of 28 July 2006) to act unanimously and consistently against Mr Wang during the Track Record Period.

As advised by the legal advisers to the Company as to PRC law, (i) the investment entrustment agreements formed the binding contractual relationship between the relevant Sunny Nominees and Sunny Staff Shareholders, pursuant to which the relevant Sunny Staff Shareholders assigned their voting power in general meetings of Sunny Group to the relevant Sunny Nominees; and (ii) the "habitual concurrence" was the performance of Sunny Nominees' contractual obligations to exercise voting power so assigned to them and did not amount to any breach of contract and fiduciary duties, which are common law concepts, are not applicable to the civil law jurisdiction currently adopted in the PRC.

The legal advisers to the Company as to PRC law have also confirmed that both the Entrustment Arrangements and the Voting Power Devotion were legal and valid under the relevant PRC laws, rules and regulations and the actual and absolute control over Sunny Group has been effectively vested in Mr Wang as a result of the Entrustment Arrangements and the Voting Power Devotion.

Establishment of other operating subsidiaries

Sunny Zhongshan was established in March 2004 in the PRC as a sino-foreign joint venture with a registered capital of US$7,260,000 and was owned as to 70% by Sunny Optics and as to 30% by Wood's Photo Supplies. The registered capital was contributed by the relevant equity owners in cash within the required timeframe and appropriate approvals were given by the relevant PRC authorities. In December 2005, Wood's Photo Supplies transferred all its equity interest in Sunny Zhongshan to Summit at a consideration of US$2,389,886, which was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the registered capital of Sunny Zhongshan. As far as the Directors are aware, the transfer was contemplated because at that time Summit was optimistic about the prospect of Sunny Zhongshan and Wood's Photo Suppliers wanted to increase the cash components in its investment portfolio. As a result of the transfer, Sunny Zhongshan was owned as to 70% by Sunny Optics and as to 30% by Summit. Wood's Photo Supplies became an Independent Third Party after its disposal of all its equity interest in Sunny Zhongshan.

Nanjing Instruments was established in August 2005 in the PRC as a limited liability company with a registered capital of RMB3,000,000. As the PRC Company Law at that time did not allow any limited liability company to have a sole registered owner, Nanjing Instruments was initially owned as to 90% by Ningbo Instruments and as to 10% by 黃衛兵 (Huang Weibing), a Sunny Staff Shareholder, being the vice general manager of Ningbo Instruments and the general manager of Nanjing Instruments. The registered capital was contributed by the relevant equity owners in cash within the required timeframe and appropriate approvals were given by the relevant PRC authorities. The PRC Company Law was revised in 2006, whereby, the aforesaid restriction was relieved, and, in December 2006, Ningbo Instruments entered into an equity transfer agreement, pursuant to which Ningbo Instruments acquired the remaining 10% equity interest in Nanjing Instruments then held by 黃衛兵 (Huang Weibing) at a consideration of RMB100,000 which was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the net asset value of Nanjing Instruments, as a result of which Nanjing Instruments became Ningbo Instruments' wholly-owned subsidiary. No appraisal of value was required and the approvals of such transfer by the relevant PRC authorities were obtained.

Sunny Opotech was established in December 2005 in the PRC as a sino-foreign joint venture enterprise and was owned as to 72% by Sunny Optics and as to 28% by Summit. The registered capital was contributed by the relevant equity owners in cash within the required timeframe and the appropriate approvals were given by the relevant PRC authorities.

Sunny Infrared was established in April 2006 in the PRC as a limited liability company with a registered capital of RMB5,000,000 and was owned as to 95% by Sunny Optics and as to 5% by 韓高榮 (Han Gaorong), an employee of the Group, being an initial director of Sunny Infrared and the appropriate approvals were given by the relevant PRC authorities. The capital contribution of RMB1,500,000 was contributed by the relevant equity owners in cash and the remaining RMB3,500,000 is required to be contributed by the equity owners within 2 years from its date of establishment. All the registered capital of Sunny Infrared has been paid within the required timeframe.

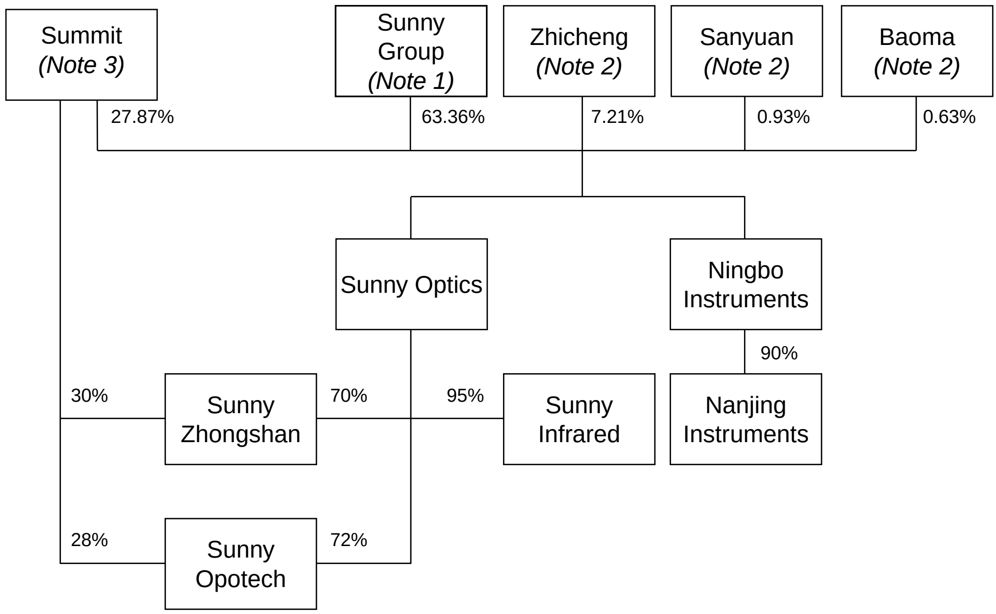
As it took much longer time to set up a wholly foreign owned company in Japan, Sunny Japan was first incorporated in August 2006 as a joint venture with certain Japanese. At the time of its establishment, 1,380 shares of JPY50,000 each have been issued to Sunny Optics and 600 shares of JPY50,000 each have been issued to Uenoyama Harumi, Kutade Tokiko and Develop Technology Investment Limited in aggregate, all being Independent Third Parties. All the shares of Sunny Japan have been fully paid by its owners. In order to accomplish the purpose of having Sunny Japan as a wholly-own subsidiary, Sunny Optics acquired the remaining equity interest in Sunny Japan in November 2006 at a consideration of JPY30,000,000 which was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to their investment costs, as a result of which Sunny Japan became its wholly-owned subsidiary.

Disposal of non-operating subsidiary

In April 2004, Sunny Optics acquired 55% equity interest in Shanghai Keyi from Sunny Group at a consideration of RMB1,700,000, which was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the then prevailing net asset value of Shanghai Keyi, for the purpose of developing the Japan market. As Sunny Optics considered that a Japan incorporated entity would facilitate the recruitment of Japanese employees, the prompt access to Japan market information and the provision of services to Japanese customers, Sunny Japan was established in August 2006 for promotion and marketing the Group's products in Japan in substitution for Shanghai Keyi. As such, the 55% equity interest in Shanghai Keyi was disposed to certain Independent Third Parties at RMB1,358,000, which was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the then prevailing net asset value of Shanghai Keyi, in August 2006. As a result of such disposal, the Group recorded a loss of RMB342,000. No appraisal of value was required and the approvals of such transfer by the relevant PRC authorities were obtained. At the relevant time, other equity owners of Shanghai Keyi were Independent Third Parties.

Group structure immediately prior to the Reorganisation

The following chart set out the beneficial shareholders and operating subsidiaries of the Group immediately prior to the Reorganisation:



Notes:

1. The entire equity interest in Sunny Group was held by the Sunny Nominees under the Entrustment Arrangements in favour of all the then Sunny Staff Shareholders.

2. The equity owners of Zhicheng, Sanyuan and Baoma were the PRC Investors.

3. Summit was incorporated in the BVI as an investment holding company. As of the Latest Practicable Date, Summit was beneficially owned as to 73.79% by Chengwei Funds (or 2.36% by Chengwei Partners, L.P., 65.00% by Chengwei Ventures Evergreen Fund, L.P. and 6.43% by Chengwei Ventures Evergreen Advisors Fund, LLC), 25.40% by Investor AB Funds (or 17.77% by Investor Investments Asia Limited and 7.63% by Investor Group Asia L.P.) and 0.81% by Independent Investors (or 0.23% by Ms Selina Mak and 0.58% by Mr Lap Hang Yung). Chengwei Funds refer to Chengwei Ventures Evergreen Advisors Fund, LLC, Chengwei Ventures Evergreen Fund, L.P., and Chengwei Partners, L.P., all of which are managed by Chengwei Ventures Evergreen Management, LLC (which is owned as to 30.19% by Mr Shao Yang Dong, a non-executive Director).

   Investor AB Funds refer to both Investor Group Asia L.P. (Mr Li Tyson Sandy Ying Lun, a non-executive Director, is one of the limited partners of Investor Group Asia L.P. and has approximately 3.23% equity interest therein) and Investor Investments Asia Limited. Investor AB Funds are investment funds that make investments in primarily Asia-based companies. The principal investor of Investor AB Funds is Investor AB (a company incorporated in Sweden whose shares are primarily listed and traded on the OMX Nordic Exchange).

CORPORATE REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company on 21 September 2006. The companies comprising the Group underwent the Reorganisation to rationalise the Group's structure in preparation for the Listing. As a result, the Company became the ultimate holding company of the Group.

A summary of the major steps of the Reorganisation is set out below:

Overseas restructuring

— Each of the Sunny Employee Trust and the PRC Investor Trust was set up and Sun Guang, Sun Ji, Sun Xu and Sun Zhong were incorporated in the BVI as investment holding companies through which all the then Sunny Staff Shareholders and the PRC Investors would hold their respective interests in the Company to be acquired as mentioned below.

— Intermediate investment holding companies including Sun Yu Optical, Sun Xiang Optical, Sun Li Instrument, Sunny Optical Overseas and Sunny Instruments Overseas were incorporated for the purpose of holding the 72.13% equity interest in each of Sunny Optics and Ningbo Instruments to be acquired during domestic restructuring as mentioned below, with Sun Yu Optical as their holding company and owned by Sun Xu and Sun Zhong.

— On 13 September 2006, Sun Yu Optical acquired the entire issued share capital of Summit Technology (BVI), the indirect owner of 27.87% equity interest in each of Sunny Optics and Ningbo Instruments by issuing its shares to Summit, equivalent to 27.87% of its enlarged issued share capital. Such consideration was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the 27.87% equity interest in each of Sunny Optics and Ningbo Instruments held by Summit.

— On 14 September 2006, Sun Yu Optical acquired the entire issued share capital of Summit Investment (BVI), the indirect owner of 28% equity interest in Sunny Opotech and 30% equity interest in Sunny Zhongshan at a consideration of US$4,125,900. Such consideration was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the investment costs paid by Summit.

— On 15 September 2006, CWI subscribed for 6.12% of the then enlarged issued share capital of Sun Yu Optical. The consideration of US$6,000,000 was, as far as the Directors are aware, determined at arm's length by the relevant parties with reference to the investment costs on Sunny Optics, Ningbo Instruments, Sunny Zhongshan and Sunny Opotech paid by Summit. As a result of the share swap between the Company and Sun Yu Optical on 24 October 2006, CWI owned 48,960,000 Shares immediately after the Capitalisation Issue. The cost per Share paid by CWI is US$0.123 (or equivalent to approximately HK$0.96). The Shares, save for the Sale Shares, held by CWI are subject to the lock-up requirements as detailed in the section headed "Substantial Shareholders — Non-disposal undertaking" in this prospectus. The subscription by CWI was materialised after Investor AB Funds and Chengwei Funds were satisfied with the results and performance of the Group in the financial year of 2005. The investment provided the financial resources required by the Group to acquire Summit Investment (BVI) (and hence the indirect 28% equity interest in Sunny Opotech and 30% equity interest in Sunny Zhongshan) at the consideration of US$4,125,900 contemplated under the above sale and purchase agreement dated 14 September 2006 and expenditures incurred outside the PRC.

— On 21 September 2006, the Company was incorporated and on 24 October 2006, a share swap was implemented whereby the entire issued share capital of Sun Yu Optical was transferred to the Company by Sun Zhong, Sun Xu, Summit and CWI, in consideration of the issue and allotment of shares by the Company to them proportionally.

For further details, please refer to the section headed "Further information about the Company — Reorganisation" in Appendix V to this prospectus.

Domestic restructuring

— Through a series of transfers in respect of the equity interest in the members of the Group which were established in the PRC, including, (i) acquisition of 72.13% equity interest in Sunny Optics by Sunny Optical Overseas; (ii) acquisition of 72.13% equity interest in Ningbo Instruments by Sunny Instruments Overseas; (iii) acquisition of 27.87% equity interest in each of Sunny Optics and Ningbo Instruments by Summit Technology (HK); (iv) acquisition of 30% equity interest in Sunny Zhongshan and 28% equity interest in Sunny Optech by Summit Investment (HK), after the Reorganisation, the Company wholly-owns, directly and indirectly, all other members of the Group, except, Sunny Infrared, which is owned indirectly as to 95% by the Company. The legal advisers to the Company as to PRC law have confirmed that all such transfers are valid and in full compliance with the relevant PRC laws and regulations. For further details, please refer to the section headed "Further information about the Company — Reorganisation" in Appendix V to this prospectus.

Bridging Loans

— For the purpose of financing the acquisition of 72.13% equity interest in each of Sunny Optics and Ningbo Instruments, Sun Xu and Sun Zhong borrowed a 2-month term loan of US$20.0 million from AF Investment Holdings Limited (an Independent Third Party) and Investor AB Funds in August 2006 with the provision of securities including (i) a personal guarantee by Mr Wang; (ii) a charge over the bank accounts maintained by Sun Xu, Sun Zhong, Sun Xiang Optical, Sun Li Instrument, and Sun Yu Optical; and (iii) a share mortgage on their shares in Sun Yu Optical.

Such loan was subsequently replaced by the ABC's Loan lent by ABC in October 2006 with the provision of securities including:

(i) personal guarantee given by Mr Wang;

(ii) share mortgage on an aggregate of 20.31% of the then issued share capital of the Company, held by Sun Xu and Sun Zhong;

(iii) share mortgage on an aggregate of 47.40% of the then issued share capital of the Company, held by Sun Xu and Sun Zhong under the Share Mortgage Deed;

(iv) a charge over the bank accounts maintained by Sun Xu and Sun Zhong;

(v) a debenture from the Company on all of the assets and undertakings of the Company,

of which the share mortgage set out in (ii) above will be released on or before the Price Determination Date and the debenture on all of the assets and undertakings of the Company will be released when the Underwriting Agreements become unconditional, while the other securities including the personal guarantee given by Mr Wang, the share mortgage under the Share Mortgage Deed and the charge over the bank accounts maintained by Sun Xu and Sun Zhong will be released when Sun Xu and Sun Zhong have fully repaid the ABC's Loan and the interest accrued thereon. It is the present intention of Sun Xu and Sun Zhong to repay the ABC's loan in full with the net proceeds from the sale of the Sale Shares *(Note)* and get all outstanding securities released shortly after the Listing Date (which is expected to be not later than July 2007).

Note:

The following table summarises the amount of proceeds and estimated net proceeds to be obtained by Sun Xu and Sun Zhong from the sale of the Sale Shares at the highest and lowest points of the indicative range of the Offer Price:

	61,000,000 Sale Shares offered by Sun Xu and Sun Zhong (assuming the Over-allotment is not exercised)		**65,050,000 Sale Shares offered by Sun Xu and Sun Zhong (assuming the Over-allotment is exercised in full)**	
Offer Price	**Proceeds**	**Estimated net proceeds**	**Proceeds**	**Estimated net proceeds**
(HK$)	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*	*(HK$ million)*
3.00	183.0	168.7	195.2	181.0
3.82	233.0	216.9	248.5	232.4

The ABC's Loan carries an annual interest of Hong Kong Interbank Offering Rate (HIBOR) plus 1.3% with the following repayment schedule:

(i) 30% of the ABC's Loan before 31 October 2007;

(ii) 30% of the ABC's Loan within 24 months from 27 October 2006, being the date of advance of the ABC's Loan;

(iii) 40% of the ABC's Loan within 36 months from 27 October 2006, being the date of advance of the ABC's Loan.

Upon completion of the Reorganisation, the Company became the ultimate holding company of the Group holding all the assets and businesses relating to optical components, optoelectronic products and optical instruments.

As advised by the legal advisers to each of the Company and the Sponsor as to PRC law respectively, since the Group had already obtained all necessary approvals from the relevant governmental authorities for issuance of securities overseas and reorganisation for the Listing before 8 September 2006, the relevant requirements of 《外國投資者併購境內企業規定》 (Provisions for Foreign Investors to Merge and Acquire Domestic Enterprises*), effective on 8 September 2006, are not applicable to the Group.

As part of the Reorganisation, some of the ultimate PRC individual Shareholders have set up relevant overseas SPVs as their investment holding vehicles. As advised by the legal advisers to each of the Company and the Sponsor as to PRC law respectively, these ultimate PRC individual Shareholders have completed all the requisite registration procedures on foreign exchanges for investment overseas for (i) the establishment of SPVs; (ii) the injection of PRC domestic interests into those SPVs; (iii) the issue of securities overseas, in accordance with 《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》

(Circular of the State Administration of Foreign Exchange on Relevant Issues concerning Foreign Exchange Administration of Financing and Return Investment Undertaken by Domestic Residents through Overseas Special-Purpose Vehicles*) issued on 21 October 2005 and that all required approvals and permits have been obtained by the Group.

Please refer to the section headed "Further information about the Company — Reorganisation" in Appendix V to this prospectus for a detailed description of the Reorganisation.

PRC Investor Trust

The PRC Investor Trust is a trust arrangement established under the laws of Hong Kong by a trust deed dated 28 July 2006 entered into between Mr Wang as trustee and the PRC Investors. As evidenced by the trust deed, the PRC Investors, as settlors, have irrevocably transferred, delivered and settled the entire issued share capital of Sun Zhong, to Mr Wang as trustee, to hold the same for the benefit of the PRC Investors, being the initial beneficiaries. The rights or interests of the PRC Investors on the trust property after the settlement are only derived from and in relation to their interests as beneficiaries and not as settlors of the PRC Investor Trust. As trustee of the PRC Investor Trust, Mr Wang shall hold and manage the trust property as if he were its owner without regarding any instructions from the beneficiaries but subject to (i) the fiduciary duties imposed by common laws to act for the best interest of the beneficiaries such as the duty not to make secret profits; and (ii) the statutory duties, powers and restrictions conferred by the trust deed and the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) such that Mr Wang may, subject to the provisions of the trust deed, sell, transfer or otherwise mortgage any property which forms part of the trust property and for so long as the shares in Sun Zhong form part of the trust property, appoint anyone including himself to be the director of Sun Zhong. The beneficiaries may, by means of resolutions passed by beneficiaries with more than 75% beneficial interest, appoint or remove the trustee at any time.

The PRC Investor Trust was established by the PRC Investors to hold their direct equity interest in Sun Zhong and consequently indirect interest in the Company through a trust arrangement rather than having individual members held their respective minimal percentage of equity interest. The purpose of setting up the PRC Investor Trust is to streamline the shareholding of the Company by grouping shareholders of similar interests and/or backgrounds for ease of management. There has been no change in the beneficial interest of the PRC Investor Trust since its establishment.

Mr Wang, as trustee of the PRC Investor Trust, holds the entire issued capital of Sun Zhong on trust for the benefit of the PRC Investors. The beneficiaries under the PRC Investor Trust are the PRC Investors. Each of them will be entitled to dividend payments in proportion to his/her percentage of entitlement as indicated in the trust deed. Before completion of the Reorganisation, Zhicheng, Sanyuan and Baoma beneficially owned 7.21%, 0.93% and 0.63% equity interests in each of Sunny Optics and Ningbo Instruments, respectively, and in aggregate beneficially owned 8.77% equity interest in each of Sunny Optics and Ningbo Instruments. When relevant members of the Group acquired 72.13% equity interest in each of Sunny Optics and Ningbo Instruments, Sun Yu Optical was beneficially owned as to 87.84% by Sun Xu and 12.16% by Sun Zhong (or Sun Zhong held an equivalent effective interest of 8.77% in each of Sunny Optics and Ningbo Instruments). The beneficial interests of the PRC Investors under the PRC Investor Trust are made in proportional to their respective effective interests in each of Sunny Optics and Ningbo Instruments. The indirect interests of the PRC Investors in each of Sunny Optics and Ningbo Instruments through Mr Wang's interest in Sun Zhong and hence the indirect interests in Sun Yu Optical held by Sun Zhong under the PRC Investor Trust, immediately after the acquisition of 72.13% equity interest in each of Sunny Optics and Ningbo Instruments by the Group, are mirror images of their respective interests in Sunny Group held through Zhicheng, Sanyuan and Baoma immediately before such acquisition.

Before the establishment of the PRC Investor Trust, each of Sanyuan, Zhicheng and Baoma was an equity owner of each of Sunny Optics and Ningbo Instruments. The relevant members of the PRC Investor Trust were entitled to exercise their voting power in general meetings of each of Sanyuan, Zhicheng and Baoma in accordance with their respective constitutional documents. Each of Sanyuan, Zhicheng and Baoma could then exercise their voting power in general meetings of Sunny Group. After the establishment of the PRC Investor Trust, Mr Wang is the trustee of the PRC Investor Trust and hence the registered owner of the entire issued share capital of Sun Zhong, and the PRC Investors (though are the initial beneficiaries of the PRC Investor Trust) do not have direct voting power in general meetings of the Company or Sun Zhong. The performance of Mr Wang as trustee of the PRC Investor Trust is, however, subject to the supervision of PRC Investors given that any disposal of the trust property shall be subject to resolutions passed by the beneficiaries of the PRC Investor Trust with more than 75% beneficial interests.

As far as the Directors are aware, each of Zhicheng, Baoma and Sanyuan has been after the establishment of the PRC Investor Trust, and is as at the Latest Practicable Date, validly subsisting and there has been no material change in ownership in each of Zhicheng, Sanyuan and Baoma during the Track Record Period before the establishment of the PRC Investor Trust and thereafter until the Latest Practicable Date.

Sunny Employee Trust

The Sunny Employee Trust is a trust arrangement established under the laws of Hong Kong by a trust deed dated 28 July 2006 entered into between Mr Wang as trustee and the Sunny Staff Shareholders, comprising 427 persons at that time. As evidenced by the trust deed, the Sunny Staff Shareholders, as settlors, have irrevocably transferred, delivered and settled the entire issued share capital of Sun Ji, to Mr Wang as trustee, to hold the same for the benefit of the Sunny Staff Shareholders, being the initial beneficiaries. The rights or interests of the Sunny Staff Shareholders on the trust property after the settlement are only derived from and in relation to their interests as beneficiaries and not as settlors of the Sunny Employee Trust. As trustee of the Sunny Employee Trust, Mr Wang shall hold and manage the trust property as if he were its owner without regarding any instructions from the beneficiaries but subject to (i) the fiduciary duties imposed by common laws to act for the best interest of the beneficiaries such as the duty not to make secret profits; and (ii) the statutory duties, powers and restrictions conferred by the trust deed and the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) such that Mr Wang may, subject to the provisions of the trust deed, sell, transfer or otherwise mortgage any property which forms part of the trust property and for so long as the shares in Sun Ji form part of the trust property, appoint anyone including himself to be the director of Sun Ji. Therefore, the beneficiaries will not be able to affect or influence the decisions of Mr Wang as trustee of the Sunny Employee Trust. Protectors, comprising 19 Sunny Nominees who were employees of the Group or held interests in Sunny Group for themselves and/or other Sunny Staff Shareholders at the relevant time, have been appointed under the trust deed for the purpose of protecting the interests of the beneficiaries of the Sunny Employee Trust. Any appointment or removal of protector may be determined by means of resolutions passed by beneficiaries with more than 75% beneficial interest. The protectors may propose any appointment or removal of trustee to the beneficiaries for their determination by means of resolutions passed by beneficiaries with more than 75% beneficial interest and hence the interests of the beneficiaries are protected. Without the proposal by protectors, the beneficiaries have no right to appoint or remove the trustee. So far as the Directors are aware, none of the protectors has any present intention to appoint any additional trustee or remove Mr Wang as trustee of the Sunny Employee

Trust. The trustee or the beneficiaries with more than 75% beneficial interest may terminate the Sunny Employee Trust, at which time, Sun Ji will be put into liquidation and the proceeds from liquidation will have to be distributed to the beneficiaries in accordance with their respective beneficial interests in the Sunny Employee Trust.

The following table shows the background information and beneficial interest of the protectors under the Sunny Employee Trust.

Name of protectors	Beneficial interest in the Sunny Employee Trust (%)	Position in the Group
葉遼寧(Ye Liaoning)	6.20	Director
許同一(Xu Tongyi)	4.48	Staff
王文杰(Wang Wenjie)	3.73	Senior management
吳進賢(Wu Jinxian)	2.81	Director
張國賢(Zhang Guoxian)	2.37	Senior management
樓國軍(Lou Guojun)	2.34	Senior management
吳俊(Wu Jun)	2.09	Senior management
陳惠廣(Chen Huiguang)	2.09	Senior management
潘為民(Pan Weimin)	2.09	Senior management
倪文軍(Ni Wenjun)	2.00	Ex-employee
魯炳江(Lu Bingjiang)	1.58	Ex-employee
吳桂娣(Wu Guidi)	1.31	Staff
魯松岳(Lu Songyue)	1.15	Ex-employee
俞傳生(Yu Chuansheng)	0.73	Staff
魯玉曉(Lu Yuxiao)	0.60	Staff
吳達雲(Wu Dayun)	0.55	Staff
沈曉江(Shen Xiaojiang)	0.42	Senior management
吳佩燕(Wu Peiyan)	0.32	Staff
程宏(Cheng Hong)	0.74	Ex-employee
	37.6	

The Sunny Employee Trust was established by the Sunny Staff Shareholders to hold their direct equity interest in Sun Ji and consequently indirect interest in the Company through a trust arrangement rather than having individual members held their respective minimal percentage of equity interest. The purpose of setting up the Sunny Employee Trust is to preserve the spirit of the Entrustment Arrangements for the shareholding of Sunny Group and streamline the shareholding of the Company by grouping shareholders of similar interests and/or backgrounds for ease of management.

Mr Wang, as trustee of Sunny Employee Trust, holds the entire issued capital of Sun Ji on trust for the benefit of the Sunny Staff Shareholders (including the Sunny Nominees) and is entitled to exercise all the power of a shareholder of Sun Ji, including, among others, voting power attaching to such shares. The beneficiaries under the Sunny Employee Trust are Sunny Staff Shareholders. Each of them is entitled to dividend payments in proportion to his/her percentage of entitlement as indicated in the trust deed.

Apart from his own interest in Sun Guang, Mr Wang is also one of the beneficiaries under the Sunny Employee Trust. Mr Wang is considering giving his beneficial interest under the Sunny Employee Trust as reward and incentive to good and valuable employees of the Group at his own discretion whereas his interest in Sun Guang will be retained by him. Therefore, his interest in the Company has been segregated to maintain flexibility for this arrangement. Mr Wang has the present intention to ultimately give all of his beneficial interest under the Sunny Employee Trust to good and valuable employees of the Group from time to time in one or more tranches. As of the Latest Practicable Date, such employees have not been identified and there is no definite deadline or timetable.

The indirect interests of the Sunny Staff Shareholders, including Mr Wang, in each of Sunny Optics and Ningbo Instruments, through Mr Wang's interest in Sun Guang and their interests in Sun Ji under the Sunny Employee Trust and hence the indirect interests in Sun Yu Optical held by Sun Xu, immediately after the acquisition of 72.13% equity interest in each of Sunny Optics and Ningbo Instruments by the Group, are mirror images of their respective indirect interests in each of Sunny Optics and Ningbo Instruments, through their interests in Sunny Group under the Entrustment Arrangements, immediately before such acquisitions.

The legal advisers to the Company as to PRC law have confirmed that a PRC citizen is able to become a trustee or beneficiary in any trust set up in Hong Kong upon completion of registration procedure on the SAFE and the trustee and beneficiaries of the PRC Investor Trust and the Sunny Employee Trust have completed all the relevant registration procedures. As the trust deed of each of the Sunny Employee Trust and the PRC Investor Trust is governed by Hong Kong law, PRC laws have no implication on the trust arrangement.

The legal advisers to the Company as to Hong Kong law have confirmed that the setting up of each of the Sunny Employee Trust and the PRC Investor Trust is in compliance with the relevant laws in Hong Kong.

As the trustee appointed under each of the Sunny Employee Trust and the PRC Investor Trust, Mr Wang has also been appointed as the sole director of each of Sun Xu and Sun Zhong. In view of the continuing connected transactions between Sunny Group and the Group and the fact that Mr Wang, being an executive Director and the sole director of each of Sun Xu and Sun Zhong, is able to exert significant influence on the meetings of the Board as well as general meetings of the Company, Mr Wang will not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or other proposal in which he or his Associates or Sunny Group has any material interest and Mr Wang will comply the requirements under Chapter 14A of the Listing Rules by restraining Sun Xu and Sun Zhong from voting on any resolution approving any connected transactions in which he or his Associates or Sunny Group is involved.

FURTHER INFORMATION OF THE INVESTORS

Summit

Summit was incorporated in the BVI as an investment holding company. As of the Latest Practicable Date, Summit was beneficially owned as to 73.79%, 25.40% and 0.81% by Chengwei Funds, Investor AB Funds, and certain Independent Investors, respectively.

Summit has invested an aggregate of US$10,000,000 in acquisitions of equity interests in Sunny Optics and Ningbo Instruments. For further information about such acquisitions, please refer to the section headed "History, Reorganisation and Group structure — Establishment of Sunny Optics and Ningbo Instruments". Certain statistics of such acquisitions are set out as follows:

Name of member of the Group	**Equity Interest** *(%)*	**Consideration** *(US$)*	**Date**
Sunny Optics	27.87	7,800,000	May 2005
Ningbo Instruments	27.87	2,200,000	May 2005
Total :		10,000,000	

Through the Reorganisation, Summit, by means of disposals of its equity interest in each of Sunny Optics and Ningbo Instruments, has acquired an aggregate of 209,320,000 Shares immediately after the Capitalisation Issue. The cost per Share paid by Summit, accordingly, is approximately US$0.048 (or approximately HK$0.37).

The Shares, save for the Sale Shares, held by Summit are subject to the lock-up requirements as detailed in the section headed "Substantial Shareholders — Non-disposal undertaking" in this prospectus. Summit is a passive investor to the Group with no operational involvement in any member of the Group. No special rights have been attached to its shareholding in each of Sunny Optics and Ningbo Instruments at the time when Summit acquired their equity interests. No special rights have been attached to its shareholding in the Company before or after Listing.

As a result of the investment made by Summit in the Group, Mr Shao Yang Dong was appointed as non-executive directors of the Company and some of its subsidiaries, namely, Sunny Optics, Ningbo Instruments, Sunny Zhongshan, Sunny Opotech and Sunny Infrared, to act as the board representative of Summit.

CWI

CWI was incorporated in the BVI as an investment holding company. As of the Latest Practicable Date, CWI was beneficially owned as to 40.44%, 40.44% and 19.12% by Chengwei Funds, Investor AB Funds, and certain Independent Investors, respectively.

On 15 September 2006, CWI subscribed for 6.12% of the then enlarged issued share capital of Sun Yu Optical at a consideration of US$6,000,000. As a result of the share swap between the Company and Sun Yu Optical on 24 October 2006, CWI owned 48,960,000 Shares immediately after the Capitalisation Issue. The acquisition cost per Share paid by CWI is US$0.123 (or equivalent to approximately HK$0.96).

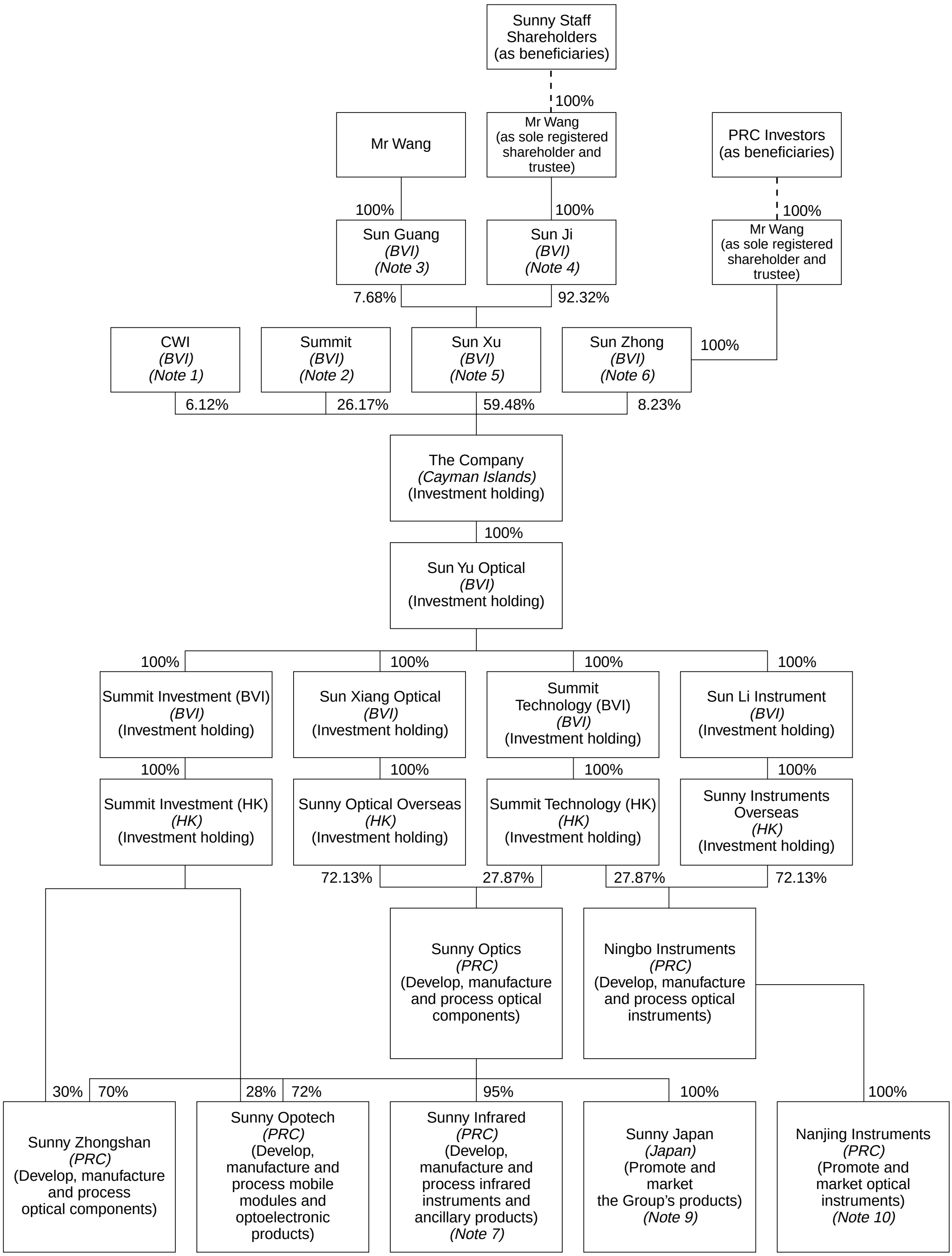
The Shares, save for the Sale Shares, held by CWI are subject to the lock-up requirements as detailed in the section headed "Substantial Shareholders — Non-disposal undertaking" in this prospectus. CWI is a passive investor to the Group with no operational involvement in any member of the Group. No special rights have been attached to its shareholding in the Company before or after Listing.

Summit is a Substantial Shareholder and CWI is an Associate of Summit. Accordingly, each of Summit and CWI is a connected person of the Company and thus they are not regarded as members of public.

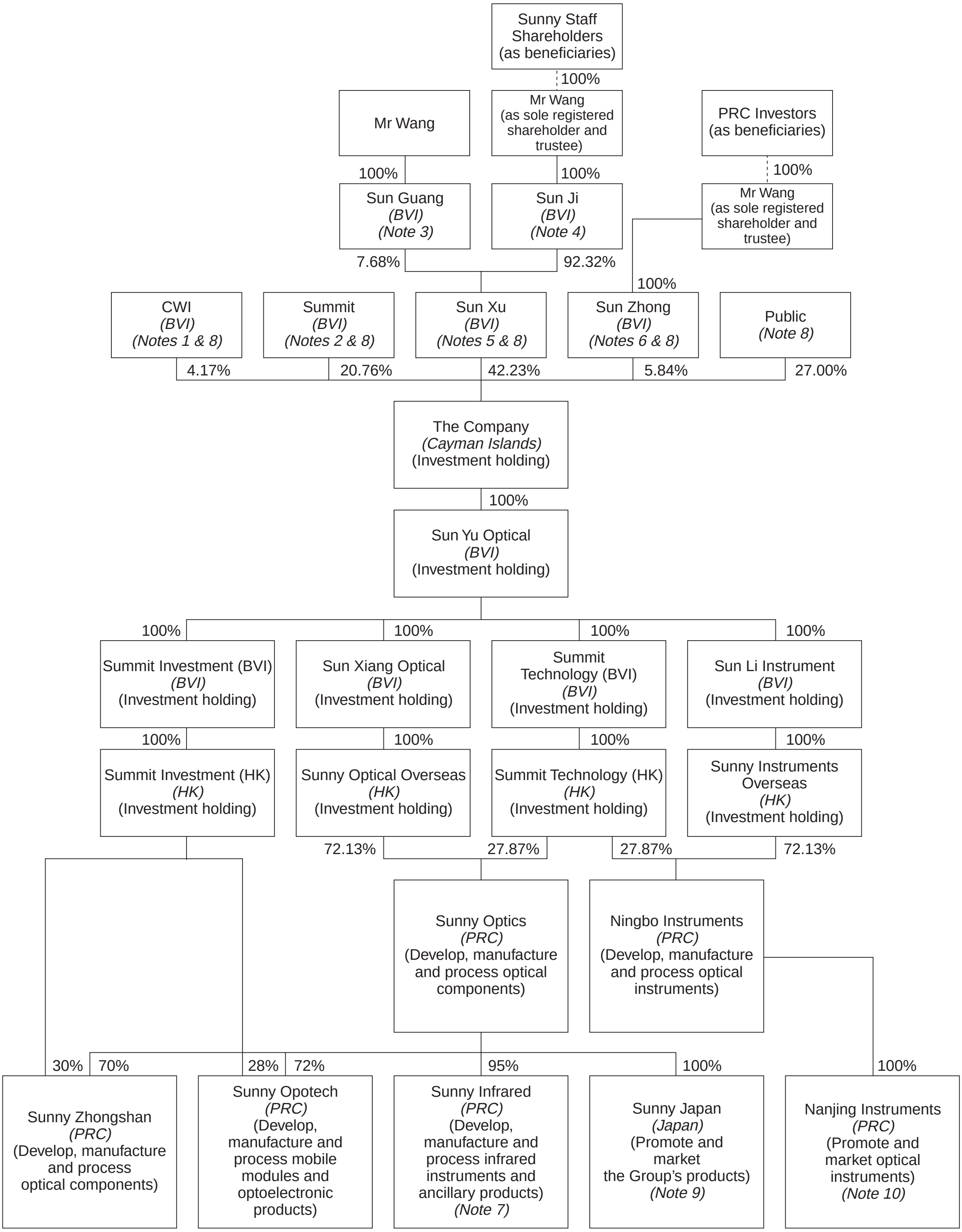
CORPORATE STRUCTURE

The following charts set out the corporate structure of the Group (a) after the Reorganisation but immediately before the Global Offering; and (b) upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised):

(a) Corporate structure of the Group after the Reorganisation but immediately before the Global Offering:



(b) Corporate structure of the Group upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised):



Notes:

1. CWI was incorporated in the BVI as an investment holding company on 6 July 2006. As of the Latest Practicable Date, CWI was beneficially owned as to 40.44% by Chengwei Funds (or 1.30% by Chengwei Partners, L.P., 35.62% by Chengwei Ventures Evergreen Fund, L.P. and 3.52% by Chengwei Ventures Evergreen Advisors Fund, LLC), 40.44% by Investor AB Funds (or 28.31% by Investor Investments Asia Limited and 12.13% by Investor Group Asia L.P.) and 19.12% by Independent Investors (or 2.55% by SF Capital Ltd, 13.51% by Wealthpro Investments Ltd. and 3.06% Beolym Corporation).

2. Summit was incorporated in the BVI as an investment holding company on 31 January 2005. As of the Latest Practicable Date, Summit was beneficially owned as to 73.79% by Chengwei Funds (or 2.36% by Chengwei Partners, L.P., 65.00% by Chengwei Ventures Evergreen Fund, L.P. and 6.43% by Chengwei Ventures Evergreen Advisors Fund, LLC), 25.40% by Investor AB Funds (or 17.77% by Investor Investments Asia Limited and 7.63% by Investor Group Asia L.P.) and 0.81% by Independent Investors (or 0.23% by Ms Selina Mak and 0.58% by Mr Lap Hang Yung).

   As the investments by Chengwei Funds and Investor AB Funds in the Group were made at different times with different Independent Investors involved, Chengwei Funds and Investor AB Funds segregated these investments by means of two entities, namely, Summit and CWI.

3. Sun Guang was incorporated in the BVI as an investment holding company on 6 July 2006. On 26 July 2006, Sun Guang allotted and issued 1 share of US$1.00 each at par to Mr Wang, who is the sole registered and beneficial owner of Sun Guang.

4. Sun Ji was incorporated in the BVI as an investment holding company on 6 July 2006. On 26 July 2006, Sun Ji allotted and issued 1 share of US$1.00 each at par to Mr Wang, which was subsequently subdivided into 100 shares of US$0.01 each on 5 September 2006. On 31 January 2007, Sun Ji allotted and issued additional 118,283,368 shares of US$0.01 each in its share capital to Mr Wang. Mr Wang is the registered owner of the entire issued share capital of Sun Ji, amongst which 96.54% is held by him as trustee for the Sunny Staff Shareholders (excluding himself) and 3.46% is held by him on his own behalf under the Sunny Employee Trust.

   Pursuant to the trust deed dated 28 July 2006 signed by Mr Wang and all the then Sunny Staff Shareholders, the Sunny Employee Trust was established whereby Mr Wang, as trustee of the Sunny Employee Trust, holds 96.54% of the issued share capital of Sun Ji in favour of Sunny Staff Shareholders (excluding himself) and 3.46% of the issued share capital of Sun Ji on his own behalf. Under the Sunny Employee Trust, the beneficial interests of Sunny Staff Shareholders in Sun Ji and hence the Company are shown in the following table:

Category	Number of Sunny Staff Shareholders	Approximate percentage of equity interest in Sun Ji *(%)*	Approximate percentage of equity interest in the Company immediately prior to completion of the Global Offering *(%)*	Approximate percentage of equity interest in the Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) *(%)*	Approximate percentage of equity interest in the Company immediately after completion of the Global Offering (assuming the Over-allotment Option is fully exercised) *(%)*
Mr Wang	1	3.46	1.90	1.35	1.34
Directors [(a)]	2	9.01	4.95	3.51	3.48
Senior management of the Group [(b)]	13	19.46	10.69	7.59	7.52
Employees (other than Directors and senior management) or ex-employees of the Group	411	68.07	37.38	26.54	26.31
Total	427	100.00	54.92	38.99	38.65

Under the terms of the trust, Mr Wang, in his capacity as trustee of the Sunny Employee Trust, is entitled to exercise all the power of a shareholder of Sun Ji, including, among others, voting power attaching to such shares.

Notes:

(a) These Directors are Mr Ye and Mr Wu.

(b) These persons are 李四清(Li Siqing), 孫泱(Sun Yang), 潘為民(Pan Weimin), 吳俊(Wu Jun), 張國賢(Zhang Guoxian), 王文杰(Wang Wenjie), 張寶忠(Zhang Baozhong), 陳惠廣(Chen Huiguang), 樓國軍(Lou Guojun), 沈曉江(Shen Xiaojiang), 黃衛兵(Huang Weibing), 劉鋭(Liu Rui) and 趙治平(Zhao Zhiping).

5. Sun Xu was incorporated in the BVI as an investment holding company on 6 July 2006. On 24 July 2006, Sun Xu allotted and issued 768 and 9,232 shares of US$1.00 each at par to Sun Guang and Sun Ji respectively, representing 7.68% and 92.32% of its issued share capital respectively. The shareholding of Sun Xu in the Company represents the aggregate interest of the Sunny Staff Shareholders in the Company.

6. Sun Zhong was incorporated in the BVI as an investment holding company on 6 July 2006. On 26 July 2006, Sun Zhong allotted and issued 1 share of US$1.00 each at par to Mr Wang, which was subsequently subdivided into 100 shares of US$0.01 each on 5 September 2006. On 31 January 2007, Sun Zhong allotted and issued additional 950,849,900 shares of US$0.01 each in its share capital to Mr Wang. Mr Wang, as registered owner, holds the entire issued share capital in Sun Zhong as trustee for the PRC Investors under the PRC Investor Trust.

Pursuant to the trust deed dated 28 July 2006 signed by Mr Wang and the PRC Investors, the PRC Investor Trust was established whereby Mr Wang, as trustee of the PRC Investor Trust, holds the entire issued share capital of Sun Zhong in favour of the PRC Investors. Under the PRC Investor Trust, the beneficial interests of the PRC Investors in Sun Zhong and hence the Company are shown in the following table:

Category	Other relationship with the Group, if any	Approximate percentage of equity interest in Sun Zhong *(%)*	Approximate percentage of equity interest in the Company immediately prior to completion of of the Global Offering *(%)*	Approximate percentage of equity interest in the Company immediately after completion of the Global Offering (assuming the Over-allotment Option is not exercised) *(%)*	Approximate percentage of equity interest in the Company immediately after completion of the Global Offering (assuming the Over-allotment Option is fully exercised) *(%)*
Zhicheng					
孫揚遠 (Sun Yangyuan)	Sunny Staff Shareholder	12.64	1.04	0.74	0.73
張永杰 (Zhang Yongjie)	Sunny Staff Shareholder	12.01	1.00	0.70	0.70
程宏 (Cheng Hong)	Sunny Staff Shareholder	11.39	0.94	0.66	0.66
陳順新 (Chen Shunxin)	Sunny Staff Shareholder	10.75	0.88	0.63	0.62
黃義璋 (Huang Yizhang)	Sunny Staff Shareholder	10.12	0.83	0.59	0.59
林金波 (Lin Jinbo)	Sunny Staff Shareholder	9.49	0.78	0.55	0.55
王勤 (Wang Qin)	Sunny Staff Shareholder	8.85	0.73	0.52	0.51
沈亦兵 (Shen Yibing)	Not a Sunny Staff Shareholder	6.96	0.57	0.41	0.40
Sanyuan					
魯先明 (Lu Xianming)	Not a Sunny Staff Shareholder	10.60	0.87	0.62	0.62
Baoma					
沈元杰 (Shen Yuanjie)	Not a Sunny Staff Shareholder	5.75	0.47	0.34	0.33
魏浙芬 (Wei Zhefen)	Not a Sunny Staff Shareholder	0.72	0.06	0.04	0.04
周利華 (Zhou Lihua)	Not a Sunny Staff Shareholder	0.72	0.06	0.04	0.04
Total:		100	8.23	5.84	5.79

Each of 孫揚遠(Sun Yangyuan), 張永杰(Zhang Yongjie), 程宏(Cheng Hong), 陳順新(Chen Shunxin), 黃義璋(Huang Yizhang), 林金波(Lin Jinbo) and 王勤(Wang Qin), are Sunny Staff Shareholders and initial beneficiaries under the Sunny Employee Trust and entitled to in aggregate approximately 4.69% of the beneficial interest under the Sunny Employee Trust. The individual shareholders of Baoma are Independent Third Parties.

Under the terms of the trust, Mr Wang, in his capacity as trustee of the PRC Investor Trust, is entitled to exercise all the power of a shareholder of Sun Zhong, including, among others, voting power attaching to such shares.

7. The remaining 5% equity interest in Sunny Infrared is owned by 韓高榮 (Han Gaorong), an employee of the Group.

8. Each of CWI, Summit, Sun Xu, Sun Zhong and members of public will hold 4.17%, 17.12%, 41.87%, 5.79% and 31.05% of the issued share capital of the Company, respectively, upon completion of the Global Offering and assuming the Over-allotment Option is fully exercised. Each of Summit and Sun Xu is a Substantial Shareholder. CWI is an Associate of Summit whereas Sun Zhong is an Associate of Sun Xu. Accordingly, each of CWI, Summit, Sun Xu and Sun Zhong is a connected person of the Company and thus they are not regarded as members of public.

OVERVIEW

The Group is a leading integrated optical components and products manufacturer in terms of revenue and profitability in the PRC. The Group possesses strong design capabilities, manufacturing know-how and an efficient production process to offer a comprehensive range of optical and optical-related products through its ability to integrate optical, mechanical and electronic technologies. The Group also has the expertise to vertically integrate its principal businesses including its optical components, optoelectronic products and optical instruments businesses.

The Group is principally engaged in the design, research, development, manufacturing and sale of optical and optical-related products, which can be broadly classified into three categories, namely: (i) optical components, including glass/plastic lenses, plates, prisms and various lens sets; (ii) optoelectronic products, including mobile phone camera modules and other optoelectronic modules; and (iii) optical instruments, including microscopes, surveying instruments and other analytical instruments.

Taking into account its predecessor businesses, the Group has nearly 15 years of experience in the field of optical components design and manufacturing. The Group's management team is experienced and possesses in-depth knowledge of the optical industry. In particular, the founders of the Group, Mr Wang and Mr Ye, have over 20 years of experience in the optical industry. Capitalising on its strong expertise in integrating optical, mechanical and electronic technologies, the Group is capable of offering a wide range of optical and optical-related products ranging from optical components such as lenses and lens sets to optoelectronic products and specific optical instruments.

The Directors believe that the Group's capabilities in offering a comprehensive range of optical products, along with its expertise in design and manufacturing know-how, give it competitive edges over other manufacturers in an industry where competition is intensive in terms of capital, production skills, technology and labour. The Directors also believe that the Group is one of the few companies in the PRC capable of effectively integrating optical, mechanical and electronic technologies with a large scale of production.

The revenues of the Group by product category during the Track Record Period were as follows:

	Year ended 31 December					
Product categories	**2004**		**2005**		**2006**	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Optical components	198.0	64.3	210.7	35.8	309.3	34.3
Optoelectronic products	39.5	12.8	278.7	47.4	468.0	52.0
Optical instruments	70.4	22.9	98.9	16.8	123.4	13.7
Total	307.9	100.0	588.3	100.0	900.7	100.0

The Group offers its optical components mainly to suppliers and manufacturers of consumer electronic appliances, including certain leading brand names such as Panasonic, Samsung, Konica Minolta, Lenovo and Olympus. With the increasing popularity of camera features in mobile phones in the PRC, optoelectronic products produced by the Group are mainly sold to the PRC customers, including Lenovo. The optical instruments of the Group are sold to end-customers, including internationally recognised corporations (such as Carl Zeiss), certain educational and medical institutes, and traders for distribution of such products.

The Group sells its products to nearly 40 countries and regions. The Group's non-PRC customers of optical components are mainly located in Japan, Korea, Taiwan, Hong Kong and Singapore; the non-PRC customers of optoelectronic products are mainly located in Hong Kong and Taiwan; and the non-PRC customers of optical instruments are located throughout the world in countries and regions such as the United Kingdom, Germany, Italy, the Netherlands, Japan, Korea and Singapore. The Group has established a subsidiary and a representative office outside the PRC in two of the major optical-related product markets, namely, Japan and Korea, respectively. The Directors believe the strategic locations of its overseas subsidiary and representative office strongly facilitate the establishment and maintenance of close and long term relationships with the Group's customers in those regions.

The Group has successfully obtained certifications from leading internationally recognised customers, including Olympus and Samsung, for its optical components. In addition, Sunny Optics was accredited by Tianjin Samsung Opto-electronics Co., Ltd. as its outstanding cooperating supplier in 2005 and 2006 and Sunny Opotech was accredited by Lenovo Mobile Communication Technology Ltd. as an excellent supplier in 2006. The Directors believe that these certifications and awards obtained by the Group can demonstrate that, among others, the design and production efficiency, product quality and other related services of the Group are of high standards.

As of the Latest Practicable Date, the Group's products were manufactured in two production bases at Yuyao, Zhejiang, PRC and Zhongshan, Guangdong, PRC, respectively. The total operating site area owned and leased by the Group is approximately 105,261 square meters, of which approximately 87,512 square metres are owned by the Group. Yuyao, Zhejiang and Zhongshan, Guangdong are situated in the Yangtze River Delta and Pearl River Delta regions, respectively, which are the traditional bases with a concentration of customers and optical industry talents. These strategic locations also facilitate the transportation of goods to overseas customers.

Given the increasing popularity in applying or including optical features in electronic products, the Directors believe that the global demand for optical-related components and products will continue to grow. Therefore, the Group plans to further expand its production capacity to take advantage of future opportunities.

COMPETITIVE STRENGTHS

The Directors believe that the Group has the following major strengths to compete in the optical industry:

Expertise in the design and manufacturing of optical components

Optical components are critical to the quality for a wide range of electronic end-products. With the Group's strong design expertise and production know-how accumulated over a period of nearly 15 years, continuous in-house research and development efforts and experience gained from various joint projects with universities and customers, the Group is capable of designing and producing high quality optical components required by its customers and is well positioned to respond to the fast pace of technological changes of the electronic end-products.

Leveraging on the Group's expertise in optical components, the Group is able to provide its customers with a comprehensive range of optical components for a wide range of electronic end-products, such as DSCs, camera mobile phones, scanners, projectors, MFPs and DVD players.

Vertically integrated design and manufacturing approach

By leveraging on the Group's expertise in the design and manufacturing of optical components, the Group expanded its product offerings to manufacture optoelectronic products and optical instruments. Most of the lens sets and optical components used in the production of optoelectronic products and optical instruments of the Group are designed and produced by the Group in-house. The Directors believe that this vertically integrated design and production approach enables the Group to mass produce its products in a cost effective manner, to reduce lead-time and to have a better control over the whole production process. The Directors believe that the vertically integrated design and manufacturing approach has enhanced its production flexibility which enables the Group to quickly adjust its production approach, equipment settings, and human resources in response to customers' demands, especially for the launching of new products. These benefits also provide the Group with a competitive advantage in establishing and preserving long term relationships with its major customers.

Comprehensive range of optical components

The Group develops and produces a comprehensive range of optical components, including spherical glass lenses, aspheric plastic lenses, filter plates, various prisms, DVD pick-up apparatus and various lenses and lens sets for use in scanners, traditional cameras, mobile phones and digital cameras. Capitalising on its own optical design and manufacturing expertise, the Group is able to assemble various optical components to produce sophisticated lens sets with AF and zoom capabilities (such as lens sets for DSCs with resolutions of up to 8 mega pixels and for mobile phones with AF cameras with resolutions of up to 3 mega pixels). Such lens sets are used in a wide range of consumer electronic products, such as mobile phones with cameras, DSCs, DVD players, MFPs, laptop computers with cameras and CCTVs.

The Directors believe that the Group's ability to provide a comprehensive range of products differentiates it from its competitors. Although other manufacturers producing similar optical or optical-related products to those of the Group and the Directors consider that certain products manufactured by some of these manufacturers are competitive with the Group's products in terms of quality and price, the Directors believe that the Group has a competitive edge within the industry because the Group is able to fulfill various needs of its customers by offering a comprehensive range of quality products to adapt to market changes to the satisfaction of its customers at reasonable prices in a timely manner. Leveraging on the Group's ability to integrate "optical, mechanical and electronic" technologies, the Group will continue to develop other optoelectronic products and instruments, thereby enabling the Group to capture more opportunities arising from rapid technological changes, increasingly shorter product life-cycles and the widening use of optics in new products.

Reputable global customer base

The Group possesses a reputable global customer base, including branded international and domestic electronic product corporations such as Panasonic, Samsung, Konica Minolta, Olympus and Lenovo and other corporations such as Carl Zeiss.

These customers impose stringent requirements and standards for product design and production efficiency, product quality, costs, delivery and services. To enhance production efficiency and product quality, the Group launched a comprehensive quality assurance programme to ensure full implementation of its quality policy within the Group. Relevant quality policy was formulated in accordance with the ISO9001 and ISO13485 standards and the relevant national and trade standards. The Group has also established a quality control department responsible for quality control procedures from the inspection of raw materials up to the delivery of products. All members of the Group are required to comply with the quality control policy of the Group. The Directors believe that the stringent implementation of the quality control policy is crucial to ensure product quality.

The Group has successfully obtained certification from various leading internationally recognised customers (including Olympus and Samsung) for the Group's optical components, which indicates the high quality of the Group's products. In addition, Sunny Optics was accredited by Tianjin Samsung Opto-electronics Co., Ltd. as its outstanding cooperating supplier in 2005 and 2006 and Sunny Opotech was accredited by Lenovo Mobile Communication Technology Ltd. as an excellent supplier in 2006. Working with these customers also keeps the Group at the forefront of optical-related product development and creates a barrier of entry for its competitors.

Strong research and development capability with advanced manufacturing facilities

As of 31 December 2006, the Group had a dedicated team of 173 research staff who focused on the improvement of the Group's production know-how, the development of advanced technologies (such as AF zoom technology and infrared technology) and product development. The in-house research and development capability of the Group was recognised by 浙江省科技廳 (Science and Technology Department of Zhejiang Province), a governmental department responsible for, among others, execution of technology-related regulations, directions and policies formulated by the State and awarding scientific and technological achievements in Zhejiang Province, by classifying the Group as 省級高新技術研究開發中心 (Provincial High and New Technology Research and Development Centre*). Such classification is only granted to enterprises with integrated ancillary testing capability of technology, outstanding research and development, project design and professional testing teams, which provide various integrated technological services.

In addition to conducting its own research and development, the Group collaborates with other academic or research institutions, such as Zhejiang University and Ningbo University, for the research and development of lens sets for digital cameras and materials for infrared lenses, and also collaborates with overseas customers in product development. During the Track Record Period, the Group applied approximately RMB5.4 million, RMB10.7 million and RMB12.3 million, respectively, in the development of new products and technologies. The Directors believe that the Group's commitment to research and development is a differentiating factor compared to its competitors.

The Directors believe that the Group's research and development capabilities, together with its advanced and flexible manufacturing facilities, will further enhance the Group's ability in customising products in response to customers' changing needs, as well as expanding its scope of products offering. The Group's research and development team works closely with personnel in sales, quality control and technical support, as well as the Group's customers and third party research institutions, to develop production technologies and new products that suit the rapidly changing trends in the electronic industries.

Committed management team with extensive industry experience

The Group has an experienced and stable management team. Most of its members joined the Group since its inception. In particular, the founders of the Group, Mr Wang and Mr Ye, have over 20 years of experience in the PRC optical industry and have profound knowledge in the optical or optical-related fields. The management team of the Group also includes management staff who previously worked for leading international optical companies. The Group's management team has an in-depth working knowledge of market trends and customers' needs. The Directors believe that this collective knowledge and experience enables the Group to understand and address the needs and preferences of its customers, allowing it to make informed and flexible decisions, ranging from micro product specifications issues to macro Group policies. In order to maintain the stability of the management team of the Group, team building projects were carried out from time to time to boost team spirit among the members of the management team. Moreover, most of the members of the management team also own beneficial equity interest in the Company. The Directors believe that ownership in equity interest in the Company would strengthen the sense of belonging of the management team towards the Group, align the interest of the Group with its management team and enhance the stability of the management team. The stability within the management team ensures the Group is able to pursue its long-term growth plans and offers a stable working environment which attracts talents to join the Group.

BUSINESS STRATEGIES

The Group's goal is to strengthen its position as a leading producer of optical components, optoelectronic products and optical instruments. To achieve this goal, the Group plans to implement the following specific strategies:

To enhance its global base of internationally recognised customers

The Group has adopted a strategy known as "*名配角*", or "*Mingpeijiao*", to become a key supplier to leading internationally recognised customers. Under the "*Mingpeijiao*" strategy, the Group will analyse these customers' end markets, anticipate the market trend and leverage on its own existing strengths and comparatively lower cost base as a PRC manufacturer to offer products with a competitive combination of price and quality. By targeting and adding these new customers, the Group will not only be able to broaden its customer base and reduce its dependence on a limited number of customers in different product segments, but also enhance its revenue and ability to create value.

In line with its “*Mingpeijiao*” strategy, the Group has expanded its footprint into Japan and Korea, which are both key regions for the Group where major customers are located. The Group believes its Japanese subsidiary and Korean representative office will enable the Group to enhance communications and solidify relationships with existing customers in those key markets and provide channels for obtaining new customers.

In addition to strengthening its global sales and marketing network, the “*Mingpeijiao*” strategy requires a dedication and commitment to understanding and anticipating each customer’s specific needs. As customers often reflect their demand for particular product specifications to the Group, the Directors believe that customers generally prefer suppliers who have market insights on industry trends and developments to provide innovative end-products. Therefore, the Group will concentrate to accommodate both its local and international customers’ needs. This could not only provide customers with high quality supplies at an attractive price, but also improve the Group’s customer services and strengthen its competitive advantages.

To leverage the Group’s existing capabilities to expand product sales

While the Group has the capability to offer a comprehensive range of optical components and products, the Directors believe that the image digitalisation trend of consumer products has presented and will continue to present the Group with significant new commercial opportunities for the Group’s products. The Directors believe the Group’s vertically integrated design and production capabilities, combined with its research and development expertise, will enable the Group to cost-effectively adapt existing product lines for use in new end products. For example, by slightly modifying its existing advanced optical components and lens sets and combining them with new optoelectronic modules, the Group is able to expand its product lines and produce new categories of products.

The Group also plans to further leverage on its existing capabilities to diversify and balance its product mix with higher margin products, such as by developing more advanced optical components and lens sets and increasing the variety and production volume of its optical instruments to increase its market share.

By utilising the Group’s existing capabilities to grow and expand its business organically, the Directors believe the Group will be able to enhance its competitiveness and increase market share in the optical industry.

To enhance its research and development capability to develop more advanced products and improve product quality

The Directors believe it is essential for the Group to further enhance its research and development capabilities to develop more advanced products and improve product quality, both of which are critical to reinforcing its competitiveness and satisfying the increasing demands placed upon the Group by the rapidly-evolving market. In particular, the Group will enhance its research and development capabilities by:

- Allocating more resources for its research and development activities, including approximately RMB123.0 million (approximately HK$123.0 million) from the expected net proceeds to the Company from the Global Offering. Please refer to the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus for further details

- Recruiting additional experienced research and development personnel. The Group has recently hired a senior research and development executive in April 2007 who is responsible for overseeing the research and development activities of the Group. In addition, the Group keeps looking for potential research and development personnel to join the Group

- Continuing its technological research collaborations with universities, research institutes and other advanced technology enterprises and organisations, such as its research collaborations with Japanese and Korean companies on glass moulding techniques and COB technology. Please also see the section headed "Business — Research and development" in this prospectus

By improving its research and development capabilities, the Directors believe the Group will be able to strengthen its product mix by incorporating advancements into its existing products, as well as offering newly-developed products featuring the latest technologies. The Directors also believe that improvements in production techniques and processes resulting from its research and development activities will result in higher product quality and an enhanced ability to customise precisely to specifications that satisfy the customers' needs.

To strengthen and streamline processes to optimise production and operation efficiency

The Directors believe that strengthening and streamlining the Group's processes to optimise production and operation efficiency and improve product quality are critical to the Group's overall success and ability to maintain a competitive edge. The Group has increased its focus on all levels of production, including by:

- Preparing to increase production capacity by investing in new production bases and production equipment. The estimated capital expenditure for the production expansion projects of the Group for the three years ending 31 December 2009 is set out below:

	Year ending 31 December			
Product category	**2007**	**2008**	**2009**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Optical components	64,560	94,640	18,800	178,000
Optoelectronic products	38,000	20,000	—	58,000
Optical instruments	35,800	3,200	—	39,000
Total	138,360	117,840	18,800	275,000

The implementation timeframe, source of technology, machinery and equipment of the Group's production expansion projects, which are expected to be funded by the proceeds to the Company from the Global Offering, are set out below:

Production expansion projects	**Implementation timeframe**	**Planned capital expenditure** *(RMB'000)*	**Source of technology, machinery and equipment**
Optical components			
Aspheric moulding glass	During 2008	50,000	• External technology provided by customers • Purchase of imported machinery and equipment
Optical lenses	From 2007 to 2008	39,000	• Internal technology and external technology provided by customers • Purchase of domestic and imported machinery and equipment
Flat lens and prisms	From 2007 to 2009	20,000	• Internal technology • Purchase of domestic and imported machinery and equipment
Lens sets for camera modules	From 2007 to 2008	44,000	• Internal technology • Purchase of domestic and imported machinery and equipment
Others	From 2007 to 2009	25,000	• Internal technology • Purchase of domestic and imported machinery and equipment
Sub-total		178,000	

Production expansion projects	Implementation timeframe	Planned capital expenditure *(RMB'000)*	Source of technology, machinery and equipment
Optoelectronic products			
Camera modules	From 2007 to 2008	20,000	• Internal technology • Purchase of imported machinery and equipment
COB technology, clean room and production facilities	From 2007 to 2008	38,000	• Internal technology • Purchase of imported machinery and equipment
Sub-total		58,000	
Optical instruments			
Microscopes	From 2007 to 2008	5,000	• Internal technology • Purchase of domestic and imported machinery and equipment
Survey instruments	From 2007 to 2008	9,000	• Internal technology • Purchase of domestic and imported machinery and equipment
Analytical instruments	2007	25,000	• Internal technology • Purchase of domestic and imported machinery and equipment
Sub-total		39,000	
Total		275,000	

The Group may implement such projects under a different timeframe or rely on different funding or technology sources, machinery and equipment if an unforeseen event occurs and/or business conditions change.

Please also refer to the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus for details of the expansion projects.

- Preparing to introduce "best practice" standardised production management techniques and production operating procedures to ensure consistency and efficiency throughout production. The Group has engaged consultants to provide an analysis of the Group's management and production and to assist the Group with formulating plans to improve its production and operation efficiency by implementing production management techniques and production operating procedures that have been adopted by some of the world's leading manufacturers, such as the "Just-in-time" (JIT) production system

- Constantly monitoring and reviewing its production management and processes to ensure that the Group not only maintains consistently smooth and efficient production at all times but also identifies opportunities for implementing production improvements

- Improving internal communications and teamwork, such as by enhancing the information systems to facilitate data sharing within the Group as detailed in the section headed "Future plans and use of proceeds — Use of proceeds" in this prospectus

By strengthening and streamlining production and operation processes, the Directors believe the Group will be able to produce consistently high quality products meeting the specification required and timeframes demanded by its customers.

To reinforce and diversify its supplier network

A stable supply of quality raw materials and components for production at commercially competitive prices is crucial for the Group's success and continued growth. As such, the Group plans to reinforce and diversify its supplier network by focusing on building and managing its relationships with existing suppliers and by actively seeking new suppliers who meet the Group's standards. The Group will also actively monitor and evaluate its suppliers. While price is a factor when evaluating a supplier, the Group will also evaluate its suppliers on the bases of quality and consistency of their raw materials and components, as well as their ability to meet the procurement scale and delivery timelines required by the Group.

By reinforcing and diversifying its supplier network, the Directors believe the Group will be able to reduce its reliance on a limited number of suppliers/agents and minimise the risk of raw material and component shortages and price/quality fluctuations.

To recruit, train and retain skilled engineers and experienced staff

The Directors believe that recruiting, training and retaining engineers and staff with proper know-how and extensive experience in relevant fields are essential to the Group's operations and overall success. As such, the Group is committed to attracting top talent who possess an extensive knowledge of optical and optical processing technologies. The Group plans to leverage its close proximity to leading PRC universities such as Zhejiang University and Sun Yat-sen University to identify and recruit top local talents, and to expand its search overseas to identify and recruit qualified international candidates. The Group intends to make full use of its competitive remuneration packages and training programmes to motivate and nurture its existing employees and attract qualified candidates.

PRODUCTS

Types of Product

The Group is principally engaged in the design, research, development, manufacture and sale of optical and optical-related products. During the Track Record Period, the Group manufactured and sold optical components, optoelectronic products and optical instruments. The following table summarises the revenue for these product categories for each year during the Track Record Period:

	For the year ended 31 December		
Product category	**2004**	**2005**	**2006**
	RMB million	*RMB million*	*RMB million*
Optical components	198.0	210.7	309.3
Optoelectronic products	39.5	278.7	468.0
Optical instruments	70.4	98.9	123.4
Total	307.9	588.3	900.7

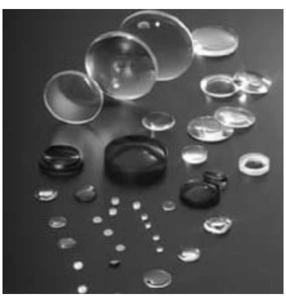
Optical components

The main optical components currently produced by the Group include spherical glass lenses, aspheric plastic lenses, plates, prisms and various lens sets.

Lenses

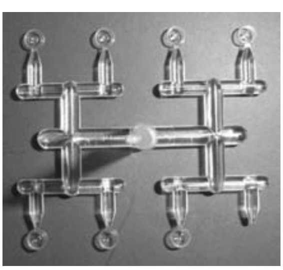
A lens is a device that causes light to either converge and concentrate or to diverge.

Spherical and aspheric lenses



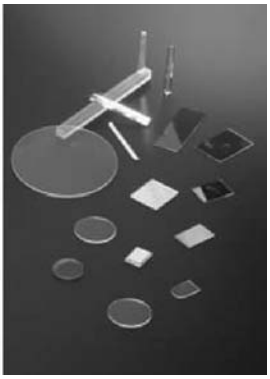
The Group's single-piece lens products include spherical and aspheric lenses. Spherical lenses and aspheric lenses are core components for lens sets used in mobile phone camera modules, DSCs, digital video cameras and projectors.

By using glass grinding processes, the Group is able to manufacture spherical lenses of different sizes (such as spherical lenses with external diameters ranging from ϕ1.8 to 123 mm) and of different shapes, which can be used in various types of lens sets and camera modules.



The aspheric plastic lenses offered by the Group can also be used in various types of lens sets and camera modules. The Group is capable of using plastic moulding techniques in producing plastic aspheric lenses and is developing glass moulding technology for aspheric lenses. Aspheric lens production is more difficult than spherical lens production and many other optical manufacturers currently do not possess this capability.

Plates



Plates are mainly used in DSCs, projectors and DVDs.

By using glass grinding processes, the Group is able to manufacture plates with a minimum parallelity of 5 seconds and relatively fine tolerances between the actual product and its planned specifications. It also has the ability to apply different types of coatings on the surfaces of the plates.

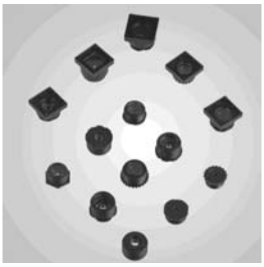
Prisms

Prisms are mainly used in DVDs, DSCs and various types of projectors.

By using glass grinding processes, the Group is able to manufacture prisms with relatively fine tolerances between the actual product and its planned specifications. It also has the ability to apply different types of coatings on the surfaces of the prisms.

Lens sets

Camera mobile phone lens sets



Lens sets are mainly used in mobile phones with cameras, PC cameras, scanners and vehicle monitoring systems.

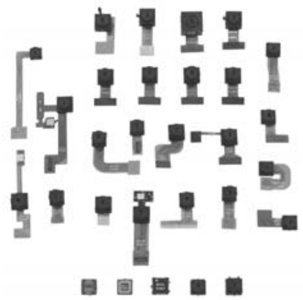
The Group is able to design and produce lens sets for fixed focus cameras, AF cameras and cameras with a zoom lens feature of 1.6, 2, 3, 4 or 10 times magnification, for mobile phones with camera function with resolutions of 0.3 mega pixels, 1.3 mega pixels, 2 mega pixels, 3 mega pixels and 5 mega pixels per frame and for DSCs with resolutions up to 8 mega pixels per frame.

Digital camera lens sets

Optoelectronic products

Due to the strong market demand and as a result of the Group's efforts, the revenue from sales of optoelectronic products increased significantly and amounted to approximately RMB39.5 million, RMB278.7 million and RMB468.0 million, respectively, or equivalent to approximately 12.8%, 47.4% and 52.0%, respectively, of the total revenue of the Group during the Track Record Period. The Group is able to and may produce modules for products including PCs, video cameras, CCTVs and other consumer products when the market opportunity comes.

Camera modules for mobile phones



The mobile phone camera modules produced by the Group are mainly of resolutions of 0.3 mega pixels, 1.3 mega pixels, and an increasing proportion of modules with a resolution of 2 mega pixels.

The research and development team of the Group is devoted to keeping abreast of the rapid technological development of optoelectronic products, including the trend towards the usage of higher resolution camera modules in mobile phones.

A camera module consists of four major components, namely lens set, image sensor, digital signal processing software and firmware and PCB.

The major sources of the four major components for manufacturing of camera modules are set out below:

Major components	**Major sources**
Lens sets	Internal supply from the Group
Image sensor	Overseas and PRC suppliers
Digital signal processing software and hardware	Overseas suppliers
PCB	PRC suppliers

The Group has adapted various advanced technologies for the assembly of camera modules, including SMT, lead-free production, ultra-sonic technology, ionised dust removal technology, zooming examination technology, rework technology and ACF technology.

Optical Instruments

The optical instruments currently produced by the Group mainly include microscopes, spectrophotometers and survey instruments.

Microscopes

A microscope is a device used to magnify the image by deflecting and reflecting light rays from the object through an object lens and eyepiece. The Group is able to manufacture microscopes with 10–2,000 times magnification, a coarse focus range equal to or greater than 25 millimeters, a fine focus range of equal to or greater than 2 millimeters and fine tuning precision equal to or less than 0.002 millimeters. The Group produces different types of microscopes, including digital microscopes, biological microscopes, stereo microscopes, polarising microscopes, metallurgical microscopes, fluorescence microscopes and inverted microscopes, for medical, experimental inspection, scientific research and educational purposes. The Group currently produces 25 series and approximately 100 types of microscopes in total. These products are produced on both OEM and ODM basis for its customers. Some of the microscopes are sold under the brand name of the Group's customers and some of them are under the brand name of "Sunny".

Analytical instruments

A spectrophotometer is an optical analytical instrument utilising spectrophotometry to conduct non-quantitative and qualitative analyses through molecule and ion spectra. It is useful for analysing the content and their respective amounts contained in the subject matter and is normally used for conducting chemical, medical, biological and environmental analysis. The Group is able to manufacture spectrophotometers with wavelengths ranging from 200 to 1,000 nanometers accuracies of ±1.0 nanometers and wavelength setting, repeatabilities of 0.5 nanometers or less. These products are produced on ODM basis for its customers. Some of the spectrophotometers are sold under the brand name of the Group's customers and some of them are under the brand name of "Sunny".

Survey instruments

The survey instruments produced by the Group include automatic levels and cross line lasers.

Automatic level

An automatic level is an instrument to measure height by using deflection of light. The Group is able to manufacture automatic levels with 20-32 times magnification, objective aperture of equal to or greater than 42 millimeters, round-trip tolerance of ±2 millimeters/kilometers, bubble sensitivity of 8 minutes/2 millimeters, automatic compensation range of ±15 minutes and scale minimum value of equal to or less than ±0.5 second.

Cross line laser

A cross line laser is a tool to provide horizontal and vertical benchmarks. The Group is able to manufacture cross line lasers with a working radius of 10 meters or less, a laser wave length of 635 nanometers, an accuracy to ±1.5 millimeters/10 meters, and a self-leveling range of ±3 degree.

Survey instruments produced by the Group are useful in conducting surveying and interior renovation. The Group produces 10 series and approximately 51 types of surveying instruments in total. These products are produced on both OEM and ODM basis for its customers. Some of these surveying instruments are manufactured under the brand name of the Group's customers and some of them are under the brand name of "Sunny".

Although the optical instruments produced by the Group are sold under the brand name of "Sunny" and also the brand name of the Group's customers, the Directors believe that there is no direct competition of these optical instruments which are sold under different brand names because optical instruments sold under different brand names are produced in accordance with different specifications.

PRODUCTION

Production bases

The Group's two production bases are strategically located in the PRC at Yuyao, Zhejiang and Zhongshan, Guangdong. Both locations are within proximity to the Group's customers in the Yangtze River Delta and the Pearl River Delta regions and also facilitate the transportation of products to overseas customers. The production bases and other ancillary facilities engaged by the Group amount to a total site area of approximately 105,261 square metres. As of the Latest Practicable Date, the Group obtained all relevant land use right certificates and property title certificates for its production bases, except for its instrument production factory, which is currently leased by the Group and the acquisition of which is targeted to be completed as soon as practicable after Listing. Please refer to "Business — Property — Acquisition of a parcel of land and the properties erected thereon in the PRC" for further details.

The table below sets out the approximate production volume of the Group classified by major product category during the Track Record Period:

Approximate production volume by product category	**Year ended 31 December 2004**	**2005**	**2006**
		('000 units/sets)	
Optical components *(Note)*			
Lenses	28,327	32,419	67,167
Lens sets	7,080	10,950	24,987
Optoelectronic products	837	5,884	15,820
Optical instruments	81	108	133

Note: The actual production volume of optical components includes the optical components produced for further in-house processing and consumption in respect of lenses to lens sets, or other product categories. Approximately 57.1%, 75.9% and 96.0%, respectively, of the units of lens sets used for its optoelectronic products were sourced internally during the Track Record Period.

For illustration purpose only, the table below sets out the theoretical production capacity and the approximate utilisation rate of the production capacity of the Group classified by major product category during the Track Record Period:

	Year ended 31 December					
	2004		2005		2006	
Product types	**Theoretical production capacity**	**Approximate utilisation rate (%)**	**Theoretical production capacity**	**Approximate utilisation rate (%)**	**Theoretical production capacity**	**Approximate utilisation rate (%)**
Optical components Lenses	36,000,000 units[1]	79	74,000,000 units[1]	44	86,000,000 units[1]	78
Lens sets	10,000,000 units[2]	71	14,000,000 units[2]	78	44,640,000 units[2]	56
Optoelectronic products	3,000,000 units[3]	28	7,200,000 units[3]	82	15,600,000 units[3]	101
Optical instruments	302,400 hours[4]	88	420,000 hours[4]	88	523,200 hours[4]	91

Notes:

1. The theoretical production capacity of lens is based on the theoretical production volume of the coating machines of the Group for producing certain kinds of lens, assuming 7,200 operating hours per annum. The theoretical production volume of the coating machines are used to illustrate the production volume because coating is a major step in the production cycle common to substantially all lenses.

   The increase in the theoretical production capacity of lens during the Track Record Period was mainly due to the addition of new machineries.

2. The theoretical production capacity of lens sets is based on the theoretical production volume of the production line of lens sets, assuming 4,800 operating hours per annum.

   The increase in the theoretical production capacity of lens sets during the Track Record Period was mainly due to the addition of new production lines.

3. The theoretical production capacity of optoelectronic products is based on the theoretical production volume of the production lines for VGA camera modules, assuming 2,400 operating hours per annum.

   The increase in the theoretical production capacity of optoelectronic products during the Track Record Period was mainly due to the addition of new production lines.

4. The theoretical production capacity of optical instruments is based on the theoretical hours of operation of staff engaging in the assembly production lines, assuming 2,400 operating hours per staff per annum.

   The increase in the theoretical production capacity of optical instruments during the Track Record Period was mainly due to the addition of new machineries and relevant labour resources.

To a certain extent, the Group is able to extend the operating hours of its production facilities up to 24 hours a day to meet temporary increases in demand. As such arrangement can only meet temporary increases in demand, the Group intends to further invest in additional land, machinery and other production resources to meet the expected long term business expansion. Please refer to "Business — Business strategies" and "Future plans and use of proceeds — Use of proceeds" in this prospectus, respectively, for further details regarding the Group's production expansion plans.

The following table sets forth the size and primary use of the Group's production facilities of Yuyao, Zhejiang and Zhongshan, Guangdong as of 31 December 2006:

Yuyao, Zhejiang

	Principal products and processing	Number of production lines	Total floor area *(square metres)*	Production factory (Owned or leased)	Number of production workers
(A)	*Optical components production lines* *Principal products:* Lenses and lens sets *Principal processing:* (i) Glass spherical lenses — glass grinding, centering, coating, cementing and painting (ii) Plastic lenses — moulds development, plastic injection moulding, coating (iii) Lens sets — assembling, testing	14 grinding production lines 17 coating production lines 6 centering production lines 1 cementing production line 1 painting production line 13 lens set production lines	40,724 (including factory and ancillary facilities)	Owned	Approximately 2,800

Principal products and processing	Number of production lines	Total floor area *(square metres)*	Production factory (Owned or leased)	Number of production workers
(B) Optoelectronic products production lines *Principal products:* Camera modules for mobile phone *Principal processing:* SMT of electronic components, assembling and testing of optical components electronic parts	6 SMT production lines 2 ultrasonic cleaning lines 8 final assembly production lines 1 MF/AF assembly production line	4,000 (including office)	Leased from Sunny Optics	Approximately 440
(C) Optical instruments production lines *Principal products:* Microscopes, surveying instruments, analytical instruments *Principal processing:* Processing of optical and mechanical components and assembling of instruments and parts	4 microscope production lines 2 surveying instrument production lines 1 analytical instrument production line	18,624 (including factory with offices and ancillary facilities)	Leased from Sunny Group	Approximately 480
Zhongshan, Guangdong				
Optical components production lines *Principal products:* Lenses and lens sets *Principal processing:* (i) Glass spherical lenses — glass grinding, centering, coating, cementing and painting (ii) Plastic lenses — moulds development, plastic injection moulding, coating (iii) Lens sets — assembling, testing	15 grinding production lines 10 coating production lines 10 centering production lines 1 cementing production line 1 painting production line 4 lens set production lines	24,054 (including factory with offices and ancillary facilities)	Owned	Approximately 930

The production facilities at Yuyao, Zhejiang manufacture all the three product types, whereas the production facilities at Zhongshan, Guangdong only manufacture optical components. The Group has benefited from the economies of scale by producing all three product types at the plant in Yuyao, Zhejiang.

The Group commenced its business from the manufacturing of lenses in the optical industry and expanded to the manufacturing of optical related modules and instruments. During the course of evolvement, the Group accumulated almost all of its in-depth technology from in-house research and development. Judging from the strong sale's growth during the Track Record Period, the Directors believe that the Group's technology is recognised by its clients when comparing with its domestic and foreign peers. During the Track Record Period, the Group did not accrue any licensing fee for any technology used in the manufacture of its major products.

During the Track Record Period, the electricity and water supplies in Yuyao, Zhejiang and Zhongshan, Guangdong were adequate and stable. There are diesel oil back-up power supply facilities in the Group's production facilities in Yuyao, Zhejiang of approximately 83.3 kilowatts per hour, which enables the Group to maintain a certain level of operations if there is a blackout or a shortage of electricity. During the Track Record Period, the Group has not suffered from shortage of electricity and water supplies that resulted in material disruption in operations, nor experienced any material accidents causing material damage to the production facilities or suspension of production.

Repair and maintenance

Machinery maintenance is scheduled regularly and is carried out by the Group in accordance with internal standards approved and prescribed by the technical department, production control department, machinery operation department and/or quality management department of the relevant operating subsidiaries of the Group. Such internal standards are formulated after taken into account the technical, engineering and other specific requirements and procedures set out in the operation manual of the relevant machinery, the internal ISO standards and the actual work flow on the job sites. These measures are in place to avoid unexpected stoppage and maximise production efficiency. Regular machinery maintenance is scheduled to be conducted after normal operating hours to ensure that there will not be any production disruption. During the Track Record Period, the Group has not experienced any unexpected stoppage of operation as a result of any failure of production machinery, and the repair and maintenance expenses incurred by the Group amounted to approximately RMB420,000, RMB500,000 and RMB870,000, respectively.

Production process

The Group produces products based on its own design or in accordance with the prescribed specifications provided by the customers. Before mass production commences, the Group will review manufacturing processes and lay down standards of production and inspection based on the designs and specifications of the relevant products required by customers. The Group will also produce samples in accordance with the specifications to verify the accuracy of designs and conduct trials and pilot production in order to properly set up appropriate conditions for mass production.

The principal stages of the production process of the main products of the Group are illustrated in the following diagrams:

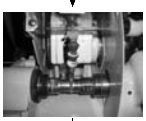
Glass spherical lenses

Raw materials input: shaped glass

Coarse grinding: process shaped glass and other supplemental materials in a grinding machine to generate the required shape.

Precision grinding and polishing: process one side of the lens in accordance with the required specifications with other supplemental materials in a grinding machine.

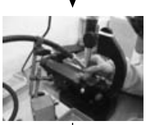
Cleaning: remove stains and dust on the lens surface with solution before centering.



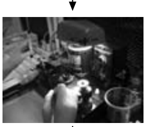
Centering/trimming: process the edge of the lens with a centering machine to achieve the required external diameter and eccentricity of lens.

Ultrasonic cleaning: clean the lens with ultrasonic equipment before coating.

Coating: coat one layer or multi-layer on the optical lens with a coating machine in accordance with the spectrum specifications required.

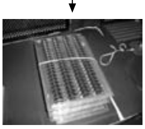


Cementing: attach two or more lenses together with adhesive on the basis of various optical requirements.



Painting: spread an even layer of paint all over the lens in accordance with the design and layout requirements to avoid image deviation.

Final inspection: inspect the quality of finished products.



Packaging: pack the products which have passed the quality inspection in accordance with the design or specifications required by the customers.

Centering and coating, which affect the image formation and light transmission capacity respectively, are the key production processes for the manufacture of spherical glass lenses. The highest centre and outer diameter accuracy rate that the Group can reach in its centering process is 0.005 millimeters and the reflective rate of the lens after the coating process can be less than 0.2%.

Plastic optical lenses

Mould development: produce the moulds in accordance with required specifications.

↓

Raw materials input: plastic, polyresin.

↓

Plastic injection moulding: inject plastic by pressure under certain temperature by a plastic injection moulding machine to produce plastic lens in accordance with required specifications.

↓

Cutting: cut the plastic moulded lenses for coating.

↓

Coating: coat one layer or multi-layer on the optical lens with a coating machine in accordance with the spectrum specification required.

Mould development includes mould base processing and mould core processing. Mould base processing and mould core processing in mould making are the main processes in plastic lens production. Lens quality is subject to the quality of the mould base processing while the surface figure error of plastic lenses is subject to the correction technologies applied in the mould core processing.

The finished plastic lenses are generally used for further in-house processing into lens sets and/or camera modules.

Lens sets

Raw materials and parts input: lens set parts, lenses

Assembly of lenses: assemble a lens or several lenses into the lens cone in accordance with the required steps and attach one or more lenses firmly together with metal or plastic parts to produce lens sets.

Testing: test the function of the lens set by using testing machines, such as projectors.

Packaging: pack the products which have passed the quality inspection in accordance with the design or specifications required by the customers.

The key to the manufacturing of lens sets is the strong assembly capability of the Group. The Group possesses a series of essential technologies required for assembly of lens sets, including black material moulding, lens testing and lens sets assembly techniques.

Camera modules

Mounting: mount sensors, capacitors and other electronic components on electronic printed circuit boards.

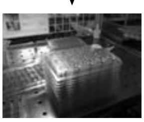
Cleaning: remove all dirt on the surface of the electronic parts to ensure the reliability of the functioning of the electronics.

Assembly: assemble the lens with PCB parts.

Focusing: adjust front objects to obtain a clear image on the sensor.

Testing: test the image formation function of the whole module and whether the module satisfies all the technical requirements.

Pad printing: mark the date and batch number of products to ensure the products are traceable.



Packaging: pack the products which have passed the quality inspection in accordance with the design or specifications required by the customers.

Focusing is the principal production process for the manufacture of camera modules as it controls the formation of image function of the module. The failure rate of adjustment of focus of the camera modules is kept at a rate of lower than 0.5% by the Group.

Optical instruments

Glass spherical lens processing

Raw materials input: shaped glass

Coarse grinding: process shaped glass and other supplemental materials in a grinding machine to generate the required shape.

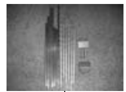
Precision grinding and polishing: Process one side of the lens in accordance with the required specifications with other supplemental materials in a grinding machine.

Centering/trimming: process the edge of the lens with a centering machine to achieve the required external diameter and eccentricity of lens.

Coating: coat one layer or multi-layer on the optical lens with a coating machine in accordance with the spectrum specifications required.

Cementing: attach two or more lenses together with adhesive on the basis of various optical requirements.

Mechanical parts processing

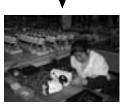


Raw materials input: produce components and parts with semi finished products and raw materials.

Process raw materials

Assembly of parts: assemble components into parts.

Optics adjustment: adjust the optical parts after assembly to ensure the mechanical and optical axis coincide



Final assembly: assemble parts into products.

Inspection of finished products: carry out integrated inspection on the functions and appearance of the products.

Packaging: pack the products which have passed the quality inspection in accordance with the design or specifications required by the customers.

The keys to production of optical instruments are the design capability, the production processes and technologies of processing and assembling, particularly: (a) hyper-hemispherical and subminiature spherical lens processing technologies, which affect the imaging quality of microscopes or high power objectives; (b) mechanical curve axis processing technologies, which affect the ability to control shifting of an image within a limited area during a consecutive zooming of a microscope; (c) core and compensator adjusting technologies, which affect the measurement accuracy of a cross line laser and the stability of its functions; and (d) microscope optical adjusting technologies, which affect the sharpness of images of various microscopes, the coinciding of the optical axis and mechanical axis and the parallelity of optical axis, and compensate for mechanical accuracy deficiencies.

Major production machinery and equipment

Most of the major machinery and equipment used in the production of the Group's products were purchased from overseas suppliers, primarily from Japan or Korea, because either such machinery and equipment offered by overseas suppliers are of better quality and performance or such machinery and equipment are not available in the PRC. The Group has upgraded, and will continue to upgrade, its machinery and equipment from time to time to cope with increasing demands in the future.

PROCUREMENT

The Group uses a variety of raw materials and components in its manufacturing processes. The Group relies on third party suppliers for sourcing of materials and parts, save for certain optical lenses and lens sets which are manufactured in-house and are used for production of camera modules and optical instruments. Except for image sensors, which are required for the manufacture of camera modules and were purchased from a very limited number of suppliers/agents, the Group purchases these items in bulk from a number of domestic and overseas suppliers based on prevailing market prices.

Products	**Principal raw materials and components**
Lenses	raw optical glass, optical plastic, plastic resins, flat lenses and coating chemicals
Lens sets	lenses, lens cones
Camera modules	sensors, lens sets, FPCs, PCBs
Microscopes	object lenses, eyepieces, viewfinders, chassis

The Group sourced CMOS image sensors from a single supplier during the Track Record Period and from three different entities subsequent to the Track Record Period. Although the Group only engaged a very limited number of suppliers for CMOS image sensors, it has not experienced any material difficulties in ordering sufficient quantities from these suppliers/agents. Given the limited number of suppliers in the market for CMOS image sensors, the Directors also consider it commercially beneficial to build up close relationship with some of these suppliers. The Group may however engage other suppliers for CMOS image sensors in the future if the need arises. Since there are several large-scale CMOS image sensor suppliers in the market, the Directors consider that there will not be any material difficulty for the Group to source CMOS image sensors for production at a reasonable price and in a timely manner. Based on the experiences in the optical industry, the Directors believe that the CMOS image sensors offered by those suppliers are of high quality and are sold within a reasonable range of market price.

The Group has implemented unified resource management systems to enable it to plan the allocation of resources to ensure a steady and timely supply of principal raw materials and components. The management of the Group usually places orders for raw materials and components based on the orders already received from its customers and/or its assessment of market trends. To minimise the impact of price fluctuations of raw materials and/or components used for manufacture, the Group made advances to suppliers in order to fix the pricing for the raw materials and/or components, and these advances amounted to RMB1.6 million, RMB2.1 million and RMB7.6 million as of 31 December 2004, 2005 and 2006, respectively. The timing and magnitude of the advances made were determined by the Group with reference to market conditions for these raw materials and/or components and management's experience. In order to avoid any shortage in supplies, the Group entered into a supply agreement with a supplier of CMOS image sensors. When there are any increased orders from customers at short notice, the Group is usually able to purchase the required raw materials or components promptly to meet the demands of its customers.

For each year during the Track Record Period, purchases from the top five suppliers represented approximately 30.7%, 35.0% and 48.4%, respectively, of the Group's total cost of sales. For each year during the Track Record Period, the purchase of raw materials and components from the Group's largest supplier accounted for approximately 13.0%, 21.9% and 40.4%, respectively, of the Group's total cost of sales. The Directors consider that the Group's relationships with its suppliers are good and the Group has not experienced any major difficulty in obtaining an adequate supply of raw materials and components to meet its production requirements during the Track Record Period.

Although the Group has not entered into any contract exceeding one year with any of its suppliers, the Directors believe that even any of the top five suppliers fail to meet the Group's needs, there are sufficient alternative suppliers of the Group's important raw materials and components, including CMOS image sensors, to allow the Group to find suitable substitutes if necessary.

The Directors have confirmed that none of the Directors, the chief executive of the Company or their respective Associates or, as far as the Directors are aware, any Shareholder who owns more than 5% of the issued share capital of the Company, has had any interest in any of the top five suppliers of the Group during the Track Record Period.

For the Track Record Period, all purchases of raw materials and components were mainly denominated and settled in Renminbi, US dollars or other foreign currencies. The percentages of total cost of purchase of raw materials and components by major currencies during the Track Record Period are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	(%)	*(%)*	*(%)*
USD	32.6	48.4	61.8
RMB	66.6	50.2	37.1
Other foreign currencies	0.8	1.4	1.1
	100.0	100.0	100.0

Terms of payment for raw materials and components range from cash on delivery to 95 days after delivery. The average terms of payment for raw materials and components is 60 days. They are mainly settled within 95 days in 2006.

The procurement team of the Group is responsible for compiling a database containing information in relation to raw materials and components suppliers. The Group also maintains a supplier certification programme in which suppliers are evaluated based on factors such as product quality, delivery time and punctuality, cost and technical capability. Assessments may be based on historical performance, audits of suppliers' manufacturing sites and/or accreditation by certifying bodies. The Group will continue to seek new suppliers of raw materials and components used by the Group in the manufacturing processes to ensure stability in supplies.

INVENTORY CONTROL

The Group has a stringent inventory control policy to monitor its inventory levels and minimise obsolete inventory. It keeps track of the usage of the current period's inventory and estimates any obsolete raw materials and finished goods.

The Group's inventory balance includes raw materials, work in progress and finished goods. The Group has instituted the following major inventory management procedures to ensure efficient management of its inventory:

- all purchases of raw materials and components must be authorised and approved by heads of respective departments and recorded in the inventory management system;

- all incoming raw materials and components must be examined and verified against the Group's purchase orders before acceptance;

- all raw materials and components are tagged with references after acknowledgement of receipt;

- all outgoing raw materials and components for production use must be authorised by production manager and recorded on the inventory management system;

- all finished goods are acknowledged by customers upon delivery and recorded in the inventory management system; and

- monthly stock counts and annual stocktakes are carried out to ensure the number of stored items correspond with all record entries recorded during the relevant period.

As of 31 December 2004, 31 December 2005 and 31 December 2006, the Group had inventory balances of approximately RMB46.4 million, RMB67.2 million and RMB108.3 million, respectively.

The Group normally keeps the stock of raw materials and/or components at a level sufficient for use by the Group for up to 2 months, which is regarded by the Group as a safety stock level. However, in order to avoid any shortage of supplies, the Group may strategically keep a higher level of stock for certain raw materials and/or components. In terms of costs, CMOS image sensors are the most important raw materials and components for the production of the Group. Costs for purchasing CMOS image sensors accounted for approximately 53.3% of the total cost of purchase of the Group for the year ended 31 December 2006. As factors such as cleanliness, static electricity and level of humidity may affect the performance of CMOS image sensors, the CMOS image sensors are stored in a specialised and locked drying cupboard. The CMOS image sensors that the Group uses in production are currently sourced from a limited number of suppliers/agents. The Directors confirm that there are alternative suppliers of CMOS image sensors for the production of optoelectronic products of the Group. CMOS image sensors are electronic products, the prices of which are significantly affected by market demand. For further information, please see the section headed "Risk factors — Risks relating to the Group's business — The Group relies on a limited number of suppliers and agents for key components and raw materials and is susceptible to supply shortages" in this prospectus.

The Group's inventory balances as of 31 December 2004, 2005 and 2006 were as follows:

	As of 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	18,013	27,160	46,924
Work in progress	14,590	19,052	29,624
Finished goods	13,798	20,995	31,794
Total	46,401	67,207	108,342

The management of the Group conducts half-yearly review on the Group's aging inventory.

The Group's provision for obsolete inventories during the Track Record Period were approximately RMB2.1 million, approximately RMB3.0 million and approximately RMB4.7 million, respectively.

SALES AND MARKETING

Sales and marketing strategy

The Group has been selling its products to customers in over 20 provinces and municipalities in the PRC and nearly 40 countries and regions. The customers of the Group include manufacturers of consumer electronic products. The Group sell its products either directly to end customers or sourcing agents appointed by customers, or through its sales agent. The credit terms and basis for sales recognition under these different sales arrangements are the same. Please refer to the section headed "Business — Sales and marketing — Sales channels" in this section for further details. In line with industry practice, the Group generally does not enter into long-term sales agreements with its customers.

The Group emphasises customer relations and effective sales channels as a key to its growth and profitability. The Group's principal sales and marketing strategy for optical and optoelectronic products is to market itself as a core supplier of a wide range of optical components and camera modules for utilisation or incorporation in its key customers' brand name products. The Group seeks to identify and tap into new market opportunities and at the same time enhance established relationships with existing customers through its direct sales force and third party agents, particularly with the sales taskforce of the Group strategically stationed at locations proximate to the customer groups with high marketing potentials. While the sales personnel of the Group continue to work closely with the customers, the technical support personnel and the research and development teams of the Group, relying on the market information collected by the sales personnel, focus on developing new products in response to customers' changing needs and prevailing market trends.

The Group has also devised a sales and marketing strategy for exploring the higher education market and the medical and health markets in the PRC to enhance its market share in the optical instruments market in the PRC.

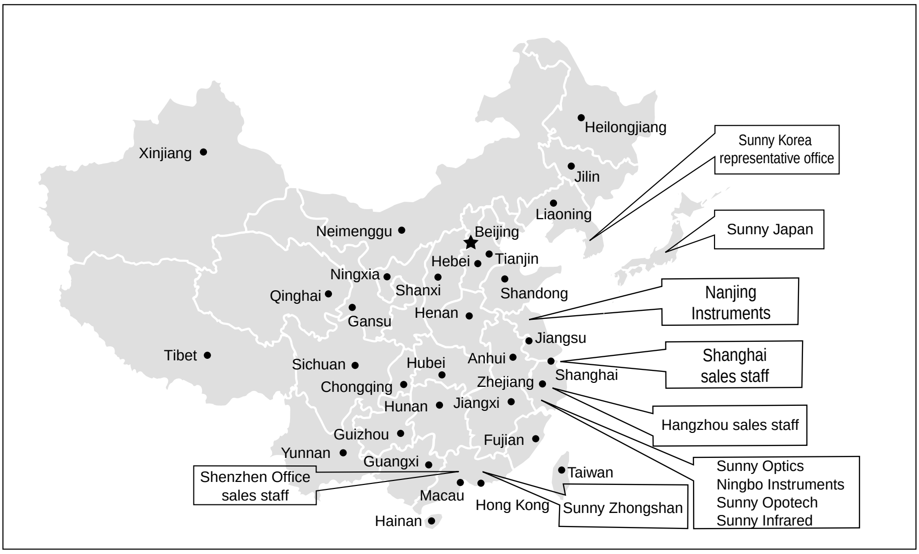
Markets and customers

To follow the strategy of "*Mingpeijiao*", the Group places a strong emphasis on establishing and solidifying business relationships with electronic and optical enterprises of global leading brand names. Through years of operations, it has established an effective customer networking system within and outside the PRC. As of 31 December 2006, the Group had over 80 overseas customers and 160 domestic customers.

The Group has an extensive domestic coverage with a geographic focus on Shenzhen, Shanghai, Nanjing and Hangzhou, where the Group has established sales offices or stationed employees, in addition to its production bases in Yuyao, Zhejiang and Zhongshan, Guangdong. In addition to external sales to customers, part of the optical components produced by the Group is subject to internal consumption for processing by the Group into optoelectronic products and certain optical instruments.

Internationally, the Group sells its products to customers located in nearly 40 countries and regions. The Group's non-PRC customers of optical components are mainly located in Japan, Korea, Taiwan, Hong Kong and Singapore; the non-PRC customers of optoelectronic products are mainly located in Hong Kong and Taiwan; and the non-PRC customers of optical instruments are located throughout the world in countries and regions such as the United Kingdom, Germany, Italy, the Netherlands, Japan, Korea and Singapore. The Group has also established a subsidiary in Japan and a representative office in Korea, both being major optical-related product markets for the Group. The Directors confirmed that the sales of the Group's products to customers outside the PRC during the Track Record Period were not subject to any major regulatory or legal requirements or trade barriers in jurisdictions in which the Group's products were offered, except that the Group's products were required to comply with the RoHS Directive and the WEEE Directive for products sold in the European Union.

Overseas subsidiary, representative office and PRC geographic focuses of the Group



The Group has established close relationships with some of its international customers, including market leaders such as Panasonic, Olympus, Konica Minolta, Samsung, Lenovo and Carl Zeiss. In addition, the Group is normally required to obtain certification from certain well-established and internationally recognised leading customers regarding product quality of the Group before the customers placing any orders with the Group. As of the Latest Practicable Date, the Group obtained such certifications from Olympus and Samsung in respect of optical component supply. Generally, these enterprises will perform an annual review on the quality of the Group's products through visiting the production facilities and inspecting production processes of the Group to ensure that the quality of the Group's products are up to their internal standards. If the Group fails to obtain or renew any of the required certifications from the customers, the relevant customers may reduce or even cease to place any order with the Group, which may adversely affect the financial position of the Group. The Directors believe that through the efforts of different departments of the Group, including research and development, sales and marketing, production and quality control departments, the Group is able to understand and satisfy the needs and requirements of its customers. The staff of the quality control department discuss with the relevant departments of the Group about the assessments and recommendations given by the customers and review the internal quality control standards after taking into account such assessments and recommendations, where appropriate, to ensure the ongoing compliance with the requirements of certification from the customers. During the Track Record Period and up to the Latest Practicable Date, the Group did not experience any failure to renew the certifications from customers.

In addition, Sunny Optics was accredited by Tianjin Samsung Opto-electronics Co., Ltd. as its outstanding cooperating supplier in 2005 and 2006 and Sunny Opotech was accredited by Lenovo Mobile Communication Technology Ltd. as an excellent supplier in 2006.

During each year of the Track Record Period, the five largest customers of the Group represented 32.2%, 33.2% and 22.8% of the Group's total revenue, respectively. During each year of the Track Record Period, the largest customer of the Group during such year represented 9.5%, 13.8% and 6.9% of the Group's total revenue, respectively. In addition, two of the five largest customers as of 31 December 2006 are related to each other and, together, accounted for approximately 11.8% of the Group's revenue for the year ended 31 December 2006. The Directors consider the Group's relationship with its customers good and confirm that since the establishment in 1993, the Group has not experienced any significant disputes with its customers or faced cancellation of any significant orders by its customers.

The Group has not entered into long-term contracts with its customers and the Directors confirm that it is not a market practice in the industry for any supplier of lens and camera modules to enter into long-term contracts with their customers.

The Directors have confirmed that none of the Directors and chief executive of the Company or their respective associates or, as far as the Directors are aware, any Shareholder who own more than 5% of the issued share capital of the Company, has had any interest in any of the top five customers of the Group during the Track Record Period.

Sales Channels

Direct sales

The Group puts significant emphasis on maintaining close relationships with its end customers and keeping abreast of market developments. Accordingly, to the extent possible, the Group will normally sell its products to its domestic and overseas customers primarily through direct sales. The Group has established sales offices or stationed employees in Shenzhen, Shanghai, Nanjing and Hangzhou (in addition to its production bases in Yuyao, Zhejiang and Zhongshan, Guangdong) in order to facilitate better communications and quicker responses to its customers in the Yangtze River Delta and Pearl River Delta regions of the PRC. In addition, the Group has established an overseas subsidiary in Japan and a representative office in Korea. The Directors believe these overseas offices will facilitate better communications and quicker responses to its customers in those key areas. The Group maintains a database of its existing and potential customers with information regarding product requirements and credit history. This database assists the Group to develop the most appropriate marketing approach. During the Track Record Period, direct sales made by the Group to end customers constituted approximately 93.0%, 95.4% and 79.3% of the revenue of the Group, respectively.

While the Directors believe that some of the customers under direct sales are manufacturers of consumer electronic products and some of them are traders involved in trading/distribution of optical and/or optoelectronic products, the Directors cannot ascertain the underlying production processes or sales activities of every customer and whether and how each of them is to itself apply the Group's products for further processing or to trade such products to third parties.

Sales and marketing personnel, together with the research and development personnel, visit the existing and potential customers on a regular basis and as requested by the customers. They will not only initiate meetings with customers to get a full understanding of the technical requirements and sale objectives of the customers, but will also discuss how the products and capabilities of the Group can be effectively utilised to satisfy the requirements of the customers.

Third-party agent and cooperative arrangements

The Group also sells its optoelectronic products through one third-party agent in the PRC. The agent performs a useful role in identifying business and market opportunities, business networking and organising logistics such as product shipments, thereby enabling the Group to deploy its resources to concentrate on product development, branding and cultivating relationships with potential customers. The third-party agent is an Independent Third Party and the Group has entered into an agreement with it. Pursuant to the agreement, the third-party agent would introduce customers to the Group and the Group would pay commission to the third-party agent based on a percentage of the actual sales referred by such agent. Such commission amounted to approximately RMB1.0 million for the year ended 31 December 2006, the year in which such arrangement commenced. The third-party agent also provides customer information to the Group and the Group will invoice and deliver its optoelectronic products to the customers. As the Group's products will be sold directly from the Group to the end customers introduced by the third-party agent, the Group will be responsible for the product liability in respect of the quality of the products sold to such customers. The end customers (instead of the third-party agent) are regarded as customers of the Group and they will be responsible for any default payments. The revenue derived from the end customers introduced by the third-party agent is recognised to the accounts of the Group when custom clearance procedures are completed for export transaction or when the invoice of a relevant transaction is issued to the end customers for domestic transaction.

The agency sales arrangement commenced in 2006 and approximately 13.0% of the revenue of the Group was attributable to revenue effected through the third-party agent for the year ended 31 December 2006.

With regard to sales of camera modules manufactured by the Group, the Group co-operates closely with four mobile phone and platform design companies in the PRC. Some of them are publicly listed companies with leading position in the mobile phone and platform design industry. Apart from purchasing products from the Group, these mobile phone and platform design companies also provide certain information about camera modules suppliers (including the Group) to their customers. Those customers may then choose which camera modules supplier to use for the products designed for them by those mobile phone and platform design companies. The Group is on the list of such suppliers for these mobile phone and platform design companies.

Third-party sourcing agents

During the Track Record Period, the Group also sells its optical components through third-party sourcing agents appointed by and representing four Japanese end customers. The Directors consider it a normal practice in the Japanese industry for customers of optical components to purchase products through such third-party sourcing agents due to the internal commercial and risk management considerations of the end customers. The Group has not entered into any sales agreement in writing with the third-party sourcing agents (except the purchase orders) and no remuneration or sales incentives are offered by the Group to any of the third-party sourcing agents.

Although the Group usually negotiates the terms of sales directly with the end customers, the Group normally invoices and delivers its products to the third-party sourcing agents, which are ultimately considered as customers of the Group. These arrangements are in place principally to satisfy the needs of the end customers in Japan. The third-party sourcing agents will be directly responsible for the product liability in respect of the quality of the products sold to end customers and be responsible for any default payments by the end customers. The revenue is recognised to the accounts of the Group when custom clearance procedures are completed for export transaction or when the invoice of a relevant transaction is issued for domestic transaction.

During the Track Record Period, approximately 7.0%, 4.6%, and 7.7% of the revenue of the Group, respectively, were attributable to sales effected through third-party sourcing agents.

Marketing and promotion

The Group emphasises customer-oriented principles in its operations and is committed to establishing a proactive mechanism to satisfy customers' changing needs and market's fast moving trends.

As of 31 December 2006, the Group employed 101 sales and marketing personnel. The main responsibilities of the sales and marketing team are to liaise with the Group's customers, secure sales orders, identify new business opportunities and promote the Group's products. It is also responsible for co-ordinating the Group's marketing activities, which include participation in local and overseas exhibitions, trade fairs such as the annual optical products trade fairs held in Japan and 深圳中國國際光電博覽會(Shenzhen China International Optoelectronic Exposition*), 蘇洲電子信息博覽會(Suzhou Electronic Manufacturer Exposition*), 廣州交易會(Canton Fair), 中國教學儀器展示會 (China Education Instrument Exposition*) and 全國高教儀器設備展示會 (State Higher Education Instrument and Equipment Exposition*) held in the PRC, promoting the Group's products through its internet website of *www.sunnyoptical.com* and conducting sales calls. The Directors in particular consider the participation in exhibitions and trade fairs in Japan to be a useful platform for promoting the Group's products in the international market. The Group also regularly invites customers to visit its production base to allow them to have a better understanding of the research capability, production process and production scope of the Group. The Group has also established sales offices or stationed employees in Shanghai, Shenzhen, Nanjing and Hangzhou in the PRC (in addition to its production bases in Yuyao, Zhejiang and Zhongshan, Guangdong), established an overseas subsidiary in Japan and established a representative office in Korea. The Directors believe that this sales network enables the Group to build stronger relationships and facilitate communications with customers in the Yangtze River Delta and Pearl River Delta regions of the PRC, where customers of optical-related products are relatively concentrated, as well as in overseas countries or regions such as Japan and Korea, being two of the major optical-related product markets. The Group has also compiled and maintains a database containing information of existing customers through its information system, which enables the Group to have a full understanding of the needs of its customers and to respond to enquiries and/or complaints from customers in a more systematic and efficient manner.

Product delivery

The responsibility for transportation and payment for the related costs are to be agreed between the Group and its customers on a case-by-case basis.

The Group delivers its products to its overseas customers by way of sea or air transports. The Group's products are mainly transported via ports or airports in Ningbo or Shanghai, and through the services of logistics companies. The Group's products are delivered to its domestic customers across the PRC by way of land or air transport, or through the services of delivery companies.

On average, delivery of goods to the Group's overseas customers and domestic customers takes approximately 48 hours and 24 hours, respectively. During the Track Record Period, the Group did not face any delays in product delivery which resulted in material economic and financial impact on the Group.

Pricing and receivables

The prices of the Group's products are determined by the senior management of the Group after taking into account, among others things, market competition, cost of sales, product characteristics and consumer behaviour.

The Group's sales are mainly denominated and settled in Renminbi for domestic sales, and US dollars for overseas sales. Set out below are the percentage of the denomination of the major currencies of the Group's revenue during the Track Record Period:

	Year ended 31 December					
	2004		2005		2006	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
USD	161,501	52.5	263,252	44.7	551,083	61.2
RMB	108,487	35.2	303,904	51.7	327,459	36.4
Other currencies	37,941	12.3	21,142	3.6	22,156	2.4
Total	307,929	100.0	588,298	100.0	900,698	100.0

Generally, the Group requests overseas customers to settle by way of telegraphic transfer payable at sight (usually between 0 day and 95 days), while domestic customers are generally required to make payment upon delivery. The Group may also require a new customer to pay a deposit before accepting any orders from such customer. For each year during the Track Record Period, the trade receivable turnover were approximately 87 days, 79 days and 58 days, respectively.

The Group's management monitors the level of trade receivables and will adjust the credit terms granted to customers where necessary. The Group's management monitors the aging of trade receivables and, if necessary, makes specific provisions on balances with recoverability problems and makes general provisions on the remaining balances according to the Group's provisioning policy. Please refer to note 5 to the accountants' report set out in Appendix I to this prospectus for details. The management conducts annual assessments on the recoverability of such provisions.

The Group's balance of trade receivables by age as of 31 December 2004, 2005 and 2006 were as follows:

	As of 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables analysed by age:			
within 90 days	60,757	113,101	133,788
91 to 180 days	11,050	11,902	6,372
over 180 days	1,395	2,297	2,607
Total	73,202	127,300	142,767

Appropriate allowances for estimated irrecoverable amounts are recognised in the profit or loss accounts of the Group when there is objective evidence that the asset is impaired. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. If any debts is categorised by the Group as doubtful debts, the responsible sales personnel will discuss with the relevant customers for repayment and report on the recoverability of such debts. Specific allowance will only be made for trade receivables that are unlikely to be collected.

During the Track Record Period, the Group's allowance for doubtful debts was specific in nature, amounting to approximately RMB3.9 million, RMB4.1 million and RMB4.1 million for each year, respectively.

After sales services

In addition to ensuring the quality of its products, the Group places a strong emphasis on the after sales services it offers to its customers.

Generally, if customers are not satisfied with the quality of the products delivered by the Group, they may request for return of products for money or exchange of products, subject to the internal confirmation of the Group and negotiation between the Group and the relevant customers. During the Track Record Period, the Group did not experience any incident of failure to meet customers' specifications which resulted in material adverse impact on the Group.

The Group normally provides warranty for a period of 1 year for quality assurance of its optical instruments. During the warranty period, the Group provides technical support and maintenance services to customers of optical instruments and provides free spare parts for repairing.

When the Group receives any feedback or complaints in relation to any product quality or design issues from its customers, the Group's sales staff will immediately send the relevant information to the relevant departments of the Group. The production management department and the quality control department will then deal with the feedback or complaints and take immediate follow-up action in accordance with internally prescribed procedures. Normally, an initial response will be given by the Group to the relevant customer within 24 hours and a detailed report and follow-up action will be released/taken within 3 days after receipt of such feedback or complaint.

RESEARCH AND DEVELOPMENT

The optical industry is characterised by rapidly-evolving technology advancements. The ability to achieve rapid and continual technology improvements is of critical importance to maintaining the Group's competitive advantage. For each year in the Track Record Period, the Group applied a total of approximately RMB5.4 million, RMB10.7 million and RMB12.3 million, respectively in research and development, which represented approximately 9.4%, 9.8% and 7.4%, respectively, of the Group's profit of the year during the respective years.

As of 31 December 2006, the Group's research and development department employed 173 staff. Most of them possess undergraduate or higher education degrees in relevant fields including mechanical engineering, instrument manufacturing, optical technology, optoelectronic science, optical information technology, or have experience in the optical-related fields. 20 of them obtained professional qualifications as senior engineer, engineer or assistant engineer and 2 of them obtained the professional qualification as technician. The predecessor of the Group also established an in-house research and development centre recognised by 浙江省科技廳 (Science and Technology Department of Zhejiang Province), a government department responsible for, among others, execution of technology-related regulations, directions and policies formulated by the State and awarding scientific and technological achievements in Zhejiang Province, as 省級高新技術研究開發中心 (Provincial High and New Technology Research and Development Centre*). Such entitlement is only granted to enterprise which can provide various integrated technological services, and possesses integrated ancillary technology testing capacity, outstanding research and development performance and project design and a professional testing team. The research resources under this in-house research and development centre were owned by the Group after the Reorganisation.

Set out below are the procedures to determine the research and development projects to be undertaken by the Group:

- preparation of preliminary research and development proposals by research and development team of the subsidiaries, and after approval from the general manager, submission of such proposals to the research and development department of the Company
- selection of preliminary research and development proposals by the research and development planning team and approval of such selection by the chief operation officer
- preparation of feasibility reports in relation to the approved preliminary research and development proposals after collection of relevant information (including statutory regulations, technology trend and project analysis)
- preparation of research and development planning schedule by the chief operation officer for the approval of the chief executive officer and the Board

Details of the amount of investment in the research and development projects are set out in the feasibility reports and these projects are subject to annual review by each relevant subsidiary.

To strengthen its expertise in the optical, mechanical and electronic aspects of production, and to preserve and enhance its strength in combining these disciplines for production, the Group formulated the following research and development guidelines:

Types of technology	Major development initiatives	Major benefits
Optical technology	• Design of optical systems	• Offer higher value-added services • Enhance product quality and offerings by integrating mechanical and electronic elements in optical systems
	• Coating technology	• Change the physics and chemical characteristics of the surface of optical lens so as to satisfy unique requirements of optical products (in particular products with high pixel and functionality requirements) which are composed of lenses

Types of technology	Major development initiatives	Major benefits
	• Production techniques and know-how	• Reduce production costs by streamlining and improving production processes • Enhance production efficiency
Mechanical technology	• Design of mechanical structures	• Offer higher value-added services • Enhance product quality and offerings by integrating optical and electronic elements in mechanical structures
	• Production techniques and know-how	• Reduce production costs by streamlining and improving production processes • Enhance production efficiency
Electronic technology	• Design of electronic circuits	• Offer higher value-added services • Enhance product quality and offerings by integrating optical and mechanical elements in electronic circuits
	• Image processing technology and related software	• Improve the quality of photos obtained from recovered images which are transformed from initialised digital signals in camera modules by way of improving the processing of digital signal transfers

The Group is currently engaged in several major research and development projects applicable to each of its major product categories.

For optical components, the Group conducts research and development to improve plastic aspheric lens moulding techniques and technologies and to improve the quality and production of infrared glass materials.

For optoelectronic products, the Group not only conducts research and development to improve the quality and production of AF-zoom all-in-one lens modules but also develops new features for such modules. The Group is also developing photo processing and software technology for its optoelectronic products, and optoelectronic products for vehicle monitoring systems.

For optical instruments, the Group not only conducts research and development to improve the quality and production of instruments it currently produces, such as spectrometers and optical and survey microscopes, but also incorporates new features in such instruments. The Group develops new products to expand its optical instrument product offerings, such as total station products that are widely used for surveying and construction.

The most important research and development projects that the Group currently conducts, namely, COB and moulding aspheric lens projects, have already commenced in late 2006. They are important to the future business of the Group. Most of the capital commitment for these two projects is expected to be made in 2007 and 2008. The commercial operation will start after 2007 from small scale and expand along with the business growth. For both projects, the Group has also engaged well-know Asia EMS manufacturers for the technological input. In addition, several senior managers have joined the Group to support the projects.

In addition to its own research and development capabilities, the Group cooperated with various universities and institutes in the development, design and production of new products and technologies. The major research and development projects include:

Zhejiang University

(1) Sunny Group entered into a technology planning project agreement with Research Institute of Optics, Zhejiang University in October 2001 for a project relating to the research on optical engines for LCOS projectors based on polarising interfering filters and mass production of products, for a period commencing from October 2001 to December 2002.

Under the project agreement, Sunny Group is required to provide funding in the amount of RMB700,000 and is responsible for the research and development of testing system for optical engines. Research Institute of Optics, Zhejiang University is responsible for designs of optical engines and capacity assessments. In addition, Science and Technology Committee of Ningbo City agreed to provide a grant of RMB180,000 to sponsor this project.

The ownership of the intellectual property rights generated from the project has not been specified in the agreement but neither party can disclose any technical information in relation to the project to any third party before obtaining consent from the other party.

(2) Sunny Group has entered into a technology planning project agreement with Institute of Materials and Chemical Engineering, Zhejiang University in October 2003 for a project relating to the research of instant dry glue for optical prisms, for a period commencing from October 2003 to August 2005.

Under the project agreement, Sunny Group is required to provide funding in the amount of RMB750,000 and is responsible for mass production of products. Institute of Materials and Chemical Engineering, Zhejiang University is responsible for technology development. In addition, Science and Technology Committee of Ningbo City agreed to provide a grant of RMB150,000 to sponsor the project.

The ownership of the intellectual property rights generated from the project has not been specified in the agreement but neither party can disclose any technical information in relation to the project to any third party before obtaining consent from the other party.

Ningbo University

Sunny Optics entered into a collaborative agreement with Ningbo University in September 2006 for a project relating to research and development of materials for infrared lenses (紅外透鏡材料的研製) for a period of 6 months commencing in September 2006.

Under the collaborative agreement, Sunny Optics is required to provide funding in the amount of RMB500,000 for setting up the laboratory, purchase of raw materials and research fee. Ningbo University is responsible for setting up the platform for producing and testing chalconitride glasses (硫系紅外玻璃) and providing the relevant facilities and testing equipment for use by Sunny Optics.

Any technology derived from the collaboration would be jointly owned by Sunny Optics and Ningbo University.

Wuhan University

Ningbo Instruments and Wuhan University entered into a product research and development co-operative agreement in September 2004 for the design and research and development of digital levels for a period of 3 years commencing from September 2004.

Pursuant to the co-operative agreement, Ningbo Instruments is responsible for providing overheads for the research and development and design development and the first installment of such overheads amounting to RMB265,000. The amount and timing for further contributions to the overheads are subject to further negotiation. It also provides optics fine mechanics and repairing components of the automatic level and related information, design of optics fine mechanics of the digital levels, outlook design, prototype design, research, development and trial production of bar code rulers. Wuhan University is responsible for the theoretical research of digital levels, computer simulation, technology research, physical verification, design, research and production as well as inspection of the digital levels bar code rulers.

Any research results and technology derived from the cooperation would be jointly owned by Ningbo Instruments and Wuhan University.

Shanghai Institute of Optics and Fine Mechanics (上海光學精密機械研究所)

Shanghai Institute of Optics and Fine Mechanics and Sunny Group (predecessor of the Group) entered into a technology cooperation project implementation contract in December 2002 for the research and development of the segmental optical gas inspection system for a period of 2 years commencing from January 2003.

Pursuant to the cooperation contract, Sunny Group is responsible for the provision of the development overheads of RMB150,000, and conducting manufacture and coordination, marketing and follow-up research of market information. Shanghai Institute of Optics and Fine Mechanics is responsible for the research and development of the project. Technology Bureau of Ningbo agreed to provided RMB150,000 to sponsor the project.

The ownership of the intellectual property rights generated from the project has not been specified in the agreement but neither party can disclose any technical information in relation to the project to any third party before obtaining consent from the other party.

The abovementioned projects were all funded by internal source of the Group. All the funds and grant (if any) committed by various parties to the projects were contributed in accordance with the relevant agreements. No special arrangement of profit sharing has been made between the relevant parties to the abovementioned projects.

The Group will continue to cooperate with universities and institutes for future research and development of new products and technologies.

During the Track Record Period, the Group and/or the predecessor of the Group obtained subsidies, awards, repayment of development funds and allowances for hi-tech development expenditures provided by relevant authorities of the PRC Government. The amounts of these benefits typically ranged from RMB274,000 to RMB1,445,000.

INTELLECTUAL PROPERTIES

The Group employs certain product designs and manufacturing processes which were developed in-house by its research and development personnel. The Group relies on a combination of laws and regulations such as patents, copyrights, trademark and unfair competition laws, as well as confidentiality rules to protect its intellectual property. The Group has adopted preventive measures to protect its intellectual property rights by means of confidentiality agreements signed by its senior management and the key research and development personnel. The Group has not experienced any infringement of its intellectual property rights by others nor infringed any intellectual property rights owned by others that have material impact on the Group during the Track Record Period and up to the Latest Practicable Date. As of the Latest Practicable Date, the Group had 6 registered trademarks (of which 3 are registered in the PRC, 1 is registered in France and 2 are registered in Hong Kong) and 11 registered patents (all of which are registered in the PRC), and has filed 4 trademark applications in Hong Kong and 8 patent applications in the PRC. Although the Group has made efforts to obtain intellectual property protection for some of its products, the Group does not have sufficient patents to protect all of its proprietary processes and technology against claims or infringing use by other parties. Further details of the intellectual property rights of the Group are set out in the section headed "Further information about the business of the Group — Intellectual property rights of the Group" under Appendix V to this prospectus. Please also refer to "Risk Factors — Risks relating to the Group's business — Disputes over intellectual property rights could be costly and could deprive the Group of technologies it needs to remain competitive" in this prospectus.

INFORMATION SYSTEMS

To enhance the management systems of the Group, the Group has implemented an ERP system in January 2002 which applies to all aspects of daily operations and management, including financial reporting, inventories, manufacturing, sales and management. The Group has invested approximately RMB1.2 million in implementing the ERP system. Currently, the system covers all members of the Group.

The Group has further implemented certain management systems. The Group has implemented the customer relationship management system, or CRM system, in November 2005 to strengthen customer and market management, the industrial and engineering design works management system in December 2002 to archive and manage all the design drawings, pictures, specifications and artworks, the ISO9000 quality management system in January 2001 to improve the efficiency in quality control, the archive management system in January 2004 to reinforce the management of historical documents, the attendance-taking and staff accommodation management system in May 2006 to manage the attendance-taking and staff accommodation, and the office automation management system in January 2004 to enhance business efficiency. The project system for the enhancement of management of information research is now under trial. The aggregate amount for implementation of the above management systems is approximately RMB1.5 million.

QUALITY CONTROL

The Group is not only subject to PRC and international regulatory requirements relating to product quality standards which must be satisfied before such products can be sold in the relevant jurisdictions, but also standards specified by its customers. As a result, the Group places a strong emphasis on strict quality control over its products and has implemented a comprehensive quality control system.

The quality control system of the Group includes the following areas:

- **Purchase of raw materials** — Sample tests are conducted prior to confirmation of orders to ensure the quality of raw materials. In addition, suppliers are required to provide the applicable certificate certifying compliance with the RoHS Directive, the RoHS test report and a table of hazardous elements in relation to such raw materials and components, all to the satisfaction of the Group.

- **Production** — Every stage of the production process is monitored by the quality management team to ensure that the production process conforms to specific quality control requirements. Visual inspection and performance testing (such as ageing and reliability tests) are conducted to assess the performance of semi-finished products to ensure that the relevant quality standards are met.

- **Inventory storage** — Proper procedures are laid down to ensure no degradation of product quality during storage and transportation.

- **Machinery and equipment management** — Regular inspections and maintenance are carried out by the Group's equipment administrators to ensure optimum performance of machinery and equipment.

- **Sales** — Each shipment of finished products is subject to a final sample check before delivery to customers. Products which do not meet the relevant quality standards will be re-worked and are subject again to the same inspection and performance testing. The final approved products are then delivered to the customers. The Group's sales staff are responsible for collecting customers' opinions and handling customers' complaints appropriately and in a timely manner.

- **Staff quality awareness system** — Regular training and continuous assessments of the performance of staff are conducted.

As of 31 December 2006, the Group had 299 quality control staff in the quality control department. In addition, there are also product quality inspectors deployed at the production lines responsible for testing of semi-finished products.

Some of the quality control staff possess undergraduate or higher eduction qualifications and the rest of them are technical or secondary school graduates. Nearly all of the product quality inspectors stationed in the production lines are technical or secondary school graduates. New quality control staff is required to attend the introductory training held by the Group. The Group also organises different training courses hosted by the Group's management or external guest speakers for the quality control staff and/or the product quality inspectors from time to time covering different aspects, including understanding of ISO and RoHs Directive standards and on-job techniques.

The Group was awarded the ISO9001:2000 and ISO14001 certificates in relation to the design, development, manufacture and service of optical components and optoelectronic parts in 2005 respectively (both of which will remain valid till December 2008), the ISO9001:2000 certificate in relation to the design, development, manufacture and service of optoelectronic camera module products in 2006 (which will remain valid till April 2009), and the ISO9001:2000 and ISO13485:2003 certificates in relation to the design, development, manufacture and service of instruments in 2005 and 2006, respectively (which will remain valid till September 2008 and November 2007, respectively). The Directors believe that there is no impediment to renew the certification which fall due in 2007.

The ISO certification process involves reviewing and observing the manufacturing processes and quality management systems over various periods. The Group has established a designated team overseeing the ISO standards compliance issues. Such designated team is composed of senior management and staff members from various departments, including quality control, production, financial, sales and marketing and research and development departments. Most of the members of the designated team possess undergraduate or higher education qualifications and have received trainings relating to the relevant ISO standards. In addition to providing training to quality control staff in relation to the requirements of ISO standards, the Group also conducts internal review, once a year or when the management of the Group considers necessary, on its operations against the prescribed quality control policy formulated on, among other matters, the ISO standards to ensure the ongoing compliance with the requirements of ISO certifications. The relevant ISO standards shall be complied with before industrial products can be sold in certain European countries. However, if the Group fails to obtain or renew its ISO certifications, some of its existing customers may no longer regard the Group as their qualified supplier and may reduce the order or cease to place any order with the Group. As such, the financial position of the Group will be adversely affected. During the Track Record Period, the Group has not experienced any difficulty in renewal of ISO certifications.

Moreover, the Group has also successfully obtained certifications from leading internationally recognised customers, including Olympus and Samsung, in respect of the supply of optical components. The Directors believe that these certifications provide the Group's customers with a strong proof in respect of the high level quality control employed in the Group's manufacturing and assembly processes.

During each year of the Track Record Period, the value of returned goods of the Group from customers resulting from product quality issues amounted to approximately RMB0.2 million, RMB2.5 million and RMB6.7 million, respectively. The Directors believe that the value of returned goods will decrease through the continuous improvement of the Group's quality control system. The Group closely followed up the complaints and comments given by customers and improved the internal procedures to satisfy the requirements of its customers. The Group also established special project teams for several large customers of the Group. Each of the project teams is responsible for attending and addressing any quality issue of the Group's products raised by the customers. Each of such special project team is composed of senior management and staff members from various divisions, including quality control, production, financial, sales and marketing and research and development divisions. Most of the members of the special project teams possess undergraduate or higher education qualifications and only staff with outstanding performance will be chosen to join the teams.

AWARDS AND RECOGNITIONS

The Directors believe that the Group's products and its operations are widely recognised for quality in the optical industry, both within and outside the PRC. Major awards and recognitions for the Group's and its predecessor's products or operations are set out below:

Year of grant	Nature	Recipient	Award	Awarding organisation or authority
ISO standards				
2005	Quality Management Systems Accreditation	Sunny Optics	ISO9001: 2000 Standards	China Quality Certification Centre [(1)]
2005	Quality Management Systems Accreditation	Ningbo Instruments	ISO9001: 2000 Standards	China Quality Certification Centre[(1)]
2005	Environment Management Systems Accreditation	Sunny Optics	ISO14001: 2004 Standards	China Quality Certification Centre[(1)]
2006	Quality Management Systems Accreditation	Sunny Opotech	ISO9001: 2000 Standards	China Quality Certification Centre[(1)]
2006	Research, development and production	Ningbo Instruments	ISO13485: 2003 Standards	北京國醫械華光認証有限公司[(2)] (Beijing Hua Guang Certification of Medical Devices Co. Ltd.)

Year of grant	Nature	Recipient	Award	Awarding organisation or authority
Others				
2004	Tradename	Sunny Group	浙江省知名商號 (Well-known tradename in Zhejiang Province*)	浙江省工商行政管理局(3) (Industrial and Commercial Administration Bureau of Zhejiang Province*)
2004	Enterprise	Sunny Group	二零零三年度先進企業 (Advanced Enterprise for the year 2003*)	餘姚市西北街道辦事處(4) (North-West District Office of Yuyao City*)
2004	Enterprise	Sunny Group	二零零三年度外向型經濟先進企業 (Advanced Outward-oriented Enterprise for the Year 2003*)	餘姚市西北街道辦事處(4) (North-West District Office of Yuyao City*)
2004	Enterprise	Sunny Group	二零零三年度十大突出貢獻企業 (Top 10 Enterprises with Outstanding Contributions in Year 2003*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2004	Enterprise	Sunny Optics	二零零三年度出口創滙先進企業 (Advanced Export Enterprises for the Year 2003*)	餘姚市人民政府(5) (The People's Government of Yuyao City)

Year of grant	Nature	Recipient	Award	Awarding organisation or authority
2004	Enterprise	Sunny Group	浙江省誠信示範企業 (Key Industries and Top Ten Performance Enterprises of the PRC*)	中國信息報(6) (China Information News*)
2004	Product	Sunny Group	J2712雙目生物顯微鏡 1000x榮獲寧波市二零零四年度推薦產品榮譽稱號 (J2712 binocular microscope 1000x was accredited as the Recommended Product for the Year 2004*)	寧波市教學儀器設備行業管理協會(7) (Ningbo Education Instrument Industry Association*)
2004	Product	Sunny Group	J2703立體顯微鏡榮獲寧波市二零零四年度推薦產品榮譽稱號 (J2703 3D microscope was accredited as the Recommended Product for the Year 2004*)	寧波市教學儀器設備行業管理協會(7) (Ningbo Education Instrument Industry Association*)
2004	Product	Sunny Group	J2702生物顯微鏡榮獲寧波市二零零四年度推薦產品榮譽稱號 (J2702 biological microscope was accredited as the Recommended Product for the Year 2004*)	寧波市教學儀器設備行業管理協會(7) (Ningbo Education Instrument Industry Association*)
2004	Product	Sunny Group	J2701生物顯微鏡榮獲寧波市二零零四年度推薦產品榮譽稱號 (J2701 biological microscope was accredited as the Recommended Product for the Year 2004*)	寧波市教學儀器設備行業管理協會(7) (Ningbo Education Instrument Industry Association*)

Year of grant	Nature	Recipient	Award	Awarding organisation or authority
2004	Enterprise	Sunny Group	二零零三年度浙江省管理信息化先進企業 (Advanced IT-managed Enterprises for the Year 2003*)	浙江省經濟貿易委員會(8) (Economic and Trade Committee of Zhejiang*)
2004	Enterprise	Sunny Group	二零零三年度先進集體 (Advanced Collectively-owned Enterprises for the Year 2003*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2005	Enterprise	Sunny Group	二零零五年全國優秀民營科技企業創新獎 (Award for Innovation of Outstanding Private Enterprises of the PRC for the Year 2005*)	中國民營科技促進會(9) (Technology Development Promotion Association of Private Enterprises of the PRC*)
2005	Enterprise	Sunny Group	高新技術企業認定證書 (Certificate of Recognition of New and High Technology Enterprises*)	浙江省科學技術廳(10) (Science and Technology Bureau of Zhejiang*)
2005	Enterprise	Sunny Group	高新技術企業認定證書 (Certificate of Recognition of New and High Technology Enterprises*)	寧波市科學技術局(10) (Science and Technology Bureau of Ningbo*)
2005	Enterprise	Sunny Group	二零零四年度先進企業 (Advanced Enterprises for the Year 2004*)	餘姚市西北街道(4)辦事處 (North-West District Office of Yuyao City*)
2005	Enterprise	Sunny Group	二零零四年度餘姚市工業企業十強企業 (Top Ten Industrial Enterprises of Yuyao City for the Year 2004*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)

Year of grant	Nature	Recipient	Award	Awarding organisation or authority
2005	Enterprise	Sunny Optics	餘姚市開放型經濟工作出口創滙先進企業 (Advanced Open-economic Export Enterprise of Yuyao City*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2006	Overall operation	Sunny Optics	優秀協力公司獎牌 (Outstanding Co-operating Company Award*)	天津三星光電子有限公司(11) (Tianjin Samsung Opto-electronics Co., Ltd*)
2005	Enterprise	Sunny Group	二零零四年度「十佳」管理示範企業 (Top Ten Management Model Enterprises for Year 2004*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2005	Enterprise	Sunny Group	二零零四年度信息化示範企業 (Model IT Enterprises for the Year 2004*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2006	Enterprise	Sunny Optics	二零零五年度十強外商投資企業 (Top 10 Foreign Invested Enterprises for the Year 2005*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2005	Enterprise	Sunny Group	2005寧波市百強企業 (Top 100 Enterprises of Ningbo of 2005*)	寧波市企業聯合會(12) 及寧波市企業家協會(13) (Enterprises Association of Ningbo and Entrepreneurs Association of Ningbo*)

Year of grant	Nature	Recipient	Award	Awarding organisation or authority
2006	Enterprise	Sunny Group	重點高新技術企業證書 (Certificate of Key New and High Technology Enterprise*)	科學技術部火炬高技術產業開發中心(14) (Torch High Technology Business Development Centre of Technology Department*)
2006	Enterprise	Sunny Group	市長質重證書 (Certificate of Mayor-quality-award*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)
2006	Overall operation	Sunny Optics	綠色環境經營體系 S-Partner認證書 (Certificate of Environmental-friendly S-Partner*)	天津三星光電子有限公司(11) (Tianjin Samsung Opto-electronics Co., Ltd*)
2006	Enterprise	Sunny Group	先進集體 (Advanced Entity*)	餘姚市人民政府(5) (The People's Government of Yuyao City*)

Notes:

1. A national certification body of China issuing, among others, Chinese compulsory certificate for electronic products and machines.
2. An entity established under the approval of 國家認證認可監督管理委員會 (Certification and Accreditation Administration of the PRC*) for ensuring the quality of medical devices.
3. A department directly under the People's Government of Zhejiang Province in charge of supervision and administration for the market as well as administrative enforcement of law.
4. A district office of the People's Government of Yuyao City.
5. A People's Government at city level in the PRC.
6. A published newspaper in the PRC under the supervision of 國家統計局 (State Statistics Bureau*).
7. An association which recommends educational instruments to it annual exhibition. Its duties include promoting exchange of information and conducting research in the educational instrument industry.
8. A governmental commission at province level. One of its duties is to encourage research and development among high technology enterprises.

9. An entity established by the PRC Ministry of Science and Technology. Its role is to serve as a platform of communication between private technology enterprises, research and development organisations and the government.

10. An entity in charge of the implementation of science and technology law in the PRC and the operation of high technology enterprises.

11. An enterprise established in Tianjin, the PRC.

12. A registered regional association established in 1985 and operated by 寧波市經濟委員會(Ningbo Economic Committee*) to serve as a platform of communication between enterprises.

13. A registered regional association established in 1985 and operated by 寧波市經濟委員會(Ningbo Economic Committee*) to serve as a platform of communication between enterprises.

14. An entity established under the PRC Ministry of Science and Technology in 1989 for promoting and carrying out 火炬計劃 (China Torch), which is a plan of the PRC government to develop innovative high technology.

COMPETITION

There are other manufacturers producing optical or optical-related products similar to those of the Group and the Directors consider that certain products manufactured by some of these manufacturers are competitive with the Group's products in terms of quality and price. Although entry barriers exist in the design and manufacturing, technical expertise, substantial capital requirements, building of customer relationships, new entrants may develop or acquire the required technical capability and customer base through substantial investments in the necessary technology and market development to compete with the Group's existing business.

However, the Directors believe that the Group has a competitive edge over its competitors because of the Group's capability to offer a comprehensive range of products and to adopt vertically integrated design and production approach. Such competitive edge enables the Group to mass produce in a cost effective manner, reduce lead times and have better control over the entire production process.

Optical components

The Directors believe that the Group's major competitors for optical components are manufacturers from Taiwan who also have operations in the PRC. However, according to PIDA, it is expected to have an increasing trend of the PRC manufacturers engaging in the manufacture of optical components. For example, the production of lens sets for use in projectors has historically been controlled by Japanese and Taiwanese manufacturers and these manufacturers have begun to invest in the PRC. While the Group may not possess a technology advantage over these overseas manufacturers, the Directors believe that the competitiveness of the Group's products is higher due to the lower overall production costs enjoyed by the Group, the advantages from its vertically integrated design and production approach and its ability to respond quickly to market demand.

Optoelectronic products

The Directors believe that competition in optoelectronic products is intense as there are other manufacturers capable of providing manufacturing services for optoelectronic products with specifications similar to those manufactured by the Group. While some of the competitors have sophisticated sales networks to facilitate their sales, the Directors believe that the Group's strong optical research and development capability, vertically integrated production know-how and ability to respond quickly to changes in market demand will enable the Group to continue to differentiate itself from this group of competitors in the foreseeable future.

Optical instruments

Competition in optical instruments is intense as there are some manufacturers in the PRC of comparable size to and at a similar technology level with the Group. Benefiting from the continual consolidation of the Group's internal resources and the cost-effective and flexible model of production to meet customers' demands at various levels, the Group has been able to maintain long-term and stable relationships with its customers which the Directors believe would enable the Group to maintain a competitive edge within the industry.

Overall

The Directors believe that the primary basis of competition is a combination of engineering capability, services, manufacturing quality, price, production capacity, manufacturing technology, design expertise, breadth of product line, time to production and reliability of delivery. The Directors believe that the Group currently competes favourably with respect to these factors. However, to remain competitive, the Group will continue to provide technologically advanced manufacturing services, maintain quality levels, offer flexible and reliable delivery and provide competitive pricing.

In relation to new entrants to the industry, since substantial capital investment is required in setting up facilities, and strong expertise and experience in comprehensive optical technologies is one of the prerequisites for establishing a foothold within the industry, the Directors consider that the entry barrier to the industry is high.

ENVIRONMENTAL PROTECTION

The Group is subject to various environmental laws and regulations stipulated by the State and local environmental protection bureaus relating to the storage, use, discharge of chemicals, solid waste, noise and other hazardous materials used in its production, as well as air quality regulations and restrictions on disposal of waste water. These environmental laws and regulations contain provisions regarding the treatment and disposal of pollutants and sewage and discharge of polluted fumes and noise, and the prevention of industrial pollution. Please refer to the section headed "Industry Overview — Laws and regulations relating to the optical industry in the PRC — Environmental protection regulations" in this prospectus.

In order to ensure compliance of the relevant laws and regulations and minimise any related potential environmental risks, the Group established an environmental management system in accordance with ISO 14001 standard and obtained ISO 14001 certification in this regard. The Group has special team responsible for any environmental protection related works, including liaising with local environmental protection department to keep track of any changes of the relevant laws and regulations. Moreover, the Group improved the drainage system in the production facilities to separate the sewage and drainage pipes for systematic treatment of sewage. The Group also carried out greening project in the production facilities and engaged planting company to take care of the greening work in Yuyao facilities.

From March 2005 to September 2005, the Group invested approximately RMB1.3 million in its waste water treatment plant and facilities, having a maximum treatment capacity of 25 cubic metres per hour. Such waste water treatment plant and facilities commenced operations in September 2005.

The Group has also carried out separate treatments of waste by category and engaged waste treatment companies to process the electronic and chemical solid waste generated by the Group.

Since the Group has already taken into account the environmental issues when planning its new expansion plans or research and development projects, the Directors believe it unnecessary to have any new technology or conducted any research and development projects especially addressed the impact of the production of the Group on the environment. The Group also performs constant maintenance work on existing production facilities of the Group to ensure their operations will not cause any material environmental problems. During the Track Record Period, the environmental-related expenses of the Group amounted to approximately RMB37,300, RMB255,200 and RMB508,800, respectively. Based on the past experiences of the management of the Group, industry nature and future development trend of the industry, the Directors believe that the Group's current environmental conservation facilities are adequate to satisfy the relevant environmental laws and regulations and do not expect any major or significant expenditures to be incurred in this respect.

The Group has not been in violation of any environmental laws, any material environmental claims, lawsuits, penalties or administrative sanctions, and the operations of the Group have been in compliance with the relevant environmental regulations of the PRC during the Track Record Period.

APPROVALS AND PERMITS

The Group has complied with all the relevant laws and regulations in the jurisdictions where it has operations. Set out below are the key approvals, permits, licences and certificates required for its key operations:

No.	Name of document	Issuer	Document no.	Date of issue	Status
Sunny Optics					
1	Enterprise legal person business licence	Industrial and Commercial Administration Bureau of Ningbo City	Qi Du Zhe Yong Zong Zi No. 009151	30 August 2006	Valid, subject to annual review
2	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC	The People's Government of Ningbo City	Shang Wai Zi Yong Wai Zi [2006] No. 0318	30 August 2006	Valid, subject to annual review
3	Taxation registration certificate	State Tax Bureau of Yuyao City, Zhejiang Province	Guo Shui Yong Zi 330281734246878	7 August 2006	Valid as long as the business licence remains valid
4	Taxation registration certificate	Local Tax Bureau of Yuyao City Zhejiang Province	Yong Di Shui Zi 330281734246878-2	7 August 2006	Valid as long as the business licence remains valid
5	Foreign exchange registration certificate for foreign-invested enterprise	State Administration Bureau of Foreign Exchange, Yuyao Branch	330281050966	1 July 2005	Valid, subject to annual review
Sunny Opotech					
6	Enterprise legal person business licence	Industrial and Commercial Administration Bureau of Ningbo City	Qi He Zhe Yong Zong Zi No. 009624	30 August 2006	Valid, subject to annual review
7	Certificate of approval for establishment of enterprises with foreign investment in the PRC	The People's Government of Ningbo City	Shang Wai Zi Yong Zi [2005] No. 0340	30 August 2006	Valid, subject to annual review
8	Taxation registration certificate	State Tax Bureau of Ningbo City, Zhejiang Province	Guo Shui Yong Zi 330281780435020	12 September 2006	Valid as long as the business licence remains valid
9	Taxation registration certificate	Local Tax Bureau of Ningbo City, Zhejiang Province	Yong Di Shui Zi 330281780435020	3 August 2006	Valid as long as the business licence remains valid
10	Foreign exchange registration certificate for foreign-invested enterprise	State Administration Bureau of Foreign Exchange, Yuyao Branch	330281051010	15 December 2005	Valid, subject to annual review

No.	Name of document	Issuer	Document no.	Date of issue	Status
Sunny Zhongshan					
11	Enterprise legal person business licence	Industrial and Commercial Administration Bureau of Zhongshan City	Qi He Yue Zhong Zong Fu Zi No. 004494	11 September 2006	Valid, subject to annual review
12	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC	The People's Government of Guangdong Province	Shang Wai Zi Yue Zhong Wai Zi Zheng Zi [2004] No. 0072	5 September 2006	Valid, subject to annual review
13	Taxation registration certificate	State Tax Bureau of Zhongshan City, Guangdong Province	Guo Shui Yue Zi 442000759246663	25 September 2006	Valid until 22 September 2009
14	Taxation registration certificate	Local Tax Bureau of Zhongshan City, Guangdong Province	Yue Di Shui Zi 442098759246663	27 September 2006	Valid, subject to annual review
15	Foreign exchange registration certificate for foreign-invested enterprise	State Administration Bureau of Foreign Exchange, Zhongshan Branch	442000042146	8 April 2004	Valid, subject to annual review
Sunny Infrared					
16	Enterprise legal person business licence	Yuyao Branch Bureau of Industrial and Commercial Administration Bureau of Ningbo City	3302811004162	14 April 2006	Valid, subject to annual review
17	Taxation registration certificate	State Tax Bureau of Yuyao City, Zhejiang Province	Guo Shui Yong Zi 330281786765936	24 April 2006	Valid until 24 April 2009
18	Taxation registration certificate	Local Tax Bureau of Yuyao City, Zhejiang Province	Yong Di Shui Zi 330281786765936	24 April 2006	Long-term
Ningbo Instruments					
19	Enterprise legal person business licence	Industrial and Commercial Administration Bureau of Ningbo City	Qi Du Zhe Yong Zong Fu Zi No. 009150	30 August 2006	Valid, subject to annual review
20	Certificate of approval for establishment of enterprises with investment of Taiwan, Hong Kong, Macao and overseas Chinese in the PRC	The People's Government of Ningbo City	Shang Wai Zi Yong Wai Zi [2006] No. 0319	30 August 2006	Valid, subject to annual review

No.	Name of document	Issuer	Document no.	Date of issue	Status
21	Taxation registration certificate	State Tax Bureau of Yuyao City, Zhejiang Province	Guo Shui Yong Zi 330281734247926	9 August 2006	Valid as long as the business licence remains valid
22	Taxation registration certificate	Local Tax Bureau of Yuyao City, Zhejiang Province	Yong Di Shui Zi 330281734247926-2	9 August 2006	Valid as long as the business licence remains valid
23	Foreign exchange registration certificate for foreign-invested enterprise	State Administration Bureau of Foreign Exchange, Yuyao Branch	330281050967	1 July 2005	Valid, subject to annual review
24	PRC registration certificate for medical device	Food and Drug Administration Bureau of Zhejiang Province	Zhe Shi Yao Jian Xie(Zhun) Zi [2007] No.2220038	2 February 2007	Valid until 1 February 2011
25	PRC licence for medical device manufacturer	Food and Drug Administration Bureau of Zhejiang Province	Zhe Shi Yao Jian Xie Sheng Chan Xu 20030058	30 June 2003	Valid until 30 June 2008 *(Note 1)*
26	PRC licence for manufacturing measuring instruments	Bureau of Quality and Technical Supervision of Yuyao City	Zhe Zhi 02810260	17 August 2005	Valid until 16 August 2008 *(Note 2)*
Nanjing Instruments					
27	Enterprise legal person business licence	Industrial and Commercial Administration Bureau of Nanjing City	3201001014495	30 December 2006	Valid, subject to annual review
28	Taxation registration certificate	State Bureau of Taxation of Nanjing City, Jiangsu Province and Local Bureau of Taxation of Nanjing City	Su Ning Shui Su Zi 320102777011964	8 September 2006	Long-term

Notes:

1. The Directors were not aware of any impediment for the Group to obtain a renewal of the licence when it becomes due on 30 June 2008.

2. The Directors were not aware of any impediment for the Group to obtain a renewal of the licence when it becomes due on 16 August 2008.

INSURANCE

In accordance with the regulatory requirements of local governments in the PRC, the Group has maintained insurance schemes that cover unemployment, retirement, pension, personal injury, maternity and medical expenses for its PRC employees. Except for Sunny Optics, Sunny Opotech, Sunny Infrared, Ningbo Instruments and Sunny Zhongshan which did not maintain any maternity insurance for its PRC employees as there is no such system carried out by the relevant local government authority.

The Group maintains insurance policies in respect of most of the buildings, machinery, equipment, inventory and other facilities owned by the Group covering physical loss or damage arising from natural hazards or accidents in relation to its operation in the PRC. In line with business practice in the PRC, the Group does not maintain any public liability insurance or product liability insurance.

The Directors believe that the Group's insurance coverage is sufficient and is in line with industry practice. The Directors confirmed that the Group has not had any claims or liabilities arising from any accidents relating to its operations or experienced any material production interruptions or product liability during the Track Record Period.

LEGAL AND ADMINISTRATIVE PROCEEDINGS

During the Track Record Period and up to the Latest Practicable Date, there were no material legal proceedings, regulatory inquiries or investigations made or pending or threatened against any member of the Group. Members of the Group may from time to time be subject to various legal or administrative proceedings arising in the ordinary course of the Group's business such as proceedings in respect of disputes with suppliers or customers, labour disputes or infringement of intellectual property rights.

PROPERTY

Owned Properties

As of 31 March 2007, the Group owned 3 properties in the PRC with a total gross floor area of approximately 69,383 square metres. These properties are currently used for factory and office space of the Group. The Group has obtained building ownership certificates and land use rights certificates for those properties.

According to the certificate for the use of state owned land (Ning Xuan Guo Yong [2006] Di No. 13764) issued by Nanjing Land Recourse Bureau on 6 December 2006, the permitted usage of the property situated in Nanjing, the PRC, which is owned by the Group and occupied by Nanjing Instruments (Property no. 3 as set out in the property valuation report in Appendix III to this prospectus) shall be residential use. However, such property is currently occupied by the Group as office. Such discrepancy of permitted and actual usages of property is due to the inadvertent oversight by the Group. The legal advisers to the Company as to PRC law confirmed that there is no specific legal penalty for any failure to use the property in accordance with its permitted use. The Directors confirmed that such property is not crucial to the operations of the Group because (i) its percentage contribution to the Group's total assets of approximately 0.216% and profits of approximately 1.024% for the year ended 31 December 2006, respectively, was insignificant; and (ii) there would not be any material difficulty for the Group in finding suitable place for relocation at reasonable price if required.

Leased Properties

As of 31 March 2007, the Group leased a total of 14 properties in the PRC, Korea and Japan with gross floor areas ranging from approximately 43 square metres to 18,668 square metres, and amounting to an aggregate of 44,357 square metres. These properties are used by the Group for factory space, office space, dormitories and for other ancillary uses, including guard rooms, eateries, power rooms, pump rooms and a sewage farm.

Regarding the leases of the properties in Shanghai and Dongguan, the PRC (being Property nos. 5 and 8 as set out in the property valuation report in Appendix III to this prospectus) by the Group, they have not been registered with the relevant government authorities because their respective landlords are not willing to make the required registrations upon request by the Group. Pursuant to the PRC laws, the Group, being a tenant of such properties, is not liable to any penalty imposed by the relevant government authorities for failure to register such leases. As advised by the legal advisers to the Company as to PRC law, although such leases have not been duly registered with the relevant government departments, they are legal and valid. The Directors confirmed that these leased properties are not crucial to the operations of the Group because (i) its percentage contribution to the Group's total assets of 0.078% and profits of 0.368% for the year ended 31 December 2006, respectively, was insignificant; and (ii) there would not be any material difficulty for the Group in finding suitable places at reasonable price for relocation if required.

Please refer to the section headed "Other information — Indemnities" in Appendix V to this prospectus for the indemnities provided by the Indemnifiers in favour of the Group against any damages arising from or in connection with any property claims.

For details of the properties owned or leased by the Group in the PRC, Korea and Japan, please refer to the property valuation report prepared by DTZ Debenham Tie Leung Limited contained in Appendix III to this prospectus.

Acquisition of a parcel of land and the properties erected thereon in the PRC

Ningbo Instruments has agreed to acquire a parcel of land of approximately 17,749 square metres, together with the properties erected thereon of approximately 18,668 square metres, located at Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC pursuant to an agreement dated 12 February 2007 entered into between Sunny Group as vendor and Ningbo Instruments as purchaser. To be funded by the net proceeds to the Company from the Global Offering, the consideration of RMB28.0 million (equivalent to approximately HK$28.0 million) was considered as the market value as of 31 December 2006 and DTZ Debenham Tie Leung Limited, a firm of independent property valuers, has confirmed the consideration was at market value as the relevant time. Applications for the land use right certificate and the building ownership certificate are expected to be made when the full payment of the consideration for the acquisition is made. Save for circumstances which cannot be reasonably foreseen, the legal advisers to the Company as to PRC law have advised and the Directors do not expect that there will be any legal impediment in obtaining such certificates. The legal advisers to the Company as to PRC law also advised that the new land use rights certificate and building ownership rights certificate were expected to be issued to Ningbo Instruments by the end of 2007. This piece of land and the properties erected thereon are currently leased by Sunny Group to Ningbo Instruments for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of approximately RMB178,639 and have not been included in the financial statements of the Group as of 31 December 2006 as fixed assets. Please refer to "Group II — Property to be acquired by the Group in the PRC" in Appendix III to this prospectus for the details of such properties.

The Directors are of the view that the parcel of land and the properties erected thereon in the PRC to be acquired by the Group are crucial to the Group's operation because those properties are currently leased by Ningbo Instruments and used as the production factories of the Group's optical instruments. The acquisition of such parcel of land and properties may avoid any interruption of production activities and incurrence of cost in the event of relocation of production factories as a result of any termination or expiration of the lease. The legal advisers to the Company as to PRC law confirmed that there is no legal impediment for the Group to obtain the land use rights and building ownership rights of such properties after the settlement of the consideration.

Each of the Indemnifiers has given joint and several indemnities to the Group in respect of the parcel of land and the properties erected thereon located in the PRC acquired by the Group. Please refer to the section headed "Other information — Indemnities" in Appendix V to this prospectus for the details of such indemnities.

Upon Listing, the following transactions will constitute continuing connected transactions under the Listing Rules:

I. EXEMPT CONTINUING CONNECTED TRANSACTIONS

In relation to each of the following transactions, each of the percentage ratios (other than the profit ratio), where appropriate, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be less than 0.1%, or more than 0.1% but less than 2.5% and the annual consideration is less than HK$1 million. Accordingly, the following transactions are qualified under Rule 14A.33(3) of the Listing Rules as exempt continuing connected transactions:

Business transactions

The Group has carried out certain business transactions with the following companies and entities:

(i) Yuyao City Jiahua Optoelectronic Components Factory, whose principal business activity is manufacturing of plastic and wooden components and metallic parts;

(ii) Yuyao City Urban Fanxing Electrical Appliance Factory, whose principal business activity is manufacturing and processing of hardware and plastic components;

(iii) Yuyao City Xingbang Optoelectronic Instruments Company Limited, whose principal business activity is manufacturing and sale of parts for optical instruments; and

(iv) Yuyao City Xingli Optics Instruments Factory, whose principal business activity is manufacturing and processing of parts for optical components.

The Group has purchased goods and raw materials from the above companies or entities, and such transactions will continue after the Listing.

The above transactions will be conducted on normal business commercial terms and conditions which shall not be less favourable than those offered to Independent Third Parties and priced at the market price.

Connected persons

(i) Mr Wang is the chairman of the Board and an executive Director and Yuyao City Jiahua Optoelectronic Components Factory is wholly-owned by the spouse of his sister, an Associate. Accordingly, Yuyao City Jiahua Optoelectronic Components Factory is a connected person of the Company.

(ii) Mr Wu is an executive Director and Yuyao City Urban Fanxing Electrical Appliance Factory is wholly-owned by the nephew of his spouse, an Associate. Accordingly, Yuyao City Urban Fanxing Electrical Appliance Factory is a connected person of the Company.

(iii) Mr Wu is an executive Director and Yuyao City Xingbang Optoelectronic Instruments Company Limited is wholly-owned by his cousin, an Associate. Accordingly, Yuyao City Xingbang Optoelectronic Instruments Company Limited is a connected person of the Company.

(iv) Mr Ye is an executive Director and Yuyao City Xingli Optics Instruments Factory is wholly-owned by his brother-in-law, an Associate. Accordingly, Yuyao City Xingli Optics Instruments Factory is a connected person of the Company.

Historical figures

Details of the business transactions between the Group and the above companies and entities are set out as follows:

		Nature of transactions	**As of 31 December 2004** *RMB'000*	**As of 31 December 2005** *RMB'000*	**As of 31 December 2006** *RMB'000*
(i)	Yuyao City Jiahua Optoelectronic Components Factory	Purchase of parts for optical instruments	38	60	32
(ii)	Yuyao City Urban Fanxing Electrical Appliance Factory	Purchase of raw materials, including glass, plastic and metallic materials	482	548	673
(iii)	Yuyao City Xingbang Optoelectronic Instruments Company Limited	Purchase of raw materials such as glass and lenses	295	301	87
(iv)	Yuyao City Xingli Optics Instruments Factory	Purchase of raw materials such as glass and lenses	10	0	273

During the Track Record Period, the aggregate purchases of goods and raw materials from the above companies and entities accounted for approximately 0.4%, 0.2% and 0.2% of the Group's total cost of sales respectively.

Reasons for the transactions

The Group also purchases goods and raw materials from other suppliers. In terms of quality, the goods and raw materials supplied by the above companies and entities meet the standards required by the Group. Prices are comparable and not higher than similar goods and/or raw materials offered by other independent suppliers. In addition, these companies and entities provide the Group with more choices in sourcing and procurement of goods and raw materials and thus enhance the stability of the supply of goods and raw materials to the Group.

Future Arrangement

The Group entered into product sale agreement with each of the above companies and entities on 1 January 2007.

Annual caps

The Directors expect the aggregate purchases of goods and raw materials from the above companies and entities for the 3 years ending 31 December 2009, will account for approximately 0.1%, 0.1%, and 0.1% of the Group's total cost of sales respectively. The Directors also expect that the business transaction amounts with each of the above companies or entities for each of the three years ending 31 December 2009 will not exceed a maximum cap of RMB900,000. The maximum cap is less than 0.1% under the applicable percentage ratios on an annual basis, or more than 0.1% but less than 2.5% under the applicable percentage ratios on an annual basis and the annual consideration is less than HK$1.0 million.

No waiver applied for exempt continuing connected transactions

For the continuing connected transactions described above, each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be less than 0.1%, or more than 0.1% but less than 2.5% and the annual consideration is less than HK$1.0 million. Accordingly, these transactions are qualified under Rule 14A.33(3) of the Listing Rules as de minimis transactions that are exempt from reporting, announcement and independent shareholders' approval requirements.

II. DISCLOSEABLE CONTINUING CONNECTED TRANSACTIONS

In relation to each of the following transactions, each of the percentage ratios (other than the profit ratio), where appropriate, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be less than 2.5%, or more than 2.5% but less than 25% and the annual consideration is less than HK$10.0 million. Accordingly, each of the following transactions is only subject to the disclosure requirement under Rule 14A.34(2) of the Listing Rules:

a. Property lease in respect of ancillary facilities

The Group leased certain properties (the "Facilities Properties") for general commercial business and ancillary uses from Sunny Group, whose principal business activity is investment holding and property leasing, pursuant to terms and conditions contained in property tenancy agreements (the "Facilities Tenancy Agreements") entered into between certain member(s) of the Group and Sunny Group on 1 January 2007.

The following table sets out certain details of the Facilities Properties covered by the Facilities Tenancy Agreements:

Landlord	Tenant(s)	Address of property	Type of premises	Gross floor area	Rents and terms
Sunny Group	Sunny Optics, Ningbo Instruments, Sunny Opotech and Sunny Infrared	North of Nos. 66–68 Shunyu Road Beijiao Village Cheng District Yuyao City Zhejiang Province the PRC	Dormitory in Yuyao City with 69 standard rooms	2,070 sq.m. (22,281 sq.ft.)	Monthly rent (including all other expenditures) of RMB10,350.00 for a term of 3 years from 1 January 2007 to 31 December 2009
Sunny Group	Sunny Optics, Ningbo Instruments, Sunny Opotech and Sunny Infrared	West of Zhongjiang Bus Station North Cheng District Yuyao City Zhejiang Province the PRC	Dormitory in Yuyao City with 229 standard rooms and 3 suites	6,472.60 sq.m. (69,671 sq.ft.)	Monthly rent (including all other expenditures) of RMB40,280.00 for a term of 3 years from 1 January 2007 to 31 December 2009
Sunny Group	Sunny Optics	Nos. 66–68 Shunyu Road Cheng District Yuyao City Zhejiang Province the PRC	Waste water treatment facilities in Yuyao City	150.30 sq.m. (1,618 sq.ft.)	Monthly rent (including all other expenditures) of RMB1,503.00 for a term of 3 years from 1 January 2007 to 31 December 2009
Sunny Group	Ningbo Instruments	Unit 20B No. 252 Wenshan Road Hangzhou City Zhejiang Province the PRC	Office in Hangzhou City	486.02 sq.m. (5,232 sq.ft.)	Monthly rent (including all other expenditures) of RMB14,580.60 for a term of 3 years from 1 January 2007 to 31 December 2009
Sunny Group	Ningbo Instruments	No. 2, Level 9 Jinsong Court No. 98 Qifeng Road Cheng District Dongguan Guangdong Province the PRC	Dormitory in Dongguan	127.96 sq.m. (1,377 sq.ft.)	Monthly rent (including all other expenditures) of RMB2,559.20 for a term of 3 years from 1 January 2007 to 31 December 2009
Sunny Group	Sunny Optics	Nos. 66–68 Shunyu Road Cheng District Yuyao City Zhejiang Province the PRC	Office, eatery, etc. in Yuyao City	13,134.15 sq.m. (141,376 sq.ft.)	Monthly rent (including all other expenditures) of RMB107,126.66 for a term of 3 years from 1 January 2007 to 31 December 2009
				Total:	**RMB176,399.46**

The annual rental payable for the Facilities Properties covered by the Facilities Tenancy Agreements is expected to be approximately RMB2.2 million.

Connected person

(a) Mr Wang, the chairman of the Board and an executive Director, is a connected person of the Company under the Listing Rules.

(b) Mr Wang, being the sole shareholder of Sun Guang and the trustee and one of the beneficiaries under the Sunny Employee Trust, is able to exercise control over 10% or more of the voting power at general meetings of the Company through Sun Xu. As such, Mr Wang is also a Substantial Shareholder and thus a connected person of the Company under the Listing Rules.

(c) Mr Wang, by means of his own interest of approximately 10.88% in Sunny Group and his holding of another 30% interest in Sunny Group on behalf of the Sunny Staff Shareholders under the Entrustment Arrangements, is able to control approximately 40% of the equity interest in Sunny Group. Therefore, Sunny Group is an Associate of Mr Wang.

(d) In light of the above, Sunny Group, which is an Associate of a Director and Substantial Shareholder, is a connected person of the Company under Rules 1.01 and 14A.11 of the Listing Rules and any transactions between the Group and Sunny Group shall constitute connected transactions under the Listing Rules after the Listing.

Pricing basis

The rents were determined by arm's length negotiations between the respective parties with reference to the market rents for similar properties in the same region at or about the time when the Facilities Tenancy Agreements were signed by the relevant parties.

DTZ Debenham Tie Leung Limited, a firm of independent property valuers, has reviewed the Facilities Tenancy Agreements and has confirmed that the rents payable by the Group under the Facilities Tenancy Agreements are at prevailing market rates and thus fair and reasonable to the Group.

First right of refusal

Pursuant to the Facilities Tenancy Agreements, the relevant members of the Group shall have the first right of refusal to acquire the Facilities Properties on the same terms and conditions if Sunny Group is to sell or mortgage the Facilities Properties during the respective terms of the Facilities Tenancy Agreements.

Historical figures

The aggregate amount of rent in respect of the Facilities Properties paid by the Group to Sunny Group amounted to approximately nil, nil and RMB1.8 million, respectively, for each of the three years during the Track Record Period.

Reasons for the transactions

Given that the rents payable to Group in respect of the above Facilities Properties are comparable and in line with market rates and the Group does not have any intention to increase its capital expenditures to acquire properties for its non-manufacturing facilities, the Group will continue to lease the Facilities Properties from Sunny Group.

Future Arrangement

The Group will continue to lease from Sunny Group the Facilities Properties after the expiry of the term of the Facilities Tenancy Agreements provided that the rents thereof are fair and reasonable and are acceptable to the Group.

Annual caps

Based on the above Facilities Tenancy Agreements, the Directors expect that the aggregate rents that will be paid to Sunny Group for each of the three years ending 31 December 2009 will not exceed a maximum cap of RMB2.2 million. The maximum cap is less than 2.5% under the applicable percentage ratios on an annual basis, or more than 2.5% but less than 25% under the applicable percentage ratios on an annual basis and the annual consideration is less than HK$10.0 million.

Waivers from compliance with reporting and announcement requirements

Under the Listing Rules, the continuing connected transactions described above would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules on each occasion on which they arise after the Listing.

In relation to the above continuing connected transactions, each of the percentage ratios (other than the profit ratio) based on the relevant annual cap is, on an annual basis, expected to be less than 2.5%, or more than 2.5% but less than 25% and the annual consideration is less than HK$10.0 million under Rule 14A.34 of the Listing Rules. Accordingly, such transactions are exempt from the independent shareholders' approval requirement but are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Company has made an application to the Stock Exchange, and the Stock Exchange has granted a waiver to the Company from strict compliance with the disclosure requirements by way of announcement under Rule 14A.42 of the Listing Rules. In addition, the Company will comply with all applicable rules as prescribed under Chapter 14A of the Listing Rules unless specifically exempted.

b. Property lease in respect of manufacturing facilities

Ningbo Instruments leased the property on which its plant is situated from Sunny Group pursuant to the terms and conditions of a property leasing agreement entered into between Ningbo Instruments and Sunny Group on 1 January 2007.

The following table set out certain details of the property covered by the property leasing agreement:–

Landlord	Tenant(s)	Address of property	Type of premises	Gross floor area	Rents and terms
Sunny Group	Ningbo Instruments	Nos. 66–68 Shunyu Road Cheng District Yuyao City Zhejiang Province the PRC	Manufacturing Facilities in Yuyao City	18,667.50 sq.m. (200,937 sq.ft.)	Monthly rent (including all other expenditures) of RMB178,639.44 for a term of 3 years from 1 January 2007 to 31 December 2009

The estimated annual rental payable for 2007 of the above property amounted to approximately RMB1.5 million. The disposal of the property pursuant to the Property Sale and Purchase Agreement is contemplated to be completed not later than August 2007.

Connected person

(a) Mr Wang, the chairman of the Board and an executive Director, is a connected person of the Company under the Listing Rules.

(b) Mr Wang, being the sole shareholder of Sun Guang and the trustee and one of the beneficiaries under the Sunny Employee Trust, is able to exercise control over 10% or more of the voting power at general meetings of the Company through Sun Xu. As such, Mr Wang is also a Substantial Shareholder and thus a connected person of the Company under the Listing Rules.

(c) Mr Wang, by means of his own interest of approximately 10.88% in Sunny Group and his holding of another 30% interest in Sunny Group on behalf of the Sunny Staff Shareholders under the Entrustment Arrangements, is able to control approximately 40% of the equity interest in Sunny Group. Therefore, Sunny Group is an Associate of Mr Wang.

(d) In light of the above, Sunny Group, which is an Associate of a Director and Substantial Shareholder, is a connected person of the Company under Rules 1.01 and 14A.11 of the Listing Rules and any transactions between the Group and Sunny Group shall constitute connected transactions under the Listing Rules after the Listing.

Pricing basis

The rent was determined by arm's length negotiations between the respective parties with reference to the market rents for similar properties in the same region at or about the time when the property leasing agreement was signed by the relevant parties.

DTZ Debenham Tie Leung Limited , a firm of independent property valuers, has reviewed the property leasing agreement and has confirmed that the rent payable by the Group under the property leasing agreement is at market rate and thus fair and reasonable to the Group.

Historical figures

The aggregate amount of rent in respect of the above property paid by Ningbo Instruments to Sunny Group amounted to approximately nil, RMB2.5 million and RMB2.1 million, respectively, for each of the three years during the Track Record Period.

Reasons for the transactions

Ningbo Instruments and Sunny Group have entered into the Property Sale and Purchase Agreement on 12 February 2007, pursuant to which Sunny Group agreed to sell and Ningbo Instruments agreed to purchase the property at a consideration of RMB28.0 million, which was confirmed by DTZ Debenham Tie Leung Limited, a firm of independent property valuers, to be its market value at relevant time, and will be paid out of the proceeds from the Global Offering after Listing. Pending the payment of the consideration, the ownership of the property will only be beneficially vested in Ningbo Instruments after Listing. In order to deal with the tenancy matters in respect of the property before the transfer of ownership of the property, Sunny Group and Ningbo Instruments have entered into the property leasing agreement.

The registered address of Sunny Group, vendor of the Property Sale and Purchase Agreement is 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC. The consideration was determined by arm's length negotiations between the respective parties with reference to the prevailing market prices. It is expected that no part of the consideration is payable in respect of goodwill.

Save and except for (1) purchase of property, plant and equipment from Sunny Group and (2) the entrusted loan arrangements with Sunny Group and/or Ningbo SST as set out in the accountants' report, Appendix I to this prospectus, there have been no transaction (other than those in the ordinary course of business of the Group) within 2 years preceding the date of this prospectus in which Sunny Group or any Director or proposed Director had a direct or indirect interest.

Future Arrangement

Pursuant to the Property Sale and Purchase Agreement, Sunny Group agreed to transfer the property to Ningbo Instruments. Completion of the Property Sale and Purchase Agreement will take place as soon as practicable after the Listing and the consideration thereof will be paid out of the proceeds to the Company from the Global Offering. Arrangements under the property leasing agreement will only constitute a continuing connected transaction of the Company immediately upon Listing but will cease to be so after a short period of time thereafter, which is currently estimated to be not more than 2 months from the Listing Date.

Annual caps

Based on the above property leasing agreement, the Directors expect that the aggregate rents that will be paid to Sunny Group for the year ending 31 December 2007 will not exceed a maximum cap of RMB1.5 million. The maximum cap is less than 2.5% under the applicable percentage ratios on an annual basis, or more than 2.5% but less than 25% under the applicable percentage ratios on an annual basis and the annual consideration is less than HK$10.0 million.

Waivers from compliance with announcement requirement

Under the Listing Rules, the continuing connected transactions described above would require compliance with the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules on each occasion on which they arise following the completion of the Listing.

In relation to the above continuing connected transactions, each of the percentage ratios (other than the profit ratio) based on the relevant annual cap is, on an annual basis expected to be less than 2.5%, or more than 2.5% but less than 25% and the annual consideration is less than HK$10.0 million under Rule 14A.34 of the Listing Rules. Accordingly, such transactions are exempted from the independent shareholders' approval requirement but are subject to reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The Company has made an application to the Stock Exchange, and the Stock Exchange has granted a waiver to the Company from strict compliance with the disclosure requirements by way of announcement under Rule 14A.42 of the Listing Rules. In addition, the Company will comply with all applicable rules as prescribed under Chapter 14A of the Listing Rules unless specifically exempted.

III. CONFIRMATION FROM SPONSOR

The Sponsor is of the view that the connected transactions described above are carried out in the usual and ordinary course of the business, on normal commercial terms and that their terms and annual caps as set out above are fair and reasonable and in the interests of the Shareholders as a whole.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, the following persons will, immediately following the completion of the Global Offering and taking no account of any Shares which may be taken up under the Global Offering or which may be sold pursuant to the exercise of the Over-allotment Option, 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 SFO, or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Long/short position	Type of interest	Number of Shares (immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option)	Approximate percentage of voting power (immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option)
Sun Xu *(Notes 1 and 7)*	Long position	Beneficial owner	422,286,768	42.23%
Sun Ji *(Note 2)*	Long position	Interest in a controlled corporation	422,286,768	42.23%
Mr Wang *(Note 3)*	Long position	Interest in a controlled corporation, trustee of a trust and trustee and one of beneficiaries of a trust	480,720,000	48.07%
Summit *(Notes 4 and 7)*	Long position	Beneficial owner	207,624,508	20.76%
Chengwei Ventures Evergreen Fund, L.P. *(Note 5)*	Long position	Interest in a controlled corporation	207,624,508	20.76%
Sun Zhong *(Notes 6 and 7)*	Long position	Beneficial owner	58,433,232	5.84%

Notes:

(1) Sun Xu is a company incorporated in the BVI, which is owned as to 7.68% and 92.32% by Sun Guang and Sun Ji, respectively. The shareholding of Sun Xu in the Company represents the aggregate interest of the Sunny Staff Shareholders in the Company.

(2) As Sun Ji controls more than one-third of the voting power of general meetings of Sun Xu, Sun Ji is deemed to be interested in the 422,286,768 Shares held by Sun Xu under the provisions of SFO.

(3) As Mr Wang is the sole shareholder of Sun Guang and the trustee and one of the beneficiaries of the Sunny Employee Trust, Mr Wang is deemed to be interested in the 422,286,768 Shares held by Sun Xu under the provisions of SFO. As Mr Wang is the trustee of the PRC Investor Trust, Mr Wang is deemed to be interested in the 58,433,232 Shares held by Sun Zhong under the provisions of SFO.

(4) Summit is a company incorporated in the BVI, which is owned as to 73.79%, 25.40% and 0.81% by Chengwei Funds, Investor AB Funds and Independent Investors.

(5) Chengwei Ventures Evergreen Fund, L.P. is a limited partnership established in the Cayman Islands. As Chengwei Ventures Evergreen Fund, L.P. owns more than one-third of the voting power in general meetings of Summit, Chengwei Ventures Evergreen Fund, L.P. is deemed to be interested in the 207,624,508 Shares held by Summit under the SFO.

(6) Sun Zhong is a company incorporated in the BVI. Its shareholding in the Company represents the aggregate interest of the PRC Investors in the Company.

(7) Sun Xu, Sun Zhong and Summit, as the Over-allotment Option Grantors, will have short positions of 3,557,708, 492,292 and 36,450,000 Shares, respectively, upon granting of the Over-allotment Option. If the Over-allotment Option expires or is fully exercised, such short positions will lapse. When the Over-allotment Option is fully exercised, their long positions of Shares will be reduced to 418,729,060, 57,940,940 and 171,174,508 Shares, respectively.

Save as disclosed herein, the Directors are not aware of any person who will, immediately following completion of the Global Offering, be directly or indirectly interested in 10% or more of the Company's registered capital. The Directors are not aware of any arrangement which may at a subsequent date result in a change of control of the Company. The Company and the relevant Sunny Staff Shareholders have complied with the requirements pursuant to the relevant rules and regulations (including the Listing Rules and the SFO) in respect of the disclosure of interests in this prospectus. On an individual basis, most of the Sunny Staff Shareholders' interests in Sunny Group and the Sunny Employee Trust were less than 3% of the total interest.

NON-DISPOSAL UNDERTAKING

Each of Mr Wang, Sun Xu, Sun Ji and Sun Zhong has undertaken with the Stock Exchange and the Company that he/it shall not directly or indirectly (except, in respect of the Selling Shareholders, pursuant to or in connection with the offer of the Sale Shares pursuant to the Global Offering, and in respect of the Over-allotment Option Grantors, the exercise of the Over-allotment Option and the Securities Lending Agreement entered into between Sun Xu and the Sponsor as referred to in the section headed "Information about this prospectus and the Global Offering — Over-allotment and stabilisation" in this prospectus) and shall procure that the relevant registered holder(s) of the Shares shall not:

(a) during the First Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares in respect of which he/it is shown by this prospectus to be the beneficial owner; or

(b) where applicable, during the Second Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares referred to in (a) above if, immediately following such disposal or upon the exercise of enforcement of such options, rights interests or encumbrances, he/it would cease to be a controlling shareholder (as defined in the Listing Rules).

Each of Mr Wang, Sun Xu, Sun Ji and Sun Zhong has undertaken with the Stock Exchange and the Company that within 12 months from the date on which dealings in the Shares first commence on the Stock Exchange, he/it shall:

(1) when he/it pledges or charges any Shares beneficially owned by him/it, in favour of an authorised institution pursuant to Note (2) to Rule 10.07(2) of the Listing Rules, immediately inform the Company in writing of such pledge or charge together with the number of Shares so pledged or charged; and

(2) when he/it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform the Company in writing of such indications.

The Company shall inform the Stock Exchange as soon as it has been informed of matters referred to in (1) and (2) above by any of Mr Wang, Sun Xu, Sun Ji and Sun Zhong and disclose such matters by way of a press announcement which is published in the newspapers as soon as practicable.

Each of Summit and CWI has undertaken with each of the Company, BNP Paribas Capital and the Stock Exchange that:

(i) during the First Lock-up Period, it shall not, and shall procure that the relevant registered holder(s) and its Associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Sponsor and unless in compliance with the requirements of the Listing Rules:

  (a) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any Relevant Securities;

  (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery or Shares or such other securities, in cash or otherwise; or

  (c) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (a) or (b) above; or

  (d) announce any intention to enter into or effect any of the transactions referred to in paragraphs (a), (b) or (c) above;

(ii) during the Second Lock-up Period, it shall not, and shall procure that the relevant registered holder(s) and its Associates or companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Global Coordinator, enter into or effect any of the transactions referred to in paragraph (i)(a) to (d) above if, immediately following such transaction, it will result in the disposal of more than 50% of its interest in the share capital, debt capital or other securities of the Company as of the Listing Date (or in the event that the Over-allotment Option is being exercised, as of the 31st date after the last date for lodging applications under the Public Offer); and

(iii) in the event of a disposal of any of the Shares or securities of the Company or any interest therein referred to in (i) or (ii) above, it shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of the Company.

INDEPENDENCE OF THE GROUP FROM THE CONTROLLING SHAREHOLDERS

The Controlling Shareholders, being Sun Xu, Sun Ji and Mr Wang, will be deemed to be interested in approximately 42.23%, 42.23% and 48.07%, respectively, of the issued share capital of the Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised). Mr Wang is one of the directors of Sunny Group and he has his own interest of approximately 10.88% in Sunny Group and holds other some 30% interest in Sunny Group for other Sunny Staff Shareholders under the Entrustment Arrangements.

Management independence

The Group has its own management team with substantial experience and expertise in the selling and manufacturing of optical components, optoelectronic products and optical instruments independent from the Controlling Shareholders or its Associates. After the Reorganisation, the principal assets maintained by Sunny Group are the properties located in the PRC and Sunny Group have not engaged in any business other than leasing those properties to the Group. The entire equity interest of Sunny Group is held by the Sunny Nominees (Please refer to the table set out in the section headed "History, Reorganisation and Group structure — Creation and evolvement of Sunny Group" in this prospectus for further details of Sunny Nominees) in favour of all the then Sunny Staff Shareholders under the Entrustment Arrangements with the subsistence of the Voting Power Devotion. Mr Wang, though being a director of Sunny Group, does not take an active role in Sunny Group but remains as the principal decision maker of Sunny Group and the daily operations of Sunny Group are carried out by its own administrative staff. Save and except for Mr Wang, none of the Group's senior management will be an officer of, or hold a management or executive position in, any of Sunny Group, the Controlling Shareholders or their respective subsidiaries.

The Directors are satisfied that the Group can manage its business independently of the Sunny Group, the Controlling Shareholders and their respective subsidiaries particularly with respect to the following factors.

(a) board structure

The Board comprises 10 Directors, amongst them 4 are independent non-executive Directors who are either well-educated, having extensive experience in different areas or professionals and appointed pursuant to the requirements under the Listing Rules to ensure that the decisions of the Board are made only after due consideration of independent and impartial opinions.

The Directors believe that the presence of the Directors from different background provides a balance of opinion. Furthermore, the Board acts collectively by majority decisions in accordance with the Articles and the laws, and no single Director is supposed to have any decision-making unless authorised by the Board.

(b) disclosure of interest

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

As far as Mr Wang is concerned, he will voluntarily abstain from voting in any resolution of the Board approving any business or transactions between the Company and Sunny Group.

(c) Participation in board meeting and voting therein

According to the Articles, each Director is entitled to one vote in meetings of the Board and a simple majority is required to approve any business considered therein. A Director shall not, unless so requested by the independent non-executive Directors, be entitled to attend any meeting of the Board where a resolution will be proposed for purposes of approving any contract or arrangement or other proposal in which he or any of his Associates is materially interested and in any event, shall not be entitled to vote (nor be counted in the quorum) on such resolution.

Sunny Group

As far as Mr Wang is concerned, given that he is a director of Sunny Group, any resolution in respect of transactions between the Group and Sunny Group to be proposed at a Board meeting will first be considered by other Directors (including independent non-executive Directors), and unless requested by the independent non-executive Directors, Mr Wang will not attend such Board meeting and in any event, even if he is requested to attend such Board meeting, he shall not vote (nor be counted in the quorum) on such resolution. Reciprocally, Mr Wang will abstain from voting at any resolution in respect of transactions between the Group and Sunny Group proposed at a board meeting of Sunny Group.

Sun Xu, Sun Zhong, Sun Ji and Sun Guang

As far as Mr Wang is concerned, given that he is the sole director of each of Sun Xu and Sun Zhong and the trustee of each of the Sunny Employee Trust and the PRC Investor Trust, any resolution in respect of transactions between the Group and Sun Xu, Sun Zhong, Sun Ji and Sun Guang to be proposed at a Board meeting will first be considered by other Directors (including independent non-executive Directors), and unless requested by the independent non-executive Directors, Mr Wang will not attend such Board meeting and in any event, even if he is requested to attend such Board meeting, he shall not vote (nor be counted in the quorum) on such resolution.

Notwithstanding that Mr Wang is the sole director of each of Sun Xu and Sun Zhong, Sun Ji and Sun Guang and the trustee of each of the Sunny Employee Trust and the PRC Investor Trust, it is unlikely that there will exist any transaction between the Group and Sun Xu, Sun Zhong, Sun Ji or Sun Guang as each of Sun Xu, Sun Zhong, Sun Ji and Sun Guang is an investment holding company with the Shares as their principal assets.

(d) Participation in general meeting and voting therein

The Articles do not impose any restriction on Shareholders to attend general meetings of the Company nor to vote at any resolution proposed therein; however where the Company has knowledge that any Shareholder, under the Listing Rules, is required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such Shareholder in contravention of such requirement or restriction shall not be counted. Any transaction between the Group and Sunny Group, Sun Xu, Sun Zhong, Sun Ji and Sun Guang shall be governed by Chapter 14A of the Listing Rules, which provides that certain categories of connected transactions shall be subject to independent Shareholders' approval.

As sole director of each of Sun Xu, Sun Zhong, Sun Ji and Sun Guang appointed as a result of being the trustee of each of the Sunny Employee Trust and the PRC Investor Trust, Mr Wang has the right to attend any general meeting of the Company. Mr Wang shall not vote at any resolution proposed at a general meeting in approving any contract or arrangement or other proposal in which he or his Associates or Sunny Group has any material interest when independent Shareholders' approval is required under Chapter 14A of the Listing Rules.

Operational independence

Save for some non-core facilities such as eatery, dormitory, office building and sewage and drainage system which are leased from Sunny Group and given that Ningbo Instruments has signed the Property Sale and Purchase Agreement on 12 February 2007 to acquire the property on which its plant is situated from Sunny Group, which completion will take place as soon as practicable after Listing, the Group has its own established production sites in Yuyao City, Zhejiang and Zhongshan City, Guangdong in the PRC which are well equipped with various kinds of production facilities. In addition, the Group has established its own sales network independent of that of the Controlling Shareholders, and given the business nature of Sunny Group of property leasing is distinct from that of the Group, the Group has independent access to its customers and suppliers. It can use its own intellectual properties such as trade marks and patents without relying on any third parties and develop technology independently of any third party and does not place undue reliance on any third party in relation to the use or development of technology.

Having considered the above, the Directors are satisfied that the Group can operate independently of Sunny Group, the Controlling Shareholders and their respective subsidiaries.

Financial independence

The Group has its own accounting and finance department and independent financial system and makes financial decisions according to the Group's own business need. The Directors confirm that as of the Latest Practicable Date, save for the unpaid consideration in respect of the Property Sale and Purchase Agreement dated 12 February 2007 as mentioned in the above paragraph, the Group is not indebted to Sunny Group and there are no guarantees provided by Sunny Group to secure any payment obligations of any member of the Group which are subsisting, therefore, there is no financial dependence on Sunny Group, the Controlling Shareholders and their respective subsidiaries.

DEED OF NON-COMPETITION

On 25 May 2007, the Covenantors entered into a deed of non-competition in favour of the Company, pursuant to which each of the Covenantors undertakes that he/it shall not and shall procure that none of his/its Associates shall, without the prior written consent of independent Shareholders, directly or indirectly do any of the following:

(a) in the Restraint Area carry on or engage in (whether as principal, agent and whether undertaken directly or through any body corporate, partnership, joint venture, or other contractual or other arrangement) or otherwise be concerned with or interested in (whether as trustee, principal, agent, shareholder, director, unit holder or in any other capacity) any business similar to or competitive with the Business;

(b) at any time induce or attempt to induce any director, manager or employee of the Group to terminate his or her employment with the Group, whether or not such act of that person would constitute a breach of that person's contract of employment;

(c) at any time employ any person who has been a director, manager, employee of or consultant to the Group who is or may be likely to be in possession of any confidential information or trade secrets relating to the Business;

(d) solicit or persuade any person who has dealt with the Group or is in the process of negotiating with the Group in relation to the Business to cease from dealing with the Group or to reduce the amount of business which the person would normally do with the Group,

Provided that such restraints shall not be applied in the following situations:

(i) the Covenantors are interested, will be entitled to invest, participate and be engaged in any Business, provided that the principal terms thereof have been disclosed to the Company and which the Business has been offered or made available to any member of the Group on such terms, and the Company, after review by the independent non-executive Directors, has confirmed (provided always that only independent non-executive Directors shall vote on the relevant resolutions of the Directors) that it does not wish to be involved or engaged, or to participate, and has no objection of the Covenantors' investing, participating or engaging in the relevant Business and provided always that the principal terms on which the Covenantors (or any company in which the Covenantors will be interested in) invests, participates or engages in the Business are not more favourable than those disclosed to the Company and offered or made available to any member of the Group. Subject to the above, if the Covenantors have decided to be involved, engaged, or participate in the relevant Business, whether directly or indirectly, the terms of such involvement, engagement or participation must be disclosed to the Company and there shall be no breach of the terms of the service agreement entered into between the Company and the Covenantors.

(ii) there is no restriction on the Covenantors holding or being interested in shares or other securities in any company which conducts or is engaged in any Business provided that such shares or securities are listed on the Stock Exchange and the aggregate number of shares in which the Covenantors and their Associates are interested does not amount to more than 10% of the issued share capital of the company in question, provided that the Covenantors are not entitled to appoint a majority of the directors of that company and cannot exercise control over the voting power of that company at general meetings and that at all times there is a holder of such shares who holds a larger percentage of the shares in question than the aggregate shareholding of the Covenantors.

(iii) there is no restriction on the participation by the Covenantors in the Group's projects, investments and businesses at the invitation of the Company where the Directors have decided (provided always that only independent non-executive Directors shall vote on the relevant resolutions of the Board) that the participation of the Covenantors thereof is appropriate in the circumstances and provided the transaction is entered into in accordance with the Listing Rules.

The deed of non-competition also provides that:

(a) the independent non-executive Director shall review, at least on an annual basis, the compliance with the deed of non-competition by the Covenantors and their Associates on existing or future competing businesses;

(b) the Covenantors and their Associates shall provide all information necessary for the annual review by the independent non-executive Directors and the enforcement of the deed of non-competition;

(c) the Company shall disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the deed of non-competition either through the annual report, or by way of announcement to the public;

(d) the Covenantors and their Associates shall make an annual declaration regarding the compliance with the deed of non-competition in the annual report of the Company; and

(e) the Company shall make disclosure in its annual report on how the deed of non-competition have been complied with and enforced which shall be consistent with the principles of making voluntary disclosures in the corporate governance report.

As of the Latest Practicable Date, save for Mr Wang's interest in Sunny Group, the Covenantors do not have any other major investment (other than the Group). The principal business of Sunny Group is property leasing. Property leasing, being a business of an entirely different nature from the Group's optical business, will not compete or likely to compete, directly or indirectly, with the Group's business, as such, the Directors are of the view that there is no actual or potential competition between the Group and the Covenantors and their associates (including Sunny Group).

MANAGEMENT

Board of Directors

The Board of Directors consists of 10 Directors comprising, 4 executive Directors, 2 non-executive Directors and 4 independent non-executive Directors. The information on the Directors is set forth below.

DIRECTORS

Executive Directors

Mr Wang Wenjian (王文鑒), aged 59, is one of the founders of the Group, an executive Director and chairman of the Board. He is responsible for the overall formulation of policies, decision-making and management of the Group. Mr Wang joined 餘姚縣城北光學儀器廠(Yuyao County Chengbei Optical Instruments Factory*) in 1984 as the factory manager and had been its general manager since 1994 when it was transformed to a joint stock limited liability company. Mr Wang won the essay competition on running business in the PRC organised by the State Council Development Research Center and was awarded the title of 中國經營大師 (Chinese Business Master*) in 2004. Mr Wang obtained the title of 優秀創業企業家 (Outstanding Entrepreneur*) from 寧波市企業家協會 (Ningbo Entrepreneurs Association*) and 寧波市企業聯合會(Ningbo Enterprise Unite League*) in 2006. Mr Wang acted as Honorary President of Yuyao Charity Federation in 2003 and as a guest professor of the College of Information Science and Engineering, Zhejiang University in 2005. He obtained qualification as a senior economist in 1996 from 寧波市人民政府 (Ningbo Municipal Government). Senior economist is a recognised qualification in the PRC and is normally granted to a person who has passed necessary examinations and has acquired substantial management experience.

Mr Wang has been the managing director and general manager of Sunny Group. He is currently a director of Sunny Group but does not take any active role therein. He was a director of each of the following operating companies of the Group during the Track Record Period: Sunny Optics and Ningbo Instruments for the 3 years ended 31 December 2006; Sunny Opotech since its inception in December 2005 to December 2006; Sunny Zhongshan from October 2005 to December 2006; Nanjing Instruments since its inception in August 2005 to December 2006 and Sunny Infrared since its inception in April 2006 to December 2006. He is currently a director of all the operating companies of the Group in the PRC.

Mr Ye Liaoning (葉遼寧), aged 41, is one of the founders of the Group, an executive Director and chief executive officer of the Company. He is responsible for formulating the Group's policy and making decisions and is also responsible for the overall daily administration of the Group. Mr Ye joined 餘姚縣城北光學儀器廠 (Yuyao County Chengbei Optical Instruments Factory*) in 1984 and had been its deputy general manager since 1995. Mr Ye has obtained the qualification of senior economist issued by the Personnel Bureau of Yuyao City in 2004. Senior economist is a recognised qualification in the PRC and is normally granted to a person who has passed necessary examinations and has acquired substantial management experience. Mr Ye obtained a diploma from 浙江廣播電視大學 (Zhejiang Radio & TV University) in 1999.

Mr Ye has been the chief executive officer of Sunny Group and a director of each of the following operating companies of the Group during the Track Record Period: Sunny Optics for the 3 years ended 31 December 2006; Sunny Zhongshan since its inception in March 2004 to December 2006; Sunny Opotech since its inception in December 2005 to December 2006; Ningbo Instruments from July 2006 to December 2006; Sunny Infrared since its inception in April 2006 to December 2006 and Sunny Japan since its inception in August 2006 to December 2006. He was also the general manager of Sunny Optics from January 2004 to February 2006. He is currently a director of all the operating companies of the Group in the PRC (except Nanjing Instruments) and a director of Sunny Japan. He ceased to hold any position in Sunny Group since January 2007.

Mr Xie Minghua (謝明華), aged 59, is an executive Director. Mr Xie is responsible for formulating the Group's policy and making decisions, in particular, in respect of the optical component business of the Group. He graduated from Hangzhou University in 1982 with a bachelor's degree in physics. Prior to joining the Group in January 2003, Mr Xie was a senior officer in the relevant government departments and has approximately 16 years of experience in administration. Mr Xie was appointed as the director of the Office for Restructuring the Yuyao Economy by the Standing Committee of the National People's Congress in 1990. He was then appointed as the director of the Office of the People's Government of Yuyao City in 1994, and was appointed as the Authority of Yuyao Broadcasting & TV Bureau in 1997.

Mr Xie was a director of Sunny Optics from January 2004 to May 2005. Though Mr Xie ceased to be a director of Sunny Optics in May 2005 owing to the corporate restructuring as a result of the introduction of a corporate shareholder into Sunny Optics, he remained as a director and vice president of Sunny Group and was responsible for overseeing the operation of the operating companies of the Group before the Reorganisation. He ceased to hold any position in Sunny Group since January 2007.

Mr Wu Jinxian (吳進賢), aged 51, is an executive Director. Mr Wu is responsible for formulating the Group's policy and making decisions, in particular, in respect of the optical instrument business of the Group. Prior to joining the Group in January 2001, Mr Wu worked in Yuyao Optoelectronic in 1986, and was a deputy manager in 1995. Mr Wu graduated from 餘姚市城北中學 (Yuyao Northern City Middle School*). He attended the training course on 全國質量體系與質量認證 (the State Quality System and Quality Certification*) held by China State Bureau of Quality and Technical Supervision from 1995 to 1996, and obtained qualification as qualified economist by Ningbo Bureau of Personnel in 1995.

Mr Wu was a director of Ningbo Instruments from January 2004 to May 2005. Though Mr Wu ceased to be a director of Ningbo Instruments in May 2005 owing to the corporate restructuring as a result of the introduction of a corporate shareholder into Ningbo Instruments, he remained a director of Sunny Group and was responsible for overseeing the operation of the operating companies of the Group before the Reorganisation. He ceased to hold any position in Sunny Group since January 2007.

Non-executive Directors

Mr Shao Yang Dong (邵仰東), aged 38, is a non-executive Director. Mr Shao is a managing director of and has 30.19% equity interest in Chengwei Ventures Evergreen Management, LLC (being a limited liability company incorporated in the Cayman Islands comprising individual partners and members), which manages Chengwei Ventures Evergreen Advisors Fund, LLC, Chengwei Ventures Evergreen Fund, L.P., and Chengwei Partners, L.P. Mr Shao was appointed as a director of each of Sunny Optics and Ningbo Instruments in May 2005, Sunny Zhongshan in October 2005, Sunny Opotech in November 2005 and Sunny Infrared in March 2006. Mr Shao was a director of AAC Acoustic Technologies Holdings Inc. from March 2004 to February 2007 and currently sits on the board of Oval Technologies Holdings, Inc.. He previously worked as a financial analyst at the investment banking division of Salomon Brothers Inc. Mr Shao obtained a bachelor's degree in economics (Magna Cum Laude) in 1993 from Columbia University, where he was elected Phi Beta Kappa. He also attended the Graduate School of Business at Stanford University and earned a master's degree in business administration in 2000. He was appointed as a non-executive Director in May 2007.

Mr Li Tyson Sandy Ying Lun (李英倫), aged 40, is a non-executive Director. Mr Li is one of the limited partners of Investor Group Asia L.P. and has approximately 3.23% equity interest therein. He is currently a vice president at Investor Growth Capital Asia Limited, a wholly-owned subsidiary of Investor AB. Based in Hong Kong, Mr Li has been with Investor Growth Capital Asia Limited since its inception in 2002. Mr Li was a vice president of imGO Limited, a holding company based in Hong Kong that focuses on technology investments. Prior to joining imGO, he was the vice president of Product Planning at Asia.com Inc., where he was responsible for their product line strategy and revenue models. Mr Li also worked at DiviCom (a digital video infrastructure provider that was subsequently acquired by Harmonic Inc.), based in Silicon Valley in their product management group. Mr Li began his career with Nortel Networks and during his tenure he was in the wireless division in product management and marketing roles in Hong Kong, Singapore and Ottawa. Mr Li was awarded a master's degree in business administration from the Wharton School of Business, University of Pennsylvania in 1998, and a bachelor's degree in applied science from Simon Fraser University in Vancouver, Canada in 1990. He was appointed as a non-executive Director in May 2007.

In September 2004, Mr Li Tyson Sandy Ying Lun was nominated by Investor AB to act as its board representative in MTI, a co-investment between Investor AB and another venture capital firm, Softbank Asia Infrastructure Fund Capital Limited. Investor AB has approximately 10.30% in MTI. Mr Li's directorship in MTI was non-executive in nature and Mr Li has never been involved in the day-to-day operation of MTI. MTI did not perform satisfactorily as planned because some of its customers went into bankruptcy and thus, MTI was not able to collect the receivables owed by these customers. Consequently, the unpaid receivables exerted pressure on MTI's cashflow position; as a result, MTI experienced short-term cashflow difficulty to repay the maturing loan. As a result, MTI got itself in a situation where it was not able to repay its debts amounted to KRW43.73 billion (approximately HK$367.7 million) when coming into maturity which subsequently led to MTI's application for court receivership. Mr Li has confirmed that:

– he is not aware of any related proceedings or claims against him arising from his being a director of MTI;

– he is not aware of any allegations against him personally in relation to or as a consequence of the court receivership of MTI;

– as far as he is aware, there was no fraudulent or dishonest conduct or activity on the part of the management of MTI that resulted in the appointment of the receiver;

– save for being a director of MTI at relevant time, there is no direct relationship between himself and the court receivership of MTI; and

– he was not in any way responsible for or otherwise involved in the events leading to the receivership of MTI.

Please refer to "Further information about Substantial Shareholders, Directors, management and staff — General" in Appendix V to this prospectus for further information.

Mr Li resigned from the directorship of MTI on 30 April 2007. Having considered the background information of the proceedings, the Directors are satisfied that Mr Li has the necessary character, experience, integrity and standard of competence as required of a Director under the Listing Rules.

Independent non-executive Directors

Dr Chang Mei Dick or Dr Dick Mei Chang (張未), aged 67, is an independent non-executive Director. Dr Chang currently sits on the board of each of AAC Acoustic Technologies Holdings Inc. and Avago Technologies Limited. Dr Chang has over 30 years' experience in the development, manufacturing and marketing of semiconductor and optoelectronic products. He joined Hewlett-Packard Company ("HP") in 1966 and worked in HP and Agilent Technologies, Inc. (after Agilent Technologies, Inc.'s spin-off from HP) until 2005. He was the president and general manager of the Semiconductor Products Group and a senior vice president of Agilent Technologies, Inc. before he left that company. Dr Chang graduated from the California Institute of Technology with a bachelor's degree in physics and Stanford University with a doctor's degree in philosophy. He was appointed as an independent non-executive Director in May 2007.

Mr Koji Suzuki (鈴木浩二), aged 65, is an independent non-executive Director. He joined Topcon Corporation (a company listed on the Tokyo and Osaka Stock Exchanges) in 1964 and was its president from June 2002 to June 2006. He is currently an adviser to the board of Topcon Corporation. Mr Suzuki graduated from Musashi Institute of Technology, Tokyo with a bachelor of engineering in industrial engineering management in 1964. He was the president of Japan Optical Measuring Instruments Manufacturers' Association from July 2002 to July 2006, the vice-president of Japan Medical-Optical Equipment Industrial Association from June 2002 to May 2006, and the director of Japan Surveying Instruments Manufacturers' Association from July 2002 to June 2006. He also has been a member of the Tokyo Chamber of Commerce and Industry since November 2004. He was awarded a Japan National Blue Medal of Honor in May 2006. He was appointed as an independent non-executive Director in May 2007.

Dr Liu Xu (劉旭), aged 43, is an independent non-executive Director. Dr Liu currently is the standing vice dean of the College of Information Science and Engineering, Zhejiang University. Dr Liu graduated from Universite Paul Cezanne, France with a doctor's degree in information and material science. He was then engaged in his postdoctoral research in instrument and meter science in Zhejiang University from 1990 to 1993 where he obtained a postdoctoral certificate. Dr Liu also holds a bachelor's degree in engineering from Zhejiang University. Dr Liu has over 14 years' experience in education, and has been an associate professor of Zhejiang University since 1992. In 1995, he became the head of the National Key Lab of Modern Optical Instrument. In addition, he is a director of a private company engaged in sales and manufacturing of optical engines of projection displays. He was appointed as an independent non-executive Director in May 2007.

Mr Zhang Yuqing (張余慶), aged 59, is an independent non-executive Director. Prior to joining the Group, Mr Zhang worked in 上海港務局 (Shanghai Port Bureau*) as the head of the financial division as well as the auditing division. He was appointed as a director of 上海華源企業發展股份有限公司 (Shanghai Worldbest Industry Development Co., Ltd.*) from 2001 to 2003 and acted as its chief financial officer. Mr Zhang graduated from 上海海運學院 (Shanghai Maritime University) in 1982 with a bachelor's degree in economics and is a certified public accountant of the Chinese Institute of Certified Public Accountants. He currently sits on the board of each of Rizhao Port Co., Ltd and Shanghai Xinmei Real Estate Co., Ltd. He was appointed as an independent non-executive Director in May 2007.

SENIOR MANAGEMENT

Mr Li Siqing, (李四清), aged 40, is the senior vice president of operations of the Company and a director of Sunny Japan. He is responsible for overseeing the overall operation of the Group. Mr Li obtained a master's degree in engineering from 西安光學精密機械研究所(Xi'an Institute of Precise Optical Machinery*) in 1990, and a master's degree in business administration from Zhongshan University in 2003. Prior to joining the Group in November 2005, he worked in the Panyu Factory of Olympus and Concord Camera Inc of Shenzhen, and was subsequently appointed as the general manager of 鳳凰光學(廣東)有限公司 (Guangdong Phoenix Optics Company Limited*). Mr Li was awarded as qualified engineer by the local authority of Panyu City in 1996.

During the Track Record Period, Mr Li was a director of Sunny Japan since its inception in August 2006 to December 2006 and was a chief operating officer of Sunny Group from November 2005 to December 2006. He ceased to hold any position in Sunny Group since January 2007.

Mr Jack Hsieh (謝祖葳), aged 47, is the senior vice president of strategic investments of the Company. He is responsible for strategic investments and investor relations of the Company. Mr Hsieh obtained a bachelor's degree in business from 臺灣國立政治大學 (Taiwan National Chengchi University) in 1982. He has approximately 15 years of investment and management experience in the financial industry. Prior to joining the Group in January 2007, Mr Hsieh was a manager of the funds disposition department at the Taipei branch of Bankers Trust Company (美商信孚銀行臺北分行) and a vice president of Chinatrust Commercial Bank (臺灣中國信託商業銀行). He was also a deputy manager of finance at the Taiwan listed company, Premier Image Technology Corporation (普立爾科技股份有限公司), from 2000 to 2005.

Mr Sun Yang (孫泱), aged 34, is the vice president of finance of the Company. He is responsible for the financial matters of the Group, especially for the management of financial budgets, financial statements and cash flow. Mr Sun graduated from Ningbo University in 1995 with a bachelor's degree in economics. He then obtained a master's degree in economics from Shanghai University of Economics and Finance in 2005. Prior to joining the Group in March 2003, Mr Sun once worked in 寧波證券有限責任公司 (Ningbo Securities Company Limited*). He joined 浙江舜宇(集團)股份有限公司 (Zhejiang Sunny (Group) Joint Stock Company Limited*), originally known as Yuyao County Chengbei Optical Instruments Factory, as chief officer of its investment management centre in 2002. Mr Sun was granted a qualification for providing securities investment consultation services by China Securities Regulatory Commission in 1999.

During the Track Record Period, Mr Sun has been the chief officer of the strategy and investment management centre, the assistant to the president and the acting chief financial officer of Sunny Group. He ceased to hold any position in Sunny Group since January 2007.

Ms Lee Suk Yee (李淑儀), aged 35, is the qualified accountant and one of the joint company secretaries of the Company. Ms Lee joined the Group in 2007. Ms Lee is primarily responsible for overall financial management and company secretarial matters. Ms Lee has approximately 12 years of experience in the fields of finance, auditing and accounting. Prior to joining the Group in January 2007, Ms Lee was the head of a senior group for financial disclosure compliance and reporting section of a listed bank in Hong Kong. Ms Lee has a bachelor's degree in business administration from the University of Wisconsin-Madison in the U.S.A. and a master degree in science in financial analysis from the Hong Kong University of Science and Technology. Ms Lee is a certified public accountant of The American Institute of Certified Public Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.

Mr Pan Weimin (潘為民), aged 52, is a deputy general manager of Sunny Zhongshan. He is responsible for assisting the general manager in the daily administration of Sunny Zhongshan. Prior to joining the Group in November 2001, Mr Pan worked in 江西光學儀器總廠 (Jiangxi Optics Instrument General Factory*) as a deputy factory manager. He joined Yuyao Optoelectronic in 1997. Mr Pan graduated from the school attached to Jiangxi Optics Instrument General Factory.

During the Track Record Period, Mr Pan was a director and deputy general manager of Sunny Zhongshan since its inception in March 2004. While he remained as a deputy general manager of Sunny Zhongshan throughout the Track Record Period, he ceased to be its director since October 2005. He was also a deputy general manager of Sunny Optics from January 2004 to February 2006.

Mr Wu Jun (吳俊), aged 41, is the deputy general manager of Sunny Optics. He is responsible for assisting the general manager in the daily administration of Sunny Optics. Mr Wu graduated with a bachelor's degree in optical instruments from 上海機械學院 (Shanghai Institute of Mechanism) in 1986. He later earned the qualification as a senior engineer in 1997 from 浙江省人事廳 (Zhejiang Provincial Bureau of Personnel). Prior to joining the Group in November 2001, Mr Wu worked in 江西光學儀器總廠 (Jiangxi Optics Instrument General Factory*) for 9 years as research officer and chief of quality control. He also joined Yuyao Optoelectronic in 1997.

During the Track Record Period, Mr Wu was a director of Sunny Group and was responsible for overseeing the operations of the Group's operating companies before the Reorganisation. He was also a director of Ningbo Instruments from January 2004 to May 2005 and a deputy general manager of Sunny Optics from February 2006 to December 2006. He ceased to hold any position in Sunny Group since January 2007.

Mr Zhang Guoxian (張國賢), aged 41, is a deputy general manager of Sunny Optics. He is responsible for assisting the general manager in the daily administration of Sunny Optics. Mr Zhang joined the Group in 2001. He graduated from 餘姚環城中學 (Yuyao Wancheng School*) in 1983 and joined Yuyao Optoelectronic since his graduation.

During the Track Record Period, Mr Zhang was a director of Sunny Zhongshan since its inception in March 2004 to October 2005 and a deputy general manager of Sunny Optics from November 2005 to December 2006.

Mr Wang Wenjie (王文杰), aged 39, is the general manager of Sunny Opotech and is responsible for the daily administration of Sunny Opotech. Mr Wang graduated from 浙江大學 (Zhejiang University) with a bachelor's degree in engineering in 1989. Prior to joining the Group in July 2002, he worked in Yuyao Optoelectronic since his graduation. Mr Wang was awarded by 餘姚市人事局 (Yuyao Personnel Bureau*) in 1998 as engineer.

During the Track Record Period, Mr Wang has been a deputy chief officer of the sales management centre of Sunny Group. He was also the general manager of Sunny Opotech since its inception in November 2005 to December 2006. He ceased to hold any position in Sunny Group since March 2004.

Mr Zhang Baozhong (張寶忠), aged 39, is a deputy general manager of Sunny Opotech. He is responsible for assisting the general manager in the daily administration of Sunny Opotech. Mr Zhang graduated from 浙江大學 (Zhejiang University) with a bachelor's degree in engineering in 1990. Prior to joining the Group in November 2001, Mr Zhang worked in 寧波信高塑化有限公司 (Ningbo Xingao Suhua Co., Ltd.*) and he has been a senior engineer of Yuyao Optoelectronic.

During the Track Record Period, Mr Zhang has been the department head of optoelectronic business of Sunny Optics. He was also a deputy general manager of Sunny Opotech since its inception in December 2005 to December 2006.

Mr Chen Huiguang (陳惠廣), aged 43, is the chief administrator of the research and development team of the Company and a deputy general manager of Sunny Infrared. He is in charge of the research and development team of the Group and is also responsible for assisting the general manager in the daily administration of Sunny Infrared. Mr Chen obtained a bachelor's degree in optical instruments from 浙江大學 (Zhejiang University) in 1983. He also obtained a master's degree in engineering from Zhejiang University in 1992. Prior to joining the Group in November 2001, Mr Chen worked in 新天精密光學儀器有限公司 (Xintian Precision and Optical Instrument Company Limited*) and thereafter joined Yuyao Optoelectronic in 1999.

Mr Chen was a director of Ningbo Instruments from January 2004 to May 2005. Though Mr Chen ceased to be a director of Ningbo Instruments in May 2005 owing to the corporate restructuring as a result of the introduction of a corporate shareholder into Ningbo Instruments, he remained a director of Sunny Group and was responsible for overseeing the operations of the Group's operating companies before the Reorganisation. He ceased to hold any position in Sunny Group since January 2007.

Mr Lou Guojun (樓國軍), aged 42, is the general manager of Ningbo Instruments and is responsible for the daily administration of Ningbo Instruments. He obtained a diploma in business enterprise operation management from 浙江廣播電視大學 (Zhejiang Radio & TV University) in 1999. He obtained the qualification as an economist in 2000 from the Personnel Bureau of Ningbo City. Prior to joining the Group in November 2001, Mr Lou worked in Yuyao Optoelectronic.

During the Track Record Period, Mr Lou was a deputy general manager of Ningbo Instruments from January 2004 to November 2005 and thereafter was promoted to the general manager of Ningbo Instruments.

Mr Shen Xiaojiang (沈曉江), aged 38, is a deputy general manager of Ningbo Instruments. He is responsible for assisting the general manager in the daily administration of Ningbo Instruments. Mr Shen graduated with a bachelor's degree in mechanical manufacturing techniques and facilities from 廣東省湛江水產學院 (Guangdong Province Zhanjiang Fisheries College*) in 1991. Prior to joining the Group in November 2001, Mr Shen worked in Yuyao Optoelectronic. He obtained the qualification as an engineer in 1998 from 寧波市人民政府 (Ningbo Municipal Government).

Mr Shen is currently a deputy general manager of Ningbo Instruments, a position he held during the Track Record Period.

Mr Huang Weibing (黃衛兵), aged 46, is a deputy general manager of Ningbo Instruments and the general manager of Nanjing Instruments. He is responsible for assisting the general manager in the daily administration of Ningbo Instruments and the daily administration of Nanjing Instruments. Mr Huang graduated with a diploma in electronics from 江蘇廣播電視大學 (Jiangsu Radio & Television University) in 1983. Prior to joining the Group in July 2005, Mr Huang has worked in 南京江南永新光學有限公司(Nanjing Jiangnan Yongxin Optical Company Limited*) as deputy general manager.

Mr Huang has been a deputy general manager of Ningbo Instruments since November 2005 and the general manager of Nanjing Instruments since its inception in August 2005.

Mr Liu Rui (**劉銳**), aged 39, is a vice president of the Company and the general manager of each of Sunny Optics and Sunny Infrared. He is responsible for the daily administration of each of Sunny Optics and Sunny Infrared. Mr Liu graduated from University of West Sydney with a master's degree in business administration in 2005. He obtained a bachelor's degree in chemistry engineering from Zhejiang University in 1989. Prior to joining the Group in February 2006, Mr Liu worked in 奧林巴斯(深圳)工業有限公司 (Olympus (Shenzhen) Industrial Ltd.) as planning manager.

Mr Liu has been the general manager of Sunny Optics since February 2006 and the general manager of Sunny Infrared since its inception in April 2006.

Mr Zhao Zhiping (**趙治平**), aged 37, is the general manager of Sunny Zhongshan and is responsible for its daily administration. Mr Zhao graduated with a diploma in industrial economic management from 中南財經大學 (Zhongnan University of Economics) in 1990. Mr Zhao has approximately 14 years of experience in the optical industry. Prior to joining the Group in February 2006, Mr Zhao worked in 東莞信泰光學有限公司 (Dongghua Xintai Optics Company Limited*) 及廣東鳳凰光學有限公司 (Guangdong Phoenix Optics Company Limited*).

Mr Zhao has been the general manager of Sunny Zhongshan since February 2006.

Mr Ho Francis (**何鏞**), aged 43, is the chief technology officer of the Company. He is responsible for technology integration and research of the Group. He has approximately 13 years of experiences in optical research and development and project management. Mr Ho obtained a master's degree in applied physics from Catholic Louvain University in Belgium in 1989. He has extensive experience in optical research and development and project management. Mr Ho previously worked in Optoelectronic Laboratory of Industry Technology Research Institute in Xing Zhu, Taiwan. Prior to joining the Group in April 2007, he worked as overseas business manager at Geniuo Electronic Optical Co., Ltd. from July 2006. He also worked in other listed companies such as Meiloon, Lite-on Electronics and Primax Technology from 1994 to 2006, mainly responsible for research and development of consumer electronics and business application products.

JOINT COMPANY SECRETARIES

Mr Sun Yang (**孫泱**), aged 34, is one of the joint company secretaries of the Company. Please refer to the sub-section headed "Senior Management" under this section for the personal profile of Mr Sun.

Ms Lee Suk Yee (**李淑儀**), aged 35, is one of the joint company secretaries of the Company. Please refer to the sub-section headed "Senior Management" under this section for the personal profile of Ms Lee.

QUALIFIED ACCOUNTANT

Ms Lee Suk Yee (李淑儀), aged 35, is the qualified accountant and one of the joint company secretaries of the Company. Please refer to the sub-section headed "Senior Management" under this section for the personal profile of Ms Lee.

COMPENSATION OF DIRECTORS

The aggregate amount of fees, salaries, housing allowances, other allowances and benefits in kind paid by the Group to the Directors during each of the three years ended 31 December 2006 was approximately RMB170,000, RMB315,000 and RMB931,000, respectively.

Under the current arrangements, the aggregate remuneration and benefits in kind which the Directors are entitled to receive for the financial year ending 31 December 2007 is expected to be approximately RMB1,967,000, excluding any discretionary bonuses which may be paid to the Directors.

AUDIT COMMITTEE

The Company has established an audit committee in compliance with Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The audit committee consists of 4 members, namely, Mr Zhang Yuqing and Dr Liu Xu (both are independent non-executive Directors), and Mr Li Tyson Sandy Ying Lun and Mr Shao Yang Dong (both are non-executive Directors). Mr Zhang Yuqing was appointed as the chairman of the audit committee.

REMUNERATION COMMITTEE

The Company's remuneration committee is comprised of 3 members, namely, Mr Koji Suzuki and Mr Zhang Yuqing (both are independent non-executive Directors) and Mr Shao Yang Dong (who is a non-executive Director). Mr Koji Suzuki was appointed as the chairman of the remuneration committee. The board remuneration committee considers and recommends to the Board the remuneration and other benefits paid by the Company to the Directors. The remuneration of all Directors is subject to regular monitoring by the remuneration committee to ensure that the levels of their remuneration and compensation are appropriate.

NOMINATION COMMITTEE

The Company's nomination committee is comprised of 3 members, namely, Dr Dick Mei Chang and Dr Liu Xu (both are independent non-executive Directors) and Mr Wang (an executive Director). Dr Chang was appointed as the chairman of the nomination committee. The nomination committee will make recommendations to the Board on the appointment of executive Directors and senior management.

STRATEGY AND DEVELOPMENT COMMITTEE

The Company's strategy and development committee is comprised of 6 members, namely, Mr Wang, Mr Ye, Mr Xie Minghua and Mr Wu (all are executive Directors) and Mr Koji Suzuki and Dr Dick Mei Chang (both are independent non-executive Directors). Mr Wang was appointed as the chairman of the strategy and development committee. The primary duties of the strategy and development committee are to advise the Board on the Group's strategy for business development and future prospects in the international market for optical and optical-related products. It is intended that members of this committee shall consist of domestic and international experts in the optical industry and other related industry.

COMPLIANCE ADVISER

The Company has appointed BNP Paribas Capital as its compliance adviser pursuant to Rule 3A.19 of the Listing Rules to provide advisory services to the Company pursuant to the requirements thereunder. BNP Paribas Capital will, inter alia, provide advice to the Company in the following circumstances:

(i) before the publication by the Company of any regulatory announcement (whether required by the Listing Rules or requested by the Stock Exchange or otherwise), circular or financial report;

(ii) where a transaction, which might be a notifiable or connected transaction under Chapters 14 or 14A of the Listing Rules, is contemplated by the Company including share issues and share repurchases;

(iii) where the Company proposes to use the proceeds of the Listing in a manner different from that detailed in this prospectus in respect of the Listing or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in this prospectus; and

(iv) where the Stock Exchange makes an inquiry of the Company under Rule 13.10 of the Listing Rules.

The term of the appointment shall commence on the Listing Date and end on the date on which the Company complies with Rule 13.46 of the Listing Rules in respect of its financial results for the first full financial year commencing after the Listing.

EMPLOYEES

As of 31 December 2006, the Group had 5,594 full time employees. An analysis by function as of 31 December 2006 is as follows:

Functions	Number of employees
Management and administration	241
Production	
Optical components	3,741
Optoelectronic products	439
Optical instruments	476
Quality control	299
Sales and marketing	101
Finance	38
Human resources	20
Research and development	173
Others	66
Total	5,594

The remuneration package of the Group's employees includes salary, bonuses and allowances. The Group participates in the relevant social insurance contribution plans organised by the relevant local governmental bodies in the Yuyao City, Zhongshan City and Nanjing City. In accordance with relevant PRC laws, each member of the Group is required to pay in respect of each of its relevant employees a monthly social insurance premium covering pension insurance, medical insurance, unemployment insurance, personal injury and maternity (where applicable). In Yuyao, Zhejiang, according to the currently applicable local regulations, the percentages of the pension insurance, medical insurance, unemployment insurance and personal injury insurance to be contributed by the relevant members of the Group are approximately 20%, 5%, 2% and 0.5%, respectively, of their respective employees' total monthly salary (calculated in accordance with the relevant regulations). In Zhongshan, Guangdong, according to the currently applicable local regulations, the percentages of the pension insurance, unemployment insurance and personal injury insurance to be contributed by the relevant member of the Group are 10%, 1% and 1%, respectively, of its employees' total monthly salary (calculated in accordance with the relevant regulations) and the amount of medical insurance contribution is RMB16 per head. The relevant local governments in Yuyao City and Zhongshan City have not carried out any maternity insurance system for PRC employees. In Nanjing, Jiangsu, according to the currently applicable local regulations, the percentages of the pension insurance, medical insurance, unemployment insurance, personal injury insurance and maternity insurance to be contributed by the relevant member of the Group are approximately 21%, 9%, 2%, 0.5% and 0.8%, respectively, of its employees' total monthly salary (calculated in accordance with the relevant regulations).

The Group endeavours to provide training facilities for its employees. The scope of the induction and on-going training programmes includes management skill and technology training and other courses.

The authorised and issued share capital of the Company is as follows:

Number of Shares comprised in the authorised share capital:		*(HK$)*
100,000,000,000	Shares	10,000,000,000

The share capital of the Company immediately following the Global Offering will be as follows:

Issued and to be issued, fully paid or credited as fully paid upon completion of the Global Offering		*(HK$)*
800,000,000	Shares in issue (including Shares issued pursuant to the Capitalisation Issue) *(Note)*	80,000,000
200,000,000	Shares to be issued in the Global Offering	20,000,000
1,000,000,000	Shares	100,000,000

Note: Pursuant to the resolutions passed by the Shareholders on 25 May 2007, the Directors were authorised to capitalise HK$79,900,000 from the amount standing to the credit of the special reserve account of the Company by applying such sum to pay up in full at par 799,000,000 Shares for allotment and issue to the Shareholders whose name appears on the register of members of the Company at the close of business on 25 May 2007 (or as they may direct) in proportion to their then existing shareholdings in the Company.

Assumptions

The above table assumes that the Global Offering becomes unconditional. They take no account of Shares which may be allotted and issued or repurchased by the Company pursuant to the issuing mandate and Repurchase Mandate as described below.

Ranking

The Offer Shares will rank pari passu in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus.

SHARE OPTION SCHEME

The Company has conditionally adopted the Share Option Scheme, the principal terms of which are set out in the section headed “Summary of Share Option Scheme” in Appendix V to this prospectus.

GENERAL MANDATE TO ISSUE SHARES

The Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding the sum of:

(i) 20% of the aggregate nominal amount of the Group's share capital in issue immediately following completion of the Global Offering; and

(ii) the aggregate nominal amount of the Company's share capital repurchased by the Company (if any) pursuant to the Repurchase Mandate.

The Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, or any scrip dividend shares or similar arrangements providing for allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles of Association or upon the exercise of any options granted under the Share Option Scheme or other similar arrangement.

The mandate will expire:

- at the conclusion of the Company's next annual general meeting;

- upon the expiry of the period within which the Company is required by applicable laws or the Articles to hold its next annual general meeting; or

- when varied or revoked by an ordinary resolution of its shareholders in general meeting, whichever occurs first.

For further details of this general mandate, see the section headed "Further information about the Company — Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to this prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

The Directors have been granted a general unconditional mandate to exercise all the powers of the Company to repurchase Shares with an aggregate nominal amount of not more than 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering.

This mandate relates only to repurchases made on the Stock Exchange and/or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Further information about the Company — Repurchase by the Company of its Shares" in Appendix V to this prospectus.

This mandate will expire:

- at the conclusion of the Company's next annual general meeting;

- upon the expiry of the period within which the Company is required by applicable laws or the Articles to hold its next annual general meeting; or

- when varied or revoked by an ordinary resolution of its shareholders in general meeting, whichever occurs first.

For further information about this Repurchase Mandate, please refer to the section headed "Further information about the Company — Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to this prospectus.

You should read the following discussion and analysis of the Group's results of operations and financial condition together with the Group's audited financial statements as of and for the three years ended 31 December 2006 and the accompanying notes included in the accountants' report set out in Appendix I to this prospectus. The accountants' report has been prepared in accordance with HKFRS. The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. The Group's actual results may differ from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth in "Risk Factors".

OVERVIEW

The Group is a leading producer of optical components, optoelectronic products and optical instruments in the PRC. The Group is principally engaged in the design, research, development, manufacturing and sale of optical and optical-related products, which can be broadly classified into three categories, namely: (i) optical components, including glass/plastic lenses, plates, prisms and various lens sets; (ii) optoelectronic products, including mobile phone camera modules and other optoelectronic modules; and (iii) optical instruments, including microscopes, surveying instruments and other analytical instruments.

The Group derives its revenues mainly from the sale of optical and optical-related products. The following table sets forth the revenue from the Group's sales of optical components, optoelectronic products and optical instruments during the Track Record Period:

	Year ended 31 December					
	2004		**2005**		**2006**	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Optical components	198.0	64.3	210.7	35.8	309.3	34.3
Optoelectronic products	39.5	12.8	278.7	47.4	468.0	52.0
Optical instruments	70.4	22.9	98.9	16.8	123.4	13.7
	307.9	100.0	588.3	100.0	900.7	100.0

As of the Latest Practicable Date, the Group's products were manufactured in two production bases in the PRC located in Yuyao, Zhejiang province and Zhongshan, Guangdong province.

The Group faces a number of challenges, such as a highly competitive market for the Group's products and an industry characterised by shorter product life cycles due to rapid changes in technology. However, the Directors believe that the Group's expertise in the design and manufacture of optical components and products, strong know-how on mass and efficient production processes and its vertically integrated approach give it a competitive edge in an industry where competition is intensive in terms of capital, production skills, technology and labour. In addition, the Group focuses on further enhancing its strong research and development capability to respond to rapid technological changes in the market. Given the increasing popularity in applying or including optical features in electronic products, the Directors believe that the global demand for optical and optical-related products will continue to grow and the challenges the Group face will also present significant opportunities for the Group to increase its sales and market share by utilising its competitive edges. For further details of the Group's competitive strengths and business strategies, please see the sections "Business — Competitive Strengths" and "Business — Business Strategies" contained in this prospectus.

FACTORS THAT AFFECT THE GROUP'S RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The Group's sales and its ability to continue to generate profits are affected by a number of factors, many of which may not be within the Group's control. A discussion of the main factors is set out below:

- Level of demand for the Group's products in the PRC and international market:

  Optical components and optoelectronic products are two of the major drivers for the optical component value chain, driving the quality of the end products in which they are ultimately used. With the anticipated rising demand for end products incorporating the Group's products, such as for camera mobile phones in the PRC and worldwide, the Directors believe new opportunities will arise for the Group to increase its sales and market share by capitalising on its own expertise in the design and manufacturing skill of optical components and products, strong know-how on mass and efficient production processes and its vertically integrated approach.

- The Group's ability to adjust product mix and produce products in response to the market demand:

  The Group's market demand for different optical and optical-related products vary significantly. If the Group is able to successfully adjust its product mix to produce products in response to the market demand, the Group will be able to improve its profitability, thereby having a positive effect on the Group's results of operations and financial condition.

- The Group's ability to manage and control manufacturing costs, including the cost of raw materials, components and parts, labour costs and utility costs:

  The Group's cost of sales is mainly comprised of cost of raw materials, components and parts, labour costs and utility costs. Since the Group's profit margin is affected by the level of its cost of sales, the Group's ability to manage and control its manufacturing costs will enhance the Group's ability to improve its profit margins, especially given the fact that selling prices for the Group's products are mainly determined by market conditions that are beyond the Group's control.

- The Group's effectiveness in competing with foreign and local competitors on the basis of product range, quality, design, pricing and after-sales services:

  The markets for the Group's products are highly competitive. Competitors compete with the Group mainly on the basis of product range, quality, design, pricing and after-sales services. In order for the Group to maintain its competitiveness within the industry, it is crucial for the Group to offer to its customers a wide product range, high quality products, a competitively priced product and satisfactory after-sales services.

- The Group's ability to effectively adapt to the shorter lifecycles for end products containing the Group's products due to rapid changes in technology:

  The markets for end products containing the Group's products are characterised by increasingly shorter lifecycles due to rapid changes in technology. If the Group is unable to successfully keep up with such shorter lifecycles and changes, its sales may decrease if its products are no longer in demand or otherwise become obsolete. As a result, the Group focuses on its research and development activities in order to enhance its ability to respond to such rapidly changing market conditions.

- Seasonal sales fluctuations

  Demand for the Group's products is subject to seasonal fluctuations, with sales typically peaking during the year-end holiday season when demand for many of the end products containing the Group's products is higher. The Directors believe these seasonal fluctuations have not had a material impact on the Group's results of operations in the past. In addition, the Group is actively targeting new potential customers to expand its customer base in accordance with its "*Mingpeijiao*" strategy. To the extent the Group succeeds in adding these potential customers to its customer base, the Group believes its exposure to seasonal fluctuations will decrease as it reduces its dependence on a limited number of customers.

Basis of preparation of financial information

In preparation for the Listing, the Group underwent the Reorganisation. The major steps of the Reorganisation were as follows:

(i) In July 2006, Sun Yu Optical and its then subsidiaries entered into equity transfer agreements to exchange a 72.13% equity interest in each of Sunny Optics and Ningbo Instruments;

(ii) In September 2006, Sun Yu Optical obtained a 27.87% equity interest in each of Sunny Optics and Ningbo Instruments from Summit, satisfied by the issue of 27.87% equity interest in Sun Yu Optical; and

(iii) In October 2006, the transfer of the entire equity interest in Sun Yu Optical to the Company was effected by means of an exchange of shares.

Other capital transactions entered into during the Track Record Period includes:

(iv) In September 2006, Sun Yu Optical acquired a 30% equity interest in Sunny Zhongshan and a 28% equity interest in Sunny Opotech from Summit;

(v) In September 2006, Sun Yu Optical issued new shares to CWI;

(vi) In November 2006, the Group acquired a 30.3% equity interest in Sunny Japan from a minority shareholder;

(vii) In December 2006, the Group acquired a 10% equity interest in Nanjing Instruments from a minority shareholder; and

(viii) Sunny Optics acquired and disposed of a 55% interest in Shanghai Keyi.

The financial information has been prepared on the basis as if the Company had always been the holding company of Sun Yu Optical and its subsidiaries using the principles of merger accounting. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the Track Record Period includes the results and cash flows of the companies comprising the Group as if the current group structure had been existence throughout the Track Record Period or since their respective dates of incorporation/ acquisition or up to the effective date of disposal where this is a shorter period, except that the results attributable to the shareholders of the group companies other than Sunny Group prior to step (i) and (ii) were treated as minority interest. The consolidated balance sheets of the Group as at 31 December 2004 and 31 December 2005 have been prepared to present the assets and liabilities of the companies now comprising the Group and Shanghai Keyi as if the current group structure had been in existence as of those dates in accordance with the then effective interests held by Sunny Group as at those dates.

If the Reorganisation had been completed on 1 January 2006, and the current group structure had been in existence throughout the year ended 31 December 2006, the profit for the year ended 31 December 2006 attributable to the equity holders of the Company would have been approximately RMB166.0 million.

Please refer to note 2 of the accountant report contained in the Appendix I of this prospectus for details.

Critical accounting policies

The discussion and analysis of the Group's financial position and results of operations as included in this prospectus is based on the consolidated financial statements prepared in accordance with the significant accounting policies set forth in note 4 to the accountants' report set out in Appendix I to this prospectus, which conform with the generally accepted accounting policies in Hong Kong. Accounting methods, assumptions and estimates that underlie the preparation of a company's financial statements affect its financial position and results of operations reported. Such assumptions and estimates are made based on historical experience and various other assumptions that the Group believes to be reasonable, the results of which form the basis of judgments on the Group's carrying amounts of assets and liabilities and the Group's results. Results may differ under different assumptions or conditions.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's consolidated financial statements. The Group believes that the following accounting policies involve the most significant accounting judgments and estimates used in the preparation of its consolidated financial statements:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Subcontracting service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

A significant proportion of the Group's working capital is devoted to inventories and the Group makes allowances for any obsolete and slow-moving inventories. Management periodically reviews the Group's aging inventory. This involves a comparison of the carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether an allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical counts on all inventories are carried out periodically in order to determine whether an allowance need to be made in respect of any obsolete and defective inventories identified. For the Track Record Period, the Group has written down inventories to net realisable values of approximately RMB46.4 million, RMB67.2 million and RMB108.3 million, respectively.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

A significant proportion of the Group's working capital is devoted to trade receivables. In determining whether an allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel will discuss with the relevant customers and report on the recoverability. A specific allowance is only made for trade receivables that are unlikely to be collected.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any recognised impairment loss.

Construction in progress is stated at cost, which includes all development expenditures and other direct costs attributable to such projects, less any recognised impairment loss. It is not depreciated until completion of construction and the asset is ready for its intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

DESCRIPTION OF CERTAIN INCOME STATEMENTS ITEMS

Revenue

Revenue is comprised of sales from optical components, optoelectronic products and optical instruments, net of value-added tax. The Group's revenue is affected by the volume of total products sold and the product sales mix due to the different selling prices of the Group's various products.

The revenue of the Group during the Track Record Period was as follows:

(a) Revenue by product category

	Year ended 31 December					
	2004		**2005**		**2006**	
	RMB million	*%*	*RMB million*	*%*	*RMB million*	*%*
Optical components	198.0	64.3	210.7	35.8	309.3	34.3
Optoelectronic products	39.5	12.8	278.7	47.4	468.0	52.0
Optical instruments	70.4	22.9	98.9	16.8	123.4	13.7
Total	307.9	100.0	588.3	100.0	900.7	100.0

The Group's revenue increased by approximately 2 times from RMB307.9 million in 2004 to RMB900.7 million in 2006. Such increase was mainly due to the increase in revenue from optoelectronic products of approximately RMB39.5 million in 2004 to approximately RMB468.0 million in 2006 and from optical components of approximately RMB198.0 million in 2004 to approximately RMB309.3 million in 2006 as a result of the rising demand for mobile phones with camera functions as well as demand for other end products with optical-related applications.

In order to meet the growth in market demand for its optical products, the Group proactively expanded its production capacity during the Track Record Period. Please refer to the sub-section headed "Production bases" under the section headed "Business — Production" in this prospectus for the planned production capacity of the Group classified by major product category during the Track Record Period. The Group entered into the optoelectronic product market with the commencement of production of optoelectronic products in August 2004. Since then, revenue from optoelectronic products increased significantly with market demand and became the largest contributor to the Group's revenue for the years ended 31 December 2005 and 31 December 2006.

(b) *Revenue by geographical locations*

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Mainland China			
Optical components	68,775	55,274	100,385
Optoelectronics products	12,585	209,940	180,390
Optical instruments	27,127	38,690	46,684
	108,487	303,904	327,459
Hong Kong			
Optical components	23,991	56,395	49,220
Optoelectronics products	26,886	68,249	286,983
Optical instruments	340	842	1,319
	51,217	125,486	337,522
Japan			
Optical components	56,556	45,782	81,314
Optoelectronics products	–	–	–
Optical instruments	1,113	3,036	2,060
	57,669	48,818	83,374
Taiwan			
Optical components	41,321	31,675	15,093
Optoelectronics products	–	–	643
Optical instruments	5,948	14,624	22,000
	47,269	46,299	37,736
Others (note)			
Optical components	7,377	21,585	63,247
Optoelectronics products	–	477	–
Optical instruments	35,910	41,729	51,360
	43,287	63,791	114,607
Total			
Optical components	198,020	210,711	309,259
Optoelectronics products	39,471	278,666	468,016
Optical instruments	70,438	98,921	123,423
	307,929	588,298	900,698

Note: Others composed of sales to Korea, Europe and other markets in which the individual amount is not over 10% of the Group's total revenue.

(c) Revenue by sales channel

Type of sale	**Year ended 31 December 2004**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Direct sales			
Optical components	176,318	183,668	239,842
Optoelectronics products	39,471	278,666	350,803
Optical instruments	70,438	98,921	123,423
	286,227	561,255	714,068
Third-party agents			
Optical components	–	–	–
Optoelectronics products	–	–	117,213
Optical instruments	–	–	–
	–	–	117,213
Third-party sourcing agents			
Optical components	21,702	27,043	69,417
Optoelectronics products	–	–	–
Optical instruments	–	–	–
	21,702	27,043	69,417
Total			
Optical components	198,020	210,711	309,259
Optoelectronics products	39,471	278,666	468,016
Optical instruments	70,438	98,921	123,423
	307,929	588,298	900,698

The Group puts significant emphasis on maintaining close relationships with its end customers and keeping abreast of market developments. Accordingly, to the extent possible, the Group will normally sell its products to its domestic and overseas customers primarily through direct sales. In addition, the Group has sold its optical and optical-related products through third-party agents and third-party souring agents. Please refer to "Business — Sales and marketing — Sales channels" for details.

Cost of sales

The Group's cost of sales mainly includes cost of raw materials (including components and parts), manufacturing overhead costs and labour expenses. The following table sets forth the breakdown of the cost of sales for the Group during the Track Record Period:

	Year ended 31 December					
Cost of sales	**2004**		**2005**		**2006**	
	RMB	*%*	*RMB*	*%*	*RMB*	*%*
Cost of raw materials	107,166	55.0	277,811	68.1	468,189	71.7
Overhead cost	53,411	27.4	76,750	18.8	112,489	17.2
Labour cost	34,312	17.6	53,330	13.1	72,239	11.1
	194,889	100.0	407,891	100.0	652,917	100.0

During the Track Record Period, the cost of raw materials represented the most significant portion of the Group's cost of sales. As a result, the Group's cost of sales is mainly affected by price movements related to its raw materials, components and parts. Any significant changes in the prices of these raw materials, components and parts may affect the Group's gross profit margins on its products as the Group may or may not be able to pass on such changes to its customers through price changes.

The Group's overall cost of sales as a percentage of the Group's revenue was approximately 63.3%, 69.3% and 72.5%, respectively, for the Track Record Period. As the following breakdown of the Group's cost of sales by business lines illustrates, the cost structures for optical components, optoelectronic products and optical instruments are quite distinct.

Average cost of sales during the Track Record Period *(Note)*

	Optical components	**Optoelectronic product**	**Optical Instruments**
	%	*%*	*%*
Cost of raw materials	31.2	93.7	71.7
Overhead cost	42.0	4.3	13.8
Labour cost	26.8	2.0	14.5
	100.0	100.0	100.0

Note: The average cost of sales is calculated by dividing each of the three-year-average of each of cost of raw materials, overhead cost and labour cost by the three-year-average of the total cost of sales by product line.

The cost of raw materials typically represented the most significant portion of the cost of sales for optoelectronic products, and at approximately 93.7%, being the three-year-average of the Track Record Period, was significantly higher than compared to the corresponding proportion of cost of raw materials to cost of sales for optical components and optical instruments. The higher cost of raw materials for optoelectronic products during the Track Record Period was primarily a result of the cost contributed by CMOS sensors, being the major components of raw materials for optoelectronic products. Generally, as a percentage of cost of sales, CMOS sensors contributed to approximately 63.9% of the cost of sales for optoelectronic products during the Track Record Period.

The Track Record Period average contribution from cost of raw materials to the cost of sales for optical components and optical instruments was approximately 31.2% and 71.7% respectively. This was lower than the corresponding contribution of cost of raw materials to cost of sales for optoelectronic products.

Under the cost structure for optical instruments, the cost of raw materials also contributed to the largest portion of its cost of sales as compared to its overhead cost and labour cost. Unlike with CMOS sensors, there was no material price change in the cost of raw materials for both optical components and optical instruments. For example, glass materials and plastic materials, which are mainly used in the production of optical components and optical instruments, remained relatively stable for these two business lines during the Track Record Period.

The Group experienced an increase in its total cost of sales as a percentage of the Group's overall revenue during the Track Record Period as a result the increasing proportion of the Group's revenue derived from sales of optoelectronic products which, compared with other business lines, had a greater proportion of the cost of sales to revenue.

Cost of raw materials

The Group's main raw materials, components and parts include glass, plastic, aluminum, copper and CMOS image sensors, with CMOS image sensors accounting for a major portion of the Group's cost of raw materials. Cost of raw materials, components and parts comprised approximately 55.0%, 68.1% and 71.7%, respectively, of the Group's cost of sales for the Track Record Period. The increase in the percentage of cost of raw materials to total costs of sales was due to the significant increase in the output of optoelectronic products which led to an increase in cost attributable to the purchase of raw materials and components, including CMOS image sensors, for the manufacturing of optoelectronic products.

CMOS sensors, a major component used in the manufacturing of optoelectronic products, are the biggest contributor to the Group's cost of raw materials, components and parts. Prices for other raw materials, components and parts used in the other two business lines remained stable and represented a smaller portion of the Group's cost of raw materials during the Track Record Period.

The cost per unit for CMOS sensors decreased from approximately RMB31.0 during the first quarter of 2004 to approximately RMB20.7 towards the last quarter of the year. The cost per unit for CMOS sensors further decreased to approximately RMB16.0 per unit and to approximately RMB10.2 per unit by the last quarters of 2005 and 2006, respectively. Such effect was also consistent with the decrease in the average cost of sales for optoelectronic products the Group was able to achieve during the Track Record Period.

The Group's cost of raw materials, components and parts may be subject to price fluctuations resulting from market supply and demand, particularly with respect to CMOS sensors, and any price fluctuations are beyond the Group's control and may occur at any time. However, the Group has made adequate allowance for inventory during the Track Record Period for decreases in value of components and raw materials.

Overhead cost

The Group's overhead cost relating to production and manufacturing includes depreciation charges on machinery and equipment, utility expenses, other factory overhead costs and related expenses. Overhead cost comprised approximately 27.4%, 18.8% and 17.2%, respectively, of the Group's cost of sales for the Track Record Period.

Labour cost

The Group's production labour cost includes staff costs and other expenses relating to employees who are directly involved in the manufacture, assembly, testing and quality control of its products. These costs may be affected by the supply and demand for such labour and implementation of any new governmental policies or labour laws. Production labour cost represented approximately 17.6%, 13.1% and 11.1%, respectively, of the Group's cost of sales for the Track Record Period.

Gross profit

Gross profit and gross profit margin

The Group's gross profit and gross profit margin by products during the Track Record Period were as follows:

Gross profit contribution	**Year ended 31 December**					
	2004		**2005**		**2006**	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*
Optical components	74,931	66.3	66,245	36.7	119,564	48.3
Optoelectronic products	8,444	7.5	75,202	41.7	76,438	30.8
Optical instruments	29,665	26.2	38,960	21.6	51,779	20.9
Total	113,040	100.0	180,407	100.0	247,781	100.0

Gross profit margin	**Year ended 31 December**		
	2004	**2005**	**2006**
	%	*%*	*%*
Optical components	37.8	31.4	38.7
Optoelectronic products	21.4	27.0	16.3
Optical instruments	42.1	39.4	42.0
Overall	36.7	30.7	27.5

Group level

The Group's gross profit and gross profit margin are affected by several factors including the products sales mix, selling price of its products and cost of sales. The total gross profit and gross margin of the Group's products vary by product type mainly due to differences in design expertise required, production processes involved and readiness for usage by end users. As the production of optical components and optical instruments generally requires more technical know-how and design expertise, profit margins for these two types of products are typically higher than that of optoelectronic products. Therefore, the change of products mix among different business lines affects the overall profit margin of the Group.

Gross profit increased from approximately RMB113.0 million in 2004 to approximately RMB180.4 million in 2005 and further increased to approximately RMB247.8 million in 2006, while the gross profit margin decreased from approximately 36.7% in 2004 to approximately 30.7% in 2005 and decreased slightly further to approximately 27.5% in 2006.

The increase in gross profit from 2004 to 2005 was mainly due to the increase in gross profit of approximately RMB66.8 million contributed by optoelectronic products and the increase in gross profit from 2005 to 2006 was mainly due to the increase in gross profit of approximately RMB53.3 million contributed by optical components.

To meet the growing market demand for electronic products as they become even more miniaturised, such as mobile handsets and other consumer electronic products, the Group has enhanced its focus on producing smaller size lenses and lens sets to tap into the relevant markets. In addition, the Group has also leveraged its expertise with optical components and expanded into the strong growing optoelectronic product market to enhance the Group's product offerings.

The increase in gross profit from 2005 to 2006 was mainly due to the increase in gross profit of approximately RMB53.3 million contributed by optical components. Although Sunny Zhongshan commenced operations in February 2005 to expand the Group's optical component production capacity, its expected economies of scale had not yet been achieved, resulting in a decrease in the gross profit and gross profit margin from optical components. However, with the improved utilisation of Sunny Zhongshan, along with the growing market demand for optical components, the gross profit margin from optical components has improved significantly in 2006.

Despite the recovery of the gross profit margin from optical component products from 2005 to 2006 and the stable gross margin from optical instrument products throughout the Track Record Period, the Group's total gross profit margin decreased and was primarily due to the increasing contribution from sales of optoelectronic products, which generally has lower gross profit margins.

Selling prices and sales mix

The following table sets forth the approximate actual sales, average selling price, average cost of sales and average gross profit for optical components, optoelectronic products and optical instruments during the Track Record Period:

	Year ended 31 December		
	2004	**2005**	**2006**
Actual sales	*'000 units*	*'000 units*	*'000 units*
Optical components	18,163	22,058	50,779
Optoelectronic products	731	5,595	15,163
Optical instruments	81	105	122
Average selling price	*RMB*	*RMB*	*RMB*
Optical components	10.9	9.6	6.1
Optoelectronic products	54.0	49.8	30.9
Optical instruments	869.6	942.1	1,011.7
Average cost of sales per unit	*RMB*	*RMB*	*RMB*
Optical components	6.8	6.6	3.7
Optoelectronic products	42.4	36.4	25.8
Optical instruments	503.4	571.1	587.2
Average gross profit per unit	*RMB*	*RMB*	*RMB*
Optical components	4.1	3.0	2.4
Optoelectronic products	11.6	13.4	5.1
Optical instruments	366.2	371.0	424.5

As stated above, the selling prices and gross profit margins of the Group's products varied by product type mainly due to differences in design expertise required, production processes involved and readiness for usage by end users where profit margins for production and sale of these optical components and optical instruments are typically higher than that of optoelectronic products.

Optical components

The Group is generally able to achieve higher profit margins with optical components as compared to optoelectronic products. Unlike optoelectronic products which are generally produced based on standardised contract manufacturing specifications, optical components are generally more tailor-made products. Specifications for optical components can vary greatly in terms of materials involved, size, thickness, spherical or aspheric and reflection or refraction characteristics. As a result, a higher level of technical know-how and design expertise is generally required to produce optical components.

Foreseeing the strong growth potential from the miniaturisation of electronic products, such as mobile handsets and other handheld products, the Group has enhanced its focus on producing smaller sized lenses to prepare itself to tap into the mobile handset lenses and lens sets markets. In line with the Group's expectations and general industry forecast, orders for smaller sized lenses increased significantly during Track Record Period. As the cost of sales and thus the selling price for such smaller sized lenses was generally lower than for larger lenses, the change in sales mix within the optional components business towards these products contributed to a lowered overall average selling price of the optical components during the Track Record Period. As the decrease in average selling price was more than the decrease in average cost of sales, the Group experienced a decrease in gross profit per unit for optical components during the Track Record Period.

Nevertheless, the Group experienced an overall increase in total gross profit from approximately RMB74.9 million in 2004 to approximately RMB119.6 million in 2006, primarily due to the significant increase in units sold, thereby offsetting the effect of the decrease in gross profit per unit in 2006 and demonstrating the Group's effort in capturing the market for miniaturised electronic products.

The decrease in gross profit margin in 2005 for optical components was mainly due to the commencement of production of Sunny Zhongshan. Sunny Zhongshan is one of the Group's production bases for optical components located in Zhongshan, Guangdong and was established mainly to capture customers situated around the Pearl River Delta region. Since Sunny Zhongshan commenced operations in 2005, its costs were not fully covered by its revenue as operations were not yet fully optimised because it did not reach its optimum operating stage or fully achieve its expected economies of scale in 2005. This was primarily due to the operational staff going through the learning process to utilise the production equipment efficiently. Consequently, gross profit from optical components slightly decreased in 2005 as compared to 2004. With time, the operational staff at Sunny Zhongshan improved their ability to operate efficiently, resulting in improved utilisation of capacity. By 2006, gross profit from optical components increased as a result of the improved utilisation of capacity in Sunny Zhongshan and the increase in production capacity of Sunny Optics. The increase in production capacity of Sunny Optics was related to management foreseeing the Group's potential growth in optical components. With such an anticipated growth, the Company increased its production capacity in 2006, mainly by purchasing more machinery, hiring more staff for production and streamlining the existing production processes. A similar trend existed for the gross profit margin for optical components.

Optoelectronic products

With the increasing demand for electronic products as they become even more miniaturised, such as mobile handsets and other consumer electronic products, the Group has enhanced its focus in the optoelectronic products. As part of the Group's initial growth strategy to focus on the PRC manufacturers who have a strong focus on mainstream mobile phones, the Group have been manufacturing mainstream camera modules for its optoelectronic products. Such growth strategy has shifted the Group's product sales mix towards optoelectronic products. This is evident in the significant growth in revenue derived from optoelectronic products during the Track Record Period. As these customers typically purchase optoelectronic products in bulk and a majority of them are mainstream products, they have usually been able to bargain for a lower price per unit, which resulted in the reduction of the Group's selling prices for optoelectronic products during the Track Record Period.

In 2005, with more experience in the market and a larger scale of production, the Group was able to leverage its stronger bargaining power to negotiate more favourable prices for its raw materials and improve utilisation of its production lines. As a result, the Group experienced a higher gross profit margin for optoelectronic products in 2005 as compared to 2004. There was an increase in gross profit from approximately RMB8.4 million in 2004 to approximately RMB75.2 million in 2005.

As aforementioned, the Group's sales mix has shifted towards optoelectronic products as a result of the increasing demand for electronic products as they become more miniaturised. The increase in gross profit per unit of optoelectronic product in 2005 as compared to 2004 was mainly due to the larger decrease in average cost of sales the Group was able to achieve despite the decrease in average selling price during the same period. The decrease in gross profit per unit of optoelectronic product in 2006 compared to 2005 was mainly due to the decrease in average selling price, which was greater than the decrease in average cost of sales the Group was able to achieve during 2006.

The increase in total gross profit from RMB8.4 million in 2004 to RMB75.2 million in 2005 was due to the significant increase in units sold. Despite the increase in units sold in 2006 compared to 2005, the gross profit per unit decreased during the year. This was related to a shift of product mix to satisfy an increasing customer demand for VGA (300,000 pixel) camera modules, which generally had a lower average selling price and a lower average cost of sales. Although the total units sold increased significantly in 2006 compared to 2005, and there was a decrease in average cost of sales during the same period, the Group was only able to achieve a slight increase in total gross profit from optoelectronic products due to the greater impact of the decrease in average selling price over such period.

In addition, in 2006, due to the increased market demand for the mobile phones with camera function as a basic feature and at a reasonable price, the market demand for VGA (300,000 pixel) camera modules increased significantly. As these customers typically purchased the optoelectronic products in bulk, they have usually been able to bargain for a lower price per unit, and the Group's gross profit margin for optoelectronic products reduced significantly. However, the Group was able to increase Sunny Opotech's production and improve management of its cost of sales to allow the Group to lower its selling price in response to the intense market demand. Accordingly, the Group was able to maintain its gross profit from optoelectronic products in 2006 despite the decrease in the gross profit margin.

Optical Instruments

Although the Group enjoys higher profit margins in respect of the production and sales of optical instruments, production and sales volumes are comparatively smaller due to relatively lower market demand for such products. The gross profit margin from optical instruments remained relatively stable while the gross profit for optical instruments has increased steadily during the Track Record Period. Although the average cost of sales increased with the cost of raw material throughout the Track Record Period from approximately RMB503.4 in 2004 to RMB587.3 in 2006, it was offset by the increase in average selling price from approximately RMB869.6 in 2004 to RMB1,011.7 in 2006, as a result of the launching of new products by the Group during the same period.

In 2005, the Group shifted its optical instruments production line to a newly rented factory, thereby increasing its rental expenses. The increase in rental expense led to a rise in average cost of sales in 2005 from approximately RMB503.4 in 2004 to RMB571.1 in 2005. Despite the increase in average selling price during the Track Record Period, the increase in average cost of sales per unit by approximately 13.4% was larger than the increase in average selling price by approximately 8.3% in 2005. As a result, the Group experienced a slight dip in gross profit margin from its optical instruments business in 2005. By 2006, with the increasing sales volume of optical instruments, the average cost of sales decreased accordingly. Consequently, the gross profit margin improved in 2006 as compared to 2005.

Other income

Other income mainly includes interest income, sales of scrap materials and government grants. During the Track Record Period, other income amounted to approximately RMB3.7 million, RMB4.3 million and RMB5.0 million, respectively.

Interest income is accrued by reference to the principal outstanding and at the effective interest rate applicable. During the Track Record Period, interest income amounted to approximately RMB0.9 million, RMB1.4 million and RMB1.5 million, respectively.

Scrap materials (such as aluminum and copper scrap) are created during normal production processes. During the Track Record Period, the net gain on sales of scrap materials amounted to approximately RMB1.2 million, RMB1.5 million and RMB0.5 million, respectively. Due to higher aluminium and copper prices, the Group re-designed its products to reduce its reliance on metallic material. Accordingly, scrap materials available for sale decreased in 2006.

From time to time, the Group receives grants from the local government in recognition of certain achievements in design, research and development which have had a positive impact on the local industry. In accordance with the Group’s accounting policy, government grants are recognised as income over the periods necessary to match them with the related costs. If no basis exists for allocating a grant to a period other than the one in which it is received and the grant is unconditional, the grant is recognised on a receipts basis. During the Track Record Period, government grants received by the Group amounted to approximately RMB1.4 million, RMB0.3 million and RMB1.1 million, respectively. As there were less fixed asset investments in 2005, there were less government grant applications made to the local government by the Group resulting in fewer government grants received.

Selling and distribution expenses

Selling and distribution expenses mainly include staff costs for sales and marketing staff and distribution personnel, transportation fees and business development expenses. During the Track Record Period, the selling and distribution expenses amounted to approximately RMB5.6 million, RMB9.4 million and RMB19.1 million, respectively.

In general, selling and distribution expenses increased with the sales activities of the Group. The selling and distribution expenses were equivalent to approximately 1.8%, 1.6% and 2.1% of revenue during the corresponding year of the Track Record Period. In addition to the increase with sales activities of the Group, the increase in selling and distribution expenses was also mainly due to the increased staff costs in relation to the hiring of additional sales and marketing staff and distribution personnel.

Research and development expenditure

In accordance with the Group's accounting policy, research activity expenditures are recognised in the period in which they are incurred. During the Track Record Period, the Group applied in research and development expenditures of approximately RMB5.4 million, RMB10.7 million and RMB12.3 million, respectively. Such expenditures included expenditures incurred in the design of new products, the formulation of internal documents in relation to production techniques, modification of machinery, trial production of samples of semi-finished products, testing of camera modules, research and development staff salaries and fees paid for trial production services provided by third-party contractors. As the production for optoelectronic products increased significantly in 2005, there were additional product testing expenses incurred. There was also a significant increase in salary expenses for research and development activities with the setting up of an independent research team in 2006 in respect of the Group's optoelectronic products business.

Administrative expenses

Administrative expenses mainly include staff and welfare costs of the administrative departments, depreciation charges of fixed assets, research and development expenses and other miscellaneous administrative expenses. During the Track Record Period, the administrative expenses amounted to approximately RMB17.2 million, RMB36.7 million and RMB55.7 million, respectively.

In general, the administrative expenses increased with the overall expansion of the Group's operations. Administrative expenses were equivalent to approximately 5.6%, 6.2% and 6.2% of revenue during the corresponding year of the Track Record Period. In addition to the increase associated with the overall expansion of the Group, the increase in administrative expenses was also due to (i) increased staff costs for existing staff and hiring both additional administrative and technical personnel and (ii) an increase of exchange loss from approximately RMB0.2 million in 2004 to approximately RMB4.1 million in 2006 due to appreciation of the Renminbi.

Finance cost

Finance cost represents interest expenses for bank borrowings, loans from a related party and discounted bills. During the Track Record Period, finance costs amounted to approximately RMB0.1 million, RMB4.7 million and RMB2.9 million, respectively.

Share of result of an associate

As of 31 December 2004, the Group had an investment of RMB1.0 million, representing a 20% interest, in Import & Export Company, which handled the Group's import and export functions and was accounted for as an associate. Due to a change in relevant regulations, the Group was permitted to conduct the import and export function on its own and, accordingly, the Import & Export Company was dissolved in September 2005. The Group recognised a relevant loss of approximately RMB2,000 in 2005 in connection with such dissolution.

Income tax charge

Domestic enterprises in China are generally subject to a EIT at the rate of 30% and a LEIT at the rate of 3%, in each case, of their pre-tax profits. Each of Nanjing Instruments and Sunny Infrared is a domestic enterprise (being a company invested by foreign-invested enterprise) and, as a result, is subject to the enterprise income tax at the rate of 33%.

According to FEIT, FIEs that meet the following criteria are entitled to preferential tax treatments as set out below:

- FIEs incorporated in coastal economic open zones of a manufacturing nature are entitled to pay EIT at a reduced rate of 24% and, subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, LEIT at a reduced rate of 2.4%;

- FIEs of a manufacturing nature with an operating term exceeding 10 years are entitled to full exemption from the applicable EIT for the first two years and a 50% reduction in the applicable EIT for the next three years, commencing in the first profitable year after offsetting all expired tax losses carried forward from the previous years in accordance with the FEIT. Subject to the discretion of the relevant local administrative authorities of the State Taxation Administration of China, FIEs may also enjoy a similar tax exemption and relief from LEIT during the corresponding period.

Other than Nanjing Instruments and Sunny Infrared, which are domestic enterprises (being companies invested by foreign-invested enterprises), each of the Group's other PRC subsidiaries was incorporated as a FIE in either an economic and technological development zone or a coastal economic open zone of a manufacturing nature with an operating term exceeding 10 years. In accordance with the above rules and regulations, each of these PRC subsidiaries has been (or will be) entitled to receive preferential tax treatment as set out in the table below:

Subsidiaries	**Applicable EIT**	**Applicable LEIT**	**First Profitable Year**	**Applicable Period**
Sunny Optics	24%	2.4%	2005	2005–2009
Ningbo Instruments	24%	2.4%	2005	2005–2009
Sunny Zhongshan	24%	– *(Note 1)*	Not applicable *(Note 2)*	Not applicable *(Note 2)*
Sunny Opotech	24%	2.4%	2006	2006–2010

Notes:

1. The local government has waived such tax.

2. As of 31 December 2006, there were tax losses available for future deduction.

As of 31 December 2006, members of the Group incorporated in jurisdictions other than China were subject to the following corporate tax rates:

Hong Kong	17.5%
Japan	22.0%
Cayman Islands	Exempted
British Virgin Islands	Exempted

During the Track Record Period, the income tax charge to the Group amounted to approximately RMB30.3 million, RMB14.6 million and nil, respectively.

Income tax charge decreased by approximately 51.8% from RMB30.3 million in 2004 to RMB14.6 million in 2005 mainly due to the reduced effective tax rate of approximately 34.4% in 2004 to 11.9% in 2005. As Sunny Optics and Ningbo Instruments were transformed from domestic limited liability companies to sino-foreign equity joint ventures in May 2005, Sunny Optics and Ningbo Instruments were entitled to an exemption from PRC enterprise income tax for two years starting from their respective first profit making year of operations, followed by a 50% tax relief for the following three years. 2005 was the first tax exemption year for each of them. Accordingly, the effective tax rate of the Group decreased significantly.

Income tax charge decreased by 100.0% from RMB14.6 million in 2005 to nil in 2006, mainly due to the tax free periods resulting from the sino-foreign equity joint ventures and the jointly foreign owned enterprise arrangements of the relevant subsidiaries in the PRC.

Although Nanjing Instruments and Sunny Infrared were domestic limited liability companies (being companies invested by foreign-invested enterprises) with applicable tax rates of 33%, they had no tax assessable profit from the date of their registration through the two years ended 31 December 2006. A similar situation existed for the relevant subsidiaries in Hong Kong and Japan.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE OPERATIONS

Investors shall read the following discussions and analysis in conjunction with the financial information for the Track Record Period as set out in the accountants' report in Appendix I to this prospectus.

RESULTS OF OPERATIONS

The following table presents selected financial data from the Group's consolidated income statements during the Track Record Period, details of which are set out in the accountants' report in Appendix I to this prospectus.

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	307,929	588,298	900,698
Cost of sales	(194,889)	(407,891)	(652,917)
Gross profit	113,040	180,407	247,781
Other income	3,672	4,306	4,965
Selling and distribution expenses	(5,622)	(9,420)	(19,087)
Research and development expenditure	(5,426)	(10,680)	(12,310)
Administrative expenses	(17,222)	(36,731)	(55,723)
Discount on acquisition of additional interest in subsidiaries	—	—	3,408
Loss on disposal of a subsidiary	—	—	(136)
Impairment loss on goodwill	(7)	—	—
Finance costs	(108)	(4,683)	(2,913)
Share of result of an associate	(169)	(32)	—
Loss on dissolution of an associate	—	(2)	—
Profit before taxation	88,158	123,165	165,985
Income tax charge	(30,329)	(14,589)	—
Profit for the year	57,829	108,576	165,985
Attributable to:			
Equity holders of the Company *(Note 1)*	44,125	82,368	117,158
Minority interests	13,704	26,208	48,827
	57,829	108,576	165,985
Dividends	70,788	13,277	103,215
Earnings per share — Basic *(Note 2)*	RMB0.08	RMB0.15	RMB0.20

Notes:

1. If the Reorganisation had been completed on 1 January 2006, and the current group structure had been in existence throughout the year ended 31 December 2006, the profit for the year ended 31 December 2006 attributable to the equity holders of the Company would have been approximately RMB166.0 million as described in note 2 of the accountants' report in Appendix I to this prospectus.

2. The calculation of the basic earnings per Share for the Track Record Period is based on the profit attributable to equity holders of the Company for the Track Record Period and by reference to the weighted average number of 575,372,000, 565,980,000 and 574,869,000 Shares for the year ended 31 December

2004, 2005 and 2006 which has been adjusted to reflect 800,000,000 Shares in issue, comprising 1,000,000 Shares in issue before the Capitalisation Issue and 799,000,000 Shares issued pursuant to the Capitalisation Issue as more fully described in the section headed "Further information about the Company — Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to this prospectus.

PERIOD TO PERIOD COMPARISON OF RESULTS OF OPERATIONS

2006 compared to 2005

Revenue

In 2006, the Group's revenue increased by approximately 53.1% from RMB588.3 million in 2005 to RMB900.7 million, mainly as a result of increases in revenue from optoelectronic products of approximately RMB189.4 million and from optical components of approximately RMB98.5 million. The increases were mainly due to the increased demand for mobile phones with camera functions as well as demand for other end products with optical-related applications.

Cost of sales

Cost of sales increased by approximately 60.1% from RMB407.9 million in 2005 to RMB652.9 million in 2006. The increase is consistent with the increase in the Group's total revenue. In particular, with an increasing portion of revenue derived from optoelectronic products to the Group's total revenue and the cost of sales from optoelectronic products being comparatively higher than the cost of sales contributed by the other two business lines, the Group's total cost of sales increased accordingly.

Gross profit and margin

Gross profit increased by approximately 37.4% from RMB180.4 million in 2005 to RMB247.8 million in 2006, while the gross profit margin decreased slightly from 30.7% in 2005 to 27.5% in 2006. Such decrease was mainly due to increased sales of optoelectronic products which generally had lower margins.

The increase in revenue was a result of the Group enhancing its focus in optoelectronic products to meet the increasing demand for electronic consumer products as they became even more miniaturised, such as mobile handsets and other consumer electronic products. As part of its initial growth strategy, the Group focused on PRC manufacturers who had a strong focus on mainstream mobile phones by increasing the manufacture of mainstream camera modules for its optoelectronic products. Such growth strategy has shifted the Group's product sales mix towards optoelectronic products. This is evident in the significant growth in revenue derived from optoelectronic products during the year.

Despite the increased revenue in 2006, due to the increased market demand for mobile phones with camera functions as a basic feature and at reasonable prices, market demand for VGA (300,000 pixel) camera modules increased significantly. Because of larger purchase volumes, these optoelectronic products customers have usually been able to bargain for a lower price per unit, consequently reducing the Group's overall gross profit margin in 2006. In addition, the change in sales mix for product types with lower gross profit margins per unit also reduced the Group's overall gross profit margin in 2006.

Other income

Other income increased slightly by approximately 16.3% from RMB4.3 million in 2005 to RMB5.0 million in 2006 mainly due to the increase in government grants received during the year.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 103.2% from RMB9.4 million in 2005 to RMB19.1 million in 2006. The significant increase was primarily due to a combination of an increase in staff costs for sales and marketing staff and distribution personnel, transportation fees and business development expenses arising from the increasing sales activities of the Group's optoelectronic products business line.

As the Group's optoelectronic products business line continued to grow in 2006, the Group experienced higher staff costs primarily due to the establishment of Sunny Opotech in December 2005, which effectively separated the Group's optoelectronic products business line from the optical components business line handled by Sunny Optics. Prior to the establishment of Sunny Opotech, the sales, marketing and distribution of optoelectronic products were handled by staff of Sunny Optics. After the establishment of Sunny Opotech, the Group hired additional sales and marketing staff and distribution personnel to take over the sales, marketing and distribution functions from personnel at Sunny Optics. Since Sunny Opotech was established near the end of 2005, the effect of these increased staff costs occurred mainly in 2006 and was minimal in 2005.

Moreover, the Group became increasingly subject to higher transportation fees arising from a higher frequency of partial deliveries and shorter delivery times required by the Group's optoelectronic products' customers. Similarly, the Group experienced higher business development costs as a result of increasing sales activities of optoelectronic products in 2006 associated with building and maintaining its relationships with its customers.

Research and development expenditure

Research and development expenditures increased from approximately RMB10.7 million in 2005 to RMB12.3 million in 2006. Such increase mainly represented the increase in salary expenses for the independent research team in respect of the Group's optoelectronic products business.

Administrative expenses

Administrative expenses increased by approximately 51.8% from RMB36.7 million in 2005 to RMB55.7 million in 2006. Such increase was in line with the increase in the Group's total revenue and, in particular, was due to a combination of the increase in staff and welfare costs of administrative departments and depreciation expenses. There was an exchange loss of approximately RMB4.1 million incurred in 2006 due to appreciation of the Renminbi. Moreover, given the increased headcount, the related welfare costs increased accordingly. Finally, with the significant investment in fixed assets due to the expanded operations, the Group's depreciation expenses also increased.

Discount on acquisition of additional interest in subsidiaries

Discount on acquisition of additional interest in subsidiaries increased by approximately 100% from nil in 2005 to RMB3.4 million in 2006. The increase represented the excess of the aggregate carrying amount of 30%, 28%, 10% and 30.3% equity interest in Sunny Zhongshan, Sunny Opotech, Nanjing Instruments and Sunny Japan acquired (in the sum of RMB38,630,000) over the consideration paid (in the sum of RMB35,222,000) during 2006.

Loss on disposal of a subsidiary

On 30 April 2004, the Group acquired from Sunny Group a 55% interest in Shanghai Keyi for a consideration of approximately RMB1.7 million. In 2006, such interest was disposed of at a loss of RMB136,000.

Finance costs

Finance costs decreased by approximately 38.3% from RMB4.7 million in 2005 to RMB2.9 million in 2006. Such decrease was mainly due to the decrease of bills discounted to the bank in 2006. The higher level of discounted bills in 2005 was necessary to meet the working capital requirements for that year. In 2006, the Group's working capital position improved as sales increased. With sufficient working capital on hand, the need for external funding was less. Therefore, the Group was able to finance its operations internally and did not need to engage in bill discounting in 2006.

Share of result of an associate

Import & Export Company, the only associate of the Group, was dissolved in September 2005 and, accordingly, no longer had an impact for the year ended 31 December 2006.

Income tax charge

Income tax decreased by 100.0% from RMB14.6 million in 2005 to nil in 2006, due to the tax free periods resulting from the sino-foreign equity joint ventures and the jointly foreign owned enterprise arrangements of the subsidiaries in the PRC.

Profit for the year

Profit for the year increased by approximately 52.9% from RMB108.6 million in 2005 to RMB166.0 million in 2006, while the net profit margin decreased slightly from approximately 18.5% in 2005 to approximately 18.4% in 2006. Such increase in net profit and decrease in net profit margin was largely attributable to the growth in revenue from sales of optoelectronic products which generally have lower profit margins.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company increased by 42.2% from RMB82.4 million in 2005 to RMB117.2 million in 2006. The increase in the profit attributable to the equity holders of the Company was mainly due to the increase in the Group's profit during the year.

If the Group Reorganisation had been completed on 1 January 2006, and the current group structure had been in existence throughout the year ended 31 December 2006, the profit for the year ended 31 December 2006 attributable to the equity holders of the Company would have been approximately RMB166.0 million, details of which are set out in note 2 of the accountants' report in Appendix I to this prospectus.

Profit attributable to the minority interests

Profit attributable to the minority interests increased by 86.3% from RMB26.2 million in 2005 to RMB48.8 million in 2006. The increase in the profit attributable to the minority interests was mainly due to the increase in contributions from Sunny Optics, Ningbo Instruments and

Sunny Opotech. There were also some minor contributions related to the minority interests for Sunny Zhongshan, Nanjing Instruments, Sunny Infrared, Sunny Japan and Shanghai Keyi during the period.

For Sunny Zhongshan, 30% of its equity interests were regarded as minority interests up to September 2006. For Sunny Opotech, 28% of its equity interests were regarded as minority interests from December 2005 to September 2006. There were no longer any minority interests in these two companies after the Group's acquisition of the entire equity interests in such two companies in September 2006.

Dividends

The Group declared dividends to equity holders of the Company of approximately RMB103.2 million for the year ended 31 December 2006. The payment of such dividend was made in April 2007.

2005 compared to 2004

Revenue

The Group's revenue increased by approximately 91.1% from RMB307.9 million in 2004 to RMB588.3 million in 2005. Such increase was mainly due to the increase in revenue from optoelectronic products of approximately RMB39.5 million in 2004 to approximately RMB278.7 million in 2005 as a result of the rising demand for mobile phones with camera functions.

Cost of sales

Cost of sales increased by approximately 109.3% from RMB194.9 million in 2004 to RMB407.9 million in 2005. The increase in cost of sales was greater than the increase in the Group's total revenue as one of the major components for production, CMOS image sensors, were purchased externally in greater amounts and constituted a significant part of the cost of sales of optoelectronic products. Every camera module manufactured by the Group is assembled with a CMOS image sensor. The greater purchase of CMOS image sensors was in line with the sales growth of camera modules in 2005. Since CMOS sensors are produced by semi-conductor manufacturers rather than optical manufacturers, the Group had to purchase such sensors externally.

Gross profit and margin

Gross profit increased by approximately 59.6% from RMB113.0 million in 2004 to RMB180.4 million in 2005, while the gross profit margin decreased from 36.7% in 2004 to 30.7% in 2005.

The increase in gross profit was mainly due to the increase in gross profit contribution of approximately RMB66.8 million from optoelectronic products. However, the total gross profit margin decreased despite the increase in gross profit due to the lower gross profit margin of optoelectronic products.

In addition, although Sunny Zhongshan commenced operations in February 2005 to expand the Group's optical component production capacity, its expected economies of scale had not yet been achieved, resulting in a decrease in the gross profit margin for optical components.

The decrease in gross profit margin was due to the increasing sales of optoelectronic products in 2005, which generally have a lower gross profit margin compared to other optical products sold by the Group. For optoelectronic products alone, the gross margin increased in 2005 compared to 2004. However, when compared to other optical components and optical instruments products which had higher gross margins, the gross margin for optoelectronic products was still lower. Therefore, the increase of sales of optoelectronic products lowered the gross profit margin in 2005 with such a change in sales mix during the year.

Other income

Other income increased by approximately 16.2% from RMB3.7 million in 2004 to RMB4.3 million in 2005. Such increase was mainly due to the increase in interest income received from a related party from approximately RMB410,000 in 2004 to RMB1.1 million in 2005.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 67.9% from RMB5.6 million in 2004 to RMB9.4 million in 2005. Such increase was in line with the increase in the Group's total revenue and was mainly due to increases in transportation fees, business development fees and staff costs for sales and marketing staff and distribution personnel arising from the establishment and growth of the Group's optoelectronic products business.

Research and development expenditure

Research and development expenditures increased significantly by approximately 98.1% from RMB5.4 million in 2004 to RMB10.7 million in 2005. Such increase was related to the product testing expenses incurred for optoelectronic products as a result of the increase in revenue from optoelectronic products in 2005.

Administrative expenses

Administrative expenses increased by approximately 113.4% from RMB17.2 million in 2004 to RMB36.7 million in 2005. Such increase was mainly due to the increase in staff and welfare costs from approximately RMB5.6 million in 2004 to approximately RMB13.8 million in 2005 in relation to the commencement of Sunny Zhongshan's operations.

Finance costs

Finance costs increased from approximately RMB108,000 in 2004 to RMB4.7 million in 2005. In 2005, the Group received a loan from a bank and a related party to finance the Group's expansion. In addition, bills received from the customers were discounted with the bank to provide additional working capital. Accordingly, the finance costs increased significantly in 2005.

Share of result of an associate

The share of loss from the only associate of the Group, Import & Export Company, decreased from approximately RMB169,000 in 2004 to RMB32,000 in 2005. Import & Export Company was established in 2004 and was later dissolved in September 2005. In 2004, the operation of this associate was still at a preliminary stage and was not yet able to generate sufficient income to cover its expenses in 2004. In 2005, it generated some income before it was dissolved by the Group and, as a result, its loss was lower as compared to 2004.

Income tax charge

Income tax charge decreased by approximately 51.8% from RMB30.3 million in 2004 to RMB14.6 million in 2005 mainly due to the reduced effective tax rate of approximately 34.4% in 2004 to 11.8% in 2005.

As Sunny Optics and Ningbo Instruments were transformed from domestic limited liability companies to sino-foreign equity joint ventures in May 2005, Sunny Optics and Ningbo Instruments were entitled to an exemption from PRC enterprise income tax for two years starting from their respective first profit making year of operations, followed by a 50% tax relief for the following three years. 2005 was the first tax exemption year for each of them. Accordingly, the effective tax rate of the Group decreased significantly.

Profit for the year

Profit for the year increased by approximately 87.9% from RMB57.8 million in 2004 to RMB108.6 million in 2005, while net profit margin decreased slightly from 18.8% in 2004 to 18.5% in 2005.

The increase in net profit of the Group for the year ended 31 December 2005 over that for the same period in 2004 was mainly due to the increase in sales of optoelectronic products and the decrease in applicable tax rate.

The slight decrease in net profit margin in 2005 compared to 2004 was mainly due to the increase in the proportion of sales of optoelectronic products which have a lower gross profit margin.

Profit attributable to the equity holders of the Company

Profit attributable to the equity holders of the Company increased by approximately 86.8% from RMB44.1 million in 2004 to RMB82.4 million in 2005. Such increase is mainly due to the increase in profit for the year.

Profit attributable to the minority interests

Profit attributable to the minority interests increased by 91.2% from RMB13.7 million in 2004 to RMB26.2 million in 2005. The increase in the profit attributable to the minority interests was mainly due to the increase in contributions from Sunny Optics and Ningbo Instruments. There were also some minor contributions related to the minority interests for Sunny Zhongshan, Nanjing Instruments and Shanghai Keyi during the period.

For Sunny Zhongshan, 30% of its equity interests were regarded as minority interests since its inception in March 2004. For Sunny Opotech, 28% of its equity interests were regarded as minority interests since its inception in December 2005.

Dividends

The members of the Group declared dividends to equity holders of the Company of approximately RMB70.8 million and RMB13.3 million for the two years ended 31 December 2004 and 2005. Such dividends were fully settled in April 2007.

MAJOR FINANCIAL RATIOS

	Year ended 31 December		
	2004	**2005**	**2006**
Trade receivable turnover (days)(1)	87	79	58
Trade payable turnover (days)(2)	90	56	60
Inventory turnover (days)(3)	87	60	61
Gearing ratio(4)	5.6%	15.1%	Nil

(1) The trade receivable turnover is calculated by dividing the trade receivables as of the end of the respective year with revenue for the year, multiplied by 365 days.

(2) The trade payable turnover is calculated by dividing the trade payables as of the end of the respective year with cost of sales for the year, multiplied by 365 days.

(3) The inventory turnover is calculated by dividing the inventory as of the end of the respective year with cost of sales for the year, multiplied by 365 days.

(4) The gearing ratio is calculated by dividing total bank borrowings with total assets as of the respective year end, multiplied by 100%.

Trade receivable turnover

With the exception of optoelectronic products customers, the Group typically granted credit periods of within 90 days to its customers. The credit terms granted to optoelectronic products customers was typically around 60 days due to differences in industry practice for optoelectronic products compared to that for each of optical components and optical instruments. Moreover, since the Group is a relatively new player in the market for optoelectronic products, its customer relationships within this business are not well established as compared to those within each of its optical components and optical instruments businesses. As a result, the Group attempted to grant shorter credit terms to its optoelectronic products customers.

The trade receivable turnover decreased from 87 days in 2004 to 79 days in 2005 and further decreased to 58 days in 2006. With comparatively shorter credit terms granted to customers of optoelectronic products, the trade receivable turnover decreased during the Track Record Period as the contribution of revenue from optoelectronic products to the Group's total revenue increased over such period. Sales of optoelectronic products increased in 2006 with the strong demand in the PRC for mobile phones assembled with camera modules. The sales channels for such products included direct sales and a third party agent. With the growing development of the new business segment, there was an increasing number of new customers who trade on shorter credit terms, including cash sales. Therefore, the trade receivables outstanding tenor became shorter.

In addition, the Group strived to impose more stringent measures on trade receivable collection, thereby increasing its ability to collect trade receivables on time and further improving the Group's trade receivable turnover in 2006. Moreover, the Group implemented more stringent measures on trade receivables collection. The measures were the inclusion of trade receivable turnover and overdue position as key performance indicators for monthly review; consequently, the trade receivable turnover improved accordingly.

Trade payable turnover

With the exception of optoelectronic products suppliers, credit terms offered by suppliers are typically within 90 days. Trade payable turnover decreased from 90 days in 2004 to 56 days in 2005 but increased slightly to 60 days in 2006. Since payments to optoelectronic products suppliers are generally made by way of letter of credit at sight and trade payables for optoelectronic products increased with sales in 2005, the effect of shorter credit terms was magnified and the Group's trade payable turnover decreased accordingly. However, the Group managed to negotiate for better payment terms by way of letter of credit in 30 days in 2006. As a result, the Group's bargaining power increased when more purchases were made in large quantities and the Group was able to negotiate more favourable credit terms. With this extension of payment terms, the Group's trade payable turnover days in 2006 increased accordingly.

Inventory turnover

The inventory turnover decreased from 87 days in for 2004 to 60 days in 2005 and increased slightly to 61 days in 2006. To control price fluctuation risks, the Group kept a minimum inventory for the manufacturing of its optoelectronic products. With optoelectronic products contributing a more significant portion of revenue in 2005 compared to that of 2004, the inventory turnover decreased accordingly. In addition, the Group usually kept 2 months stock of inventory, namely raw materials for its manufacturing purposes. As the Group adopted stringent measures in inventory management, there was no significant increase in inventory turnover despite the expansion of business in 2006.

Gearing ratio

The gearing ratio of the Group increased from approximately 5.6% as of 31 December 2004 to 15.1% as of 31 December 2005 and the Group was debt free as of 31 December 2006. The Group financed its business mainly with internally generated resources and advances from shareholders in 2004. To meet additional working capital requirements for production expansion of optoelectronic products, the Group obtained more bank loans in 2005 to result in the increased gearing ratio as of 31 December 2005. The Group was debt free as of 31 December 2006 after the bank borrowings were fully repaid in 2006 since operating cash inflow and loans from a related party was sufficient to finance the Group's working capital needs.

SELECTED FINANCIAL INFORMATION

Inventories

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	18,013	27,160	46,924
Work in progress	14,590	19,052	29,624
Finished goods	13,798	20,995	31,794
	46,401	67,207	108,342

Approximately 38.8%, 40.4% and 43.3% of the inventory balance as of 31 December 2004, 2005 and 2006, respectively, was comprised of raw materials. CMOS sensors, a major component used in the manufacturing of optoelectronic products, represented the biggest contributor to cost of raw materials compared to other raw materials utilised by the Group during the Track Record Period. In anticipation of the increase in sales for optoelectronic products, the Group planned to expand production in response to such rising demand. Consequently, near the end of 2006, the Group increased its CMOS sensors inventory level to fulfil its expected production needs. As a result, the raw materials inventory level on hand as of 31 December 2006 increased.

The balance of inventory outstanding within 180 days accounts for approximately 87.3%, 91.8% and 89.5% of the total balance of inventory before provision for the years 2004, 2005 and 2006, respectively. This is consistent with industry practice where trade purchases are typically made within a 90 day credit period. While raw materials, such as CMOS sensors, are held for more than 1 year, they are considered obsolete and the Group will resell such raw materials to other third parties. Therefore, the inventory level outstanding over 1 year only accounted for a small portion of the inventory as at each year end during the Track Record Period.

In respect of the Group's subsequent usage of its inventory, since the Group made significant bulk purchases in December 2006 in anticipation for its increased production plan in the near future, the subsequent usage status of the Group's raw materials is lower when compared to the previous year, which amounted to approximately 81.6% of the Group's raw materials up to 30 April 2007.

Trade and other receivables

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
Within 90 days	60,757	113,101	133,788
91 to 180 days	11,050	11,902	6,372
Over 180 days	1,395	2,297	2,607
	73,202	127,300	142,767
Note receivables			
Within 90 days	3,998	25,205	33,540
91 to 180 days	1,924	9,660	6,100
	5,922	34,865	39,640
Discounted note receivables with recourse aged within 90 days	—	74,095	—
Advances to suppliers	1,572	2,064	7,584
Prepayments	1,336	2,055	9,568
Others	2,829	2,793	2,568
	5,737	81,007	19,720
	84,861	243,172	202,127

The Group's sales are usually generated from credit sales in the form of trade receivables. Other receivables mainly include discounted note receivables, advances to suppliers, prepayments and other miscellaneous receivables for each of the year end of the Track Record Period. Discounted note receivables were notes discounted to a bank in 2005 to fulfill working capital requirements during that year. Advances to suppliers are made mainly for the Group's purchases for CMOS sensors. Prepayments are also made to third parties for the deposits of general utilities.

The new start-up of the optoelectronic products business line in 2005 had a significant impact on the Group's trade and other receivables balances as of year end. Since the start-up was towards the last quarter of 2005, and credit terms were usually within 90 days, the trade receivables (in particular, trade receivables within 90 days) increased significantly with the increase in sales. The increase in trade receivables was consistent with the increase in revenue from optoelectronic products during the Track Record Period. The effect of shorter credit terms is evident by the Group having approximately 93.7% of its trade receivables within 90 days for 2006 as compared to the previous two years.

It is also a common industry practice to settle outstanding balance by way of note receivables. Since the Group adopted a credit policy of granting a credit period of within 90 days, similar to the Group's trade receivables fluctuations, the Group's notes receivable within 90 days increased significantly during the Track Record Period.

As a result of the implementation of more stringent measures for the collection of trade receivables during the first quarter of 2007, the percentage of the Group's subsequent settlement of the trade receivables outstanding as of 31 December 2006 reached 95.9%.

Trade and other payables

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
Within 90 days	32,496	47,749	102,233
91 to 180 days	14,562	8,427	4,338
Over 180 days	1,086	5,878	252
Total trade payables	48,144	62,054	106,823
Payable for purchase of property, plant and equipment	2,240	2,547	16,448
Accrued staff costs	5,160	16,090	18,831
Advance from customers	1,762	3,643	8,450
Value added tax payables and other tax payables	4,055	1,822	482
Others	5,411	4,681	9,819
	18,628	28,783	54,030
	66,772	90,837	160,853

The trade payables are usually arised from the procurement for raw materials. Other payables mainly includes payables for the purchase of property, plant and equipment, accrued staff costs, advances from customers, value added tax payables and other tax payables and other miscellaneous payables during the Track Record Period. Accrued staff costs are amounts payable to the Group's staff in relation to the outstanding employees' benefits. Advances from customers are provided to the customers in relation to their purchases of the Group's products.

With the higher level of expected production, more trade purchases were made with the Group's suppliers for raw materials to fulfill the rising demand. Trade payables increased by approximately 122.0% from approximately RMB48.1 million in 2004 to approximately RMB106.8 million in 2006. This is also consistent with the rising inventory level during the Track Record Period. In addition, since it is a normal industry practice for suppliers to grant optical raw materials purchases a typical trade purchases credit term of 90 days, trade payables within 90 days increased significantly by approximately 214.5% from approximately RMB32.5 million in 2004 to approximately RMB102.2 million in 2006.

Trade payables within 90 days increased significantly in 2006. As of 30 April 2007, 92.0% of the Group's outstanding balance of trade payables within 90 days were subsequently settled.

Income tax charge

Income tax charge represents the sum of tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Reserves

The statutory reserves and discretionary surplus reserve are non-distributable and the transfer to these reserves is determined by the board of directors in accordance with the articles of association of the subsidiaries. Statutory reserves are composed of statutory surplus reserve and statutory welfare reserve. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the Group's PRC subsidiaries. Statutory welfare reserve and discretionary surplus reserve can be used to expand the existing operations of the Group's PRC subsidiaries.

Other reserves represent enterprise expansion funds and reserve funds. These reserves are non-distributable and the transfer to these reserves is determined by the board of directors in accordance with the articles of association of the subsidiaries. Other reserves can be used to make up for previous year's losses or convert into additional capital of the Group's PRC subsidiaries.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

During the Track Record Period, the Group contributed approximately RMB4.4 million, RMB5.2 million and RMB7.3 million, respectively.

Total current assets

As of 31 December 2006, the Group had total current assets of approximately RMB472.7 million to mainly comprise inventories of approximately RMB108.3 million, trade receivables of approximately RMB142.8 million, note receivables of approximately RMB39.6 million, other receivables of approximately RMB19.7 million, and bank balances and cash of approximately RMB160.3 million.

Total current liabilities

As of 31 December 2006, the Group had total current liabilities of approximately RMB430.5 million to mainly comprise trade payables of approximately RMB106.8 million, other payables of approximately RMB54.0 million and dividends payable of approximately RMB236.0 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows

During the Track Record Period, the Group mainly funded its operations through internal funding, bank borrowings and loans from a related party. The following table is a summary of the Group's combined cash flow statements during the Track Record Period:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Operating activities	73,376	(18,853)	258,181
Investing activities	(112,382)	(51,712)	(129,033)
Financing activities	8,599	164,311	(101,800)
Cash and cash equivalents at the beginning of the year	69,588	39,181	132,927
Cash and cash equivalents at the end of the year	39,181	132,927	160,275

Operating activities

The Group's major operating cash flows are sales receipts of its products.

The Group recorded a net cash inflow of approximately RMB73.4 million in 2004 and RMB258.2 million in 2006, but recorded a net cash outflow of RMB18.9 million in 2005. In general, the operating cash inflow increased due to the increase in sales receipts and trade and other payables along with the growth of business during the Track Record Period. During the Track Record Period, the operating cash flow before movements in working capital amounted to approximately RMB111.5 million, RMB160.6 million and RMB203.6 million, respectively, and the increase in trade and other payables was approximately RMB16.8 million, RMB23.8 million and RMB56.3 million, respectively.

The operating cash outflow of approximately RMB18.9 million in 2005 was mainly due to a significant increase in trade and other receivables of approximately RMB158.5 million in 2005 (representing approximately 26.9% of the total revenue), resulting from the growth of revenue from optoelectronic products from late 2005 to lift the trade receivables of the Group during the end of 2005. Such situation improved after the Group implemented a more proactive collection strategy, and the trade and other receivables decreased to approximately RMB202.1 million as of 31 December 2006.

Investing activities

The Group's investing activities mainly include the purchase of property, plant and equipment.

During the Track Record Period, the Group used approximately RMB112.4 million, RMB51.7 million and RMB129.0 million, respectively, in investing activities, mainly in relation to the purchase of plant and equipment for the expansion of the production capacity of both optical components and optoelectronic products. During the Track Record Period, purchases of property, plant and equipment amounted to RMB81.7 million, RMB64.1 million and RMB111.4 million, respectively. Such amounts were mainly used for setting up production facilities in Zhongshan in 2004 and the expansion of production capacity for optical components in Zhejiang and Zhongshan in 2006.

The Group plans to further expand its production capacity with the proceeds from the Proposed Listing.

Financing activities

The Group's financing activities mainly include receipts and repayments of loans from bank and related parties.

The Group recorded a net cash inflow from financing activities of approximately RMB8.6 million in 2004 and RMB164.3 million in 2005. The inflow was mainly due to the drawdown of new bank loans of approximately RMB22.0 million in 2004 and RMB195.8 million in 2005. In addition, there were additional loans from a related party of approximately RMB93.1 million in 2005.

In 2006, the Group recorded a net cash outflow of approximately RMB101.8 million from financing activities, which was mainly in relation to the repayment of bank loans of approximately RMB160.1 million due to the Group's improved financial situation.

Capital expenditures

The Group's ability to maintain and grow its revenues, profit and cash flows depends upon continued capital spending. The Group's historical capital expenditures included expenditures primarily for purchases of property, plant and equipment related to its manufacturing operations. The Group has funded its capital expenditure requirements during the Track Record Period by way of cash generated from operations, banking facilities, bank loans and loans from related parties.

The Group's capital expenditure requirements for its optical components and optoelectronic products business lines have traditionally been higher than those for its optical instruments business line, primarily due to the higher requirements for equipment and labour resources. In order to meet the Group's expected growth in demand for optical components and optoelectronic products, sufficient capital expenditure investment will be fundamental to the Group's expansion plans. The Group expects to meet future capital expenditure requirements and other capital expenditure requirements through its current cash and cash equivalents, cash generated from its operations, available banking facilities and the expected proceeds from the Global Offering. In particular, the Group intends to spend approximately RMB275.0 million (approximately HK$275.0 million) out of the proceeds from the Global Offering for the expansion of production capability and capacity. See also "Future Plans and Use of Proceeds — Use of Proceeds" contained in this Prospectus.

The amount of capital expenditures and capital commitments of the Group during the Track Record Period and the estimated capital expenditure budget of the Group for the three years ending 31 December 2009 were as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Capital expenditure	81,671	70,725	111,354
Capital commitment	24,994	1,297	1,068

	Year ending 31 December		
	2007	**2008**	**2009**
	RMB'000	*RMB'000*	*RMB'000*
Estimated capital expenditure budget	264,606	187,457	85,237

The estimated capital expenditure budget will be financed by proceeds of Global Offering and internal financial resources.

WORKING CAPITAL

The Group expects to fund its working capital requirements primarily through cash flow from its operations and bank borrowings.

The Group experienced a decrease in operating cash flows in 2005, primarily due to the start-up of its optoelectronic products business line in October 2005. Since start-up of this business line occurred in the last quarter of 2005, and sales of optoelectronic products were typically made upon credit terms within 90 days, the Group's trade receivables from optoelectronic products increased significantly with the increase in sales. During 2005, the Group's sales and receivables cycles were not yet well-established as the Group was still in the early start-up stage of the business cycle for optoelectronic products. As a result, the Group's operating cash inflow was subject to longer payment cycles, and the Group's cash available for production activities were therefore affected. In order to manage this cash flow shortage, the Group engaged in bills discounting with a bank and also arranged bank borrowings and loans from a related party in 2005.

By 2006, the Group was able to improve management of its sales and receivables cycle for optoelectronic products as this business line became more established and predictable. As a result, the Group's ability to improve its cash resource planning and allocation was improved.

As production increased in 2006, with a significant increase in sales of optoelectronic products, more cash from its trade receivables was received to cover production expenses. Consequently, the Group's working capital level increased significantly.

The Group has also implemented several measures to improve management of its working capital. For example, an annual budget on the Group's working capital requirements is performed at the beginning of each year. The Group will project the expected sales volume for the year to determine the level of production the Group will need to achieve before meeting such a target. The Group will also consider factors such as its production capacity, available manpower and market trends to determine its working capital requirements for the year. These factors are monitored on a monthly basis to ascertain whether actual results are in line with the budget. Where variances occur, the Group's management will analyse such variances and modify its plans or implement new measures accordingly.

As a result of the Group's improved cash flow management, the Group's cash flow significantly improved by 2006, as evidenced by the net cash inflow from operating activities as of year end. In addition, the Group was able to record its highest ever level of year-end cash and cash equivalents in 2006.

Given the Group's cash flow and cash position as of the date of this prospectus, and the availability of banking facilities, expected cash generated from its operations and the expected proceeds from the Global Offering, the Directors are of the opinion that the Group will be able to finance its working capital requirements for the next twelve months from the date of this prospectus.

Net current assets

As of 30 April 2007, the Group had net current assets of approximately RMB89.0 million, comprising current assets of approximately RMB388.1 million and current liabilities of approximately RMB299.1 million. The following sets out the composition of the Group's unaudited current assets and liabilities as of 30 April 2007:

	RMB' 000 (unaudited)
Current assets	
Inventories	109,045
Trade and other receivables	224,729
Prepaid lease payments	181
Amounts due from related parties	214
Pledged bank deposits	374
Bank balances and cash	53,575
	388,118
Current liabilities	
Trade and other payables	166,947
Amounts due to related parties	2,131
Bank borrowings — due within one year	130,000
	299,078
Net current assets	89,040

The Directors confirm that there has been no material adverse change in the net current assets position of the Group since 30 April 2007.

INDEBTEDNESS

Borrowings and banking facilities

The following is a summary of the Group's bank borrowings during the Track Record Period:

	As of 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans			
Unsecured *(Note i)*	—	74,095	—
Secured *(Note ii)*	16,000	30,000	—
Pledged *(Note iii)*	6,000	—	—
	22,000	104,095	—
Bank and other borrowings are repayable as follows:			
Within one year or on demand	22,000	104,095	—

Notes:

(i) The amount represented bills discounted to banks with recourse at an average interest rate of 2.69% per annum which were not due at 31 December 2005.

(ii) As of 31 December 2004 and 2005, the bank loans were guaranteed by Sunny Group up to an amount of RMB 36,500,000. The bank loans were interest bearing at 5.22% per annum at 31 December 2004 and 3.78% per annum at 31 December 2005.

(iii) The bank loans were secured by property, plant and equipment and land use rights of the Group, details of which are set out in notes 14 and 15 of the accountants' report contained in Appendix I to this prospectus, respectively. The bank loans were interest bearing at 5.22% per annum at 31 December 2004.

During the Track Record Period, the Group made advances to related parties which were not financial institutions in the PRC and were therefore technically made in breach of 貸款通則 (Lending Regulations) promulgated by the People's Bank of China on 28 June 1996. Given that the borrowers have fully repaid the loans to the Group and there have been no disputes in respect of the loans, the Group has been advised by its legal advisers as to PRC law that the Lending Regulations has ceased to have any effect on such loans.

Borrowings

As of 30 April 2007, being the latest practicable date for the purpose of the indebtedness statement, the total bank borrowings amounted to RMB130.0 million, which was primarily used as general working capital, in which RMB20.0 million was secured by the property, plant and equipment of the Group.

Bank facilities

As of 30 April 2007, the Group had unutilised banking facilities of RMB270.0 million and RMB60.0 million with Yuyao Branch of Agriculture Bank of China and Ningbo Branch of Pudong Development Bank, respectively.

Contingent liabilities

As of 30 April 2007, the Group did not have any material contingent liabilities, guarantees or hire purchase commitments.

Disclaimers

Save as disclosed above, and apart from intra-group liabilities, the Group did not have, at the close of business at 30 April 2007, any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans, or other similar indebtedness or hire purchase commitments.

The Directors confirm that there has been no material change in indebtedness, commitments and contingent liabilities of the Group since 30 April 2007.

Contractual obligations

The following table sets forth the Group's contractual obligations as of 31 December 2006, that may affect its liquidity over the next five years.

	Payments due by Period		
	Total	**Within 1 year**	**2-5 years**
	RMB'000	*RMB'000*	*RMB'000*
Operating lease commitments	2,032	891	1,141

The capital commitments of the Group in relation to the acquisition and construction of property, plant and equipment as of 31 December 2006, was approximately RMB1.1 million.

Save as disclosed above, the Group did not have, at the close of business at 31 December 2006, any other material contractual obligations.

OFF-BALANCE SHEET TRANSACTIONS

As of Latest Practicable Date, the Group had not entered into any material off-balance sheet transactions.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group is, in the normal course of business, exposed to market risks relating primarily to fluctuations in interest rates and exchange rates, as well as raw materials price risks. The Group's risk management strategy aims to minimise the adverse effects of these risks on its financial performance.

Interest rate risk

The Group is exposed to interest rate risk on its bank borrowings for working capital and capital expenditures associated with the Group's expansion and for other uses. Upward fluctuations in interest rates increase the cost of both existing and new debt. During the Track Record Period the effective interest rates on bank loans were approximately 5.2%, 5.2% and 4.7% per annum, respectively. As of the Latest Practicable Date, the Group has not entered into any type of interest rate agreements or derivative transactions to hedge against interest rate changes.

Foreign exchange rate fluctuation risk

The Group exports a significant portion of its products to international markets where sales are denominated in U.S. dollars or other foreign currencies. In addition, most of the Group's purchases are also denominated in U.S. dollars or other foreign currencies. During the Track Record Period, approximately 64.8%, 48.3% and 63.6%, respectively, of the Group's turnover was denominated in U.S. dollars or other foreign currencies, while the Group's purchases denominated in U.S. dollars or other foreign currencies accounted for 33.4%, 49.8% and 62.9%, respectively, of total purchases during the same period. As of 31 December 2006, the Group's foreign-currency denominated deposits and trade and other receivables amounted to approximately RMB12.9 million and RMB78.7 million, respectively, while its trade and other payables amounted to approximately RMB26.6 million. Therefore, any significant fluctuation in the exchange rate of the Renminbi against other currencies will subject the Group to exchange rate risk which may be beneficial to, or adversely affect, the Group's financial condition and results of operations. For further information regarding the foreign exchange rate fluctuation risk faced by the Group, please see the section headed "Risk Factors" in this prospectus.

As of the Latest Practicable Date, the Group does not have a formal hedging policy and has not entered into any arrangements to hedge against its currency risk.

Price risk

The Group is exposed to fluctuations in the prices of raw materials, components and parts, which represented approximately 55.0%, 68.1% and 71.7%, respectively, of the Group's cost of sales during the Track Record Period. The Group made such purchases at market prices, which may fluctuate and are beyond the Group's control. Therefore, fluctuations in the prices of the Group's raw materials, components and parts may have a significant effect on its results of operations. In particular, in recent years, prices for CMOS image sensors have experienced fluctuations. In order to minimise the impact of these price fluctuations, the Group had advances to suppliers to secure the pricing for these raw materials and components. As a result, the Group's advances to suppliers was RMB1.6 million, RMB2.1 million and RMB7.6 million, respectively, during the Track Record Period. The timing and the magnitude of the advances made were determined by the Group with reference to the market conditions for these raw materials and components and management's experience. As of the Latest Practicable Date, the Group has not entered into any future contracts to hedge against any raw materials price changes.

Inflation

China has not experienced significant inflation or deflation in recent years. According to the National Bureau of Statistics of China, China's overall national inflation rate, as represented by the general consumer price index, was approximately 3.9% in 2004, 1.8% in 2005 and 1.5% in 2006. Recent inflation and deflation have not materially affected the Group's business.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Group's Directors have confirmed that they are not aware of any circumstances that would give rise to a disclosure requirement under Rules 13.11 to 13.19 of the Listing Rules.

PROPERTY INTERESTS

Property valuation

DTZ Debenham Tie Leung Limited, a firm of independent valuers, has valued the Group's property interests as of 31 March 2007 and is of the opinion that the Group's property interests were valued at an aggregate amount of approximately RMB116.7 million as of 31 March 2007. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix III to this prospectus.

The table below shows the reconciliation of aggregate amounts of land and buildings from the Group's audited consolidated balance sheet as of 31 December 2006 to the unaudited net book value of the Group's property interests as of 31 March 2007.

	RMB' 000
Net book value as of 31 December 2006	
– Buildings	72,356
– Prepaid lease payments	11,119
	83,475
Less: Depreciation for the 3 months ended 31 March 2007	1,271
Net book value as of 31 March 2007	82,204
Valuation surplus as of 31 March 2007	34,496
Valuation as of 31 March 2007 per Appendix III to this prospectus	116,700

DIVIDENDS AND DIVIDEND POLICY

Dividends

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to its Shareholders, but no dividend shall be declared in excess of the amount recommended by the Board. The Articles of Association provide that dividends may be declared and paid out of the Company's profit, realised or unrealised, or from any reserve set aside from profits which the Board determines is no longer needed.

With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any Share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the Shares in respect whereof the dividend is paid but no amount paid up on a Share in advance of calls shall for this purpose be treated as paid up on the Share; and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the Shares during any portion or portions of the period in respect of which the dividend is paid. The Board may deduct from any dividend or other monies payable to a Shareholder on or in respect of any Shares all sums of money (if any) presently payable by such Shareholder to the Company on account of calls or otherwise.

For each of the years during the Track Record Period, the subsidiaries of the Group have declared dividends, excluding minority shareholders, to equity holders of the Company of approximately RMB70.8 million, RMB13.3 million and RMB103.2 million, respectively, to their then shareholders.

Dividends declared and paid in the past should not be regarded as an indication of the dividend policy to be adopted by the Company following Listing.

Dividend Policy

The Directors currently intend to recommend a distribution to all the Shareholders in an amount representing approximately 20% to 30% of the distributable net profit attributable to the equity holders of the Company in respect of the six-month period commencing from 1 July 2007 and in respect of each financial year thereafter by way of dividends. For the avoidance of doubt, the Directors do not have any present intention to recommend any interim dividend to the Shareholders for the six-month period ending 30 June 2007.

The recommendation for dividends is subject to the discretion of the Board, and the amounts of dividends actually declared and paid will also depend upon the following factors:

- the Company's cash position and available distributable reserves;
- the Group's general business condition;
- the Group's financial results;
- the Group's capital requirements;
- interests of the Shareholders;
- applicable laws and regulations and Articles; and
- any other factors which the Board may deem relevant.

Any dividend declared will be in Hong Kong dollars with respect to Shares on a per share basis and the Company will pay such dividend in Hong Kong dollars. Any final dividend for a fiscal year will be subject to approval by the Shareholders.

The Directors consider that the Company's dividend policy mentioned above will not adversely affect the working capital position of the Company.

Subsequent settlement

The dividend payable of RMB236.0 million as of 31 December 2006 was settled in April 2007 with internal cash resources.

DISTRIBUTABLE RESERVES

The Company was incorporated on 21 September 2006 and has not carried out any business since the date of its incorporation save for the transactions related to the Reorganisation. Accordingly, there was no reserve available for distribution to the shareholders as of 31 December 2006.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group prepared in according to Rule 4.29 of the Listing Rules is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the equity holders of the Company as of 31 December 2006 as if they had taken place on 31 December 2006 and based on the audited consolidated net tangible assets attributable to the equity holders of the Company as of 31 December 2006 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets attributable to the equity holders of the Company as of 31 December 2006	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma net tangible assets attributable to the equity holders of the Company as of 31 December 2006**	**Unaudited pro forma net tangible assets attributable to the equity holders of the Company as of 31 December 2006 per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$3.00 per Share	354,877	553,000	907,877	0.908	0.908
Based on an Offer Price of HK$3.82 per Share	354,877	711,000	1,065,877	1.066	1.066

Notes:

1. The audited consolidated net tangible assets attributable to the equity holders of the Group as of 31 December 2006 has been extracted without adjustment from the accountants' report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.00 per Share, and HK$3.82 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company and assuming the translation of Hong Kong dollars to Renminbi as stated in note 4.

3. The unaudited pro forma net tangible assets attributable to the equity holders of the Company as of 31 December 2006 per Share is based on 1,000,000,000 Shares expected to be in issue immediately following completion of the Global Offering. No account has been taken for the Shares which may be issued or repurchased pursuant to any exercise of general mandate to issue or repurchase shares.

4. The amount in Renminbi is converted to Hong Kong dollars with the exchange rate at HK$1.00 to RMB1.00.

5. By comparing the valuation of the Group's property interests of RMB116.7 million as set out in Appendix III to this prospectus and the unaudited net book value of these properties of RMB82.2 million as of 31 March 2007, the net valuation surplus is approximately RMB34.5 million, which has not been included in the above net tangible assets attributable to the equity holders of the Company as of 31 December 2006. The revaluation of the Group's property interests will not be incorporated in the Group's financial statements. If the revaluation surplus is to be included in the Group's financial statements, an additional depreciation charge of approximately RMB664,000 would be recorded.

NO MATERIAL ADVERSE CHANGE

There was no interruption in the Group's business that may have or has had a significant effect on the Group's financial condition in the last 12 months. There have been no material adverse changes in the Group's financial position since 31 December 2006 (being the date as of which the Group's latest audited combined financial statements were prepared as set out in the accountants' report in Appendix I to this prospectus).

Cornerstone Investor

Well Phase, the Cornerstone Investor, is an Independent Third Party and will not become Substantial Shareholder as a result of the Cornerstone Placing. Its shareholding will be regarded as part of the public float.

The Cornerstone Placing

As part of the Placing, the Company, the Selling Shareholders and the Global Coordinator have entered into the placing agreement with the Cornerstone Investor on 23 May 2007 (as supplemented by the supplemental agreement dated 29 May 2007 entered into between the Company, the Selling Shareholders, the Global Coordinator, the Cornerstone Investor and Mr Lau Luen-hung, Thomas) to place such number of Shares that may be purchased by the Cornerstone Investor with an aggregate of US$10.0 million (exclusive of brokerage of 1%, SFC transaction levy of 0.004%, and Stock Exchange trading fee of 0.005%), rounded down to the nearest board lot not exceeding 1,000 Shares. Assuming the Offer Price is determined at HK$3.82 per Offer Share, being the highest point of the indicative range of the Offer Price, and the exchange rate adopted is US$1.00 to HK$7.80, the total number of Shares to be purchased by it would be 20,418,000 Shares, representing approximately 2.0% of the issued and outstanding share capital of the Company after the Global Offering or approximately 7.6% of the Offer Shares (assuming the Over-allotment Option is not exercised). Assuming the Offer Price is determined at HK$3.00 per Offer Share, being the lowest point of the indicative range of the Offer Price, and the exchange rate adopted is US$1.00 to HK$7.80, the total number of Shares to be purchased by it would be 26,000,000 Shares, representing approximately 2.6% of the issued and outstanding share capital of the Company after the Global Offering or approximately 9.6% of the Offer Shares (assuming the Over-allotment Option is not exercised).

The offer of Shares to the Cornerstone Investor will not be affected by any reallocation of Offer Shares between the Placing and the Public Offer in the event of over-subscription under the Public Offer. The number of Shares allocated to the Cornerstone Investor pursuant to the Cornerstone Placing Agreement will be disclosed in the allocation result announcement which is expected to be published on or about 14 June 2007.

Conditions

The purchase obligation of the Cornerstone Investor is conditional upon (a) the Underwriting Agreements being entered into and having become unconditional in accordance with their respect terms, (b) the Underwriting Agreements not having been terminated by the date and time for that purpose as specified in such agreements, (c) the Global Coordinator, the Selling Shareholders and the Company having entered into the Price Determination Agreement, and (d) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in the Shares. If such conditions have not been fulfilled on or before 4 July 2007 (or such other date as may be agreed among the Company, the Cornerstone Investor and the Global Coordinator), the obligation of the Cornerstone Investor to purchase the Cornerstone Shares shall cease.

Restrictions on disposals by the Cornerstone Investor

The Cornerstone Investor has agreed that without the prior written consent of the Company and the Global Coordinator, it shall not, whether directly or indirectly, at anytime during the period of six months following the Listing Date dispose of any of the Cornerstone Relevant Shares or any interest in any company or entity holding any of the Cornerstone Relevant Shares.

The above restrictions shall not apply to the transfer of all or part of the Cornerstone Relevant Shares to any Cornerstone Subsidiary. Cornerstone Subsidiary will be subject to the restrictions on disposal imposed on the Cornerstone Investor pursuant to the Cornerstone Placing Agreement. If such Cornerstone Subsidiary ceases to be a Cornerstone Subsidiary, it shall transfer the Cornerstone Relevant Shares to the Cornerstone Investor or another Cornerstone Subsidiary which undertakes to abide by the restrictions on disposals imposed on the Cornerstone Investor pursuant to the Cornerstone Placing Agreement.

Mr Lau Luen-hung, Thomas, being the sole legal and beneficial owner of Well Phase, has undertaken that during the six months following the date of Listing, he will remain, directly or indirectly, a 100% beneficial owner of the Cornerstone Investor.

The Cornerstone Relevant Shares rank pari passu in all respects with the Shares. There is no special right attaching to the Cornerstone Relevant Shares before and after Listing.

FUTURE PLANS AND PROSPECTS

The Group has been successfully growing its business in the past. The Group aims to continue this momentum and strive to stay at a prominent position in the optical industry with its dedication of looking for new business/investment opportunities in the PRC or other overseas locations strategically advantageous to the Group by setting up joint venture or other forms of investment, which synergise the existing business of the Group. The Group will also focus on continuous upgrading of its production technology to produce quality products and expand its product portfolio.

Please refer to the section headed "Business — Business strategies" in this prospectus for a detailed description of the future plans of the Group.

USE OF PROCEEDS

The aggregate net proceeds to the Company from the Global Offering (after deduction of underwriting fees for the New Shares and the estimated expenses payable by the Company in connection with the Global Offering, and assuming an Offer Price of HK$3.41 per Share, being the mid-point of the indicative range of the Offer Price of HK$3.00 to HK$3.82 per Share) will be approximately HK$632.0 million (approximately RMB632.0 million). The Company plans to use the net proceeds to the Company from the Global Offering in the following manner:

- as part of its overall business strategy, the Group intends to invest approximately RMB275.0 million (approximately HK$275.0 million) for the expansion of production capability and capacity as follows:

  (i) approximately RMB144.0 million (approximately HK$144.0 million) for enhancing the production capacity of the existing production lines for manufacturing lenses, prisms, lens sets, camera modules and optical instruments. The annual production capacity of (a) various types of lenses is expected to be increased by approximately 117% by the end of 2008 (as compared to that of 31 December 2006); (b) lens sets is expected to be increased by approximately 348% by the end of 2008 (as compared to that of 31 December 2006); (c) camera modules is expected to be increased by approximately 83% by the end of 2007 (as compared to that of 31 December 2006) and another 108% by the end of 2008 (as compared to that of 31 December 2007); and (d) optical instruments is expected to be increased by approximately 58% at the end of 2008 (as compared to that of 31 December 2006);

  (ii) approximately RMB50.0 million (approximately HK$50.0 million) for setting up new production lines for manufacturing aspheric moulding glass lenses, with machinery such as spherical polishing machines, precision scale testing machines, three dimension figure checking machines, aspheric polishing equipment, precision moulds, precision coating machines and releasing film moulding machines. The estimated production capacity of the new production lines is expected to reach 500,000 pieces per month after their completion;

(iii) approximately RMB38.0 million (approximately HK$38.0 million) for setting up a new production line for manufacturing camera modules with COB technology, clean room and production facilities. The estimated production capacity of this new production line is expected to reach 2,000,000 units per month after its completion;

(iv) approximately RMB25.0 million (approximately HK$25.0 million) for setting up a new analytical instrument base, which will focus on the development and production of analytical instruments (being a kind of optical instruments) of the Group; and

(v) approximately RMB18.0 million (approximately HK$18.0 million) for refurbishing laboratories, manufacturing floors and for purchasing miscellaneous machinery and office equipment;

- approximately RMB123.0 million (approximately HK$123.0 million) for the enhancement of research and development activities and facilities as follows:

(i) approximately RMB75.0 million (approximately HK$75.0 million) for research and development of technologies for optical components, including mould manufacturing, and coating, moulding and testing of glass aspheric lens techniques;

(ii) approximately RMB25.0 million (approximately HK$25.0 million) for research and development of optical instruments, including digital microscopes, spectrophotometers, environmental analytical instruments and analytical instruments for life science;

(iii) approximately RMB7.0 million (approximately HK$7.0 million) for developing the application of COB technology;

(iv) approximately RMB5.0 million (approximately HK$5.0 million) for research and development of new products, including vehicle remote supervision systems; and

(v) the remaining amount for other research and development projects;

- approximately RMB28.0 million (approximately HK$28.0 million) for the acquisition of land and the buildings erected thereon, which are currently leased by Sunny Group for the manufacture and development and research of optical instruments;

- approximately RMB25.0 million (approximately HK$25.0 million) for the enhancement of information systems;

- approximately RMB130.0 million (approximately HK$130.0 million) for the repayment of short term bank loans for working capital *(Note)*, which includes (i) two bank loans from Agricultural Bank of China, Yuyao Branch in an aggregate amount of RMB110.0 million (approximately HK$110.0 million) at the interest rate of 5.1% per annum and which shall be matured in October 2007; and (ii) another bank loan from Shanghai

Pudong Development Bank, Ningbo Branch in an amount of RMB20.0 million (approximately HK$20.0 million) at the interest rate of 0.42525% per month and which shall be matured in October 2007; and

- the remaining amount to provide funding for working capital and other general corporate purposes.

Note: As of 31 December 2006, the dividends payable of the Group amounted to approximately RMB236.0 million (approximately HK$236.0 million) while the Group had nil bank borrowings and its cash and cash equivalents amounted to approximately RMB160.0 million (approximately HK$160.0 million). As the Group utilised the internal cash resources, including (i) cash and cash equivalents as of 31 December 2006, (ii) cash receipts from trade and other receivables of approximately RMB202.0 million (approximately HK$202.0 million) as of 31 December 2006; and (iii) cash generated from operations in the first quarter of 2007 for settlement of the dividends payable, the Group replenished its short term working capital by new bank borrowings in April 2007.

If the Offer Price is determined at the highest point of the stated range, the proceeds to the Company would be increased by approximately RMB82.0 million (approximately HK$82.0 million). In such event, the Company has the present intention to apply the additional funding of (i) RMB50.0 million (approximately HK$50.0 million) for the enhancement of research and development activities and facilities and (ii) the remaining amount to provide funding for working capital and other general corporate purpose. If the Offer Price is determined at the lowest point of the stated range, the proceeds to the Company would be decreased by approximately RMB82.0 million (approximately HK$82.0 million). In such event, the Company will finance such shortfall by internal cash resources and/or additional bank borrowings, as and when appropriate.

To the extent that any part of the net proceeds to the Company from the Global Offering are not immediately used for the above purposes, the Directors may allocate such proceeds to short-term interest-bearing deposits and/or money-market instruments with authorised financial institutions and/or licensed banks in Hong Kong and/or China.

PLACING UNDERWRITERS

BNP Paribas Capital (Asia Pacific) Limited

BOCI Asia Limited

Guotai Junan Securities (Hong Kong) Limited

Core Pacific-Yamaichi International (H.K.) Limited

CAF Securities Company Limited

PUBLIC OFFER UNDERWRITERS

BNP Paribas Capital (Asia Pacific) Limited

BOCI Asia Limited

Guotai Junan Securities (Hong Kong) Limited

Core Pacific-Yamaichi International (H.K.) Limited

CAF Securities Company Limited

China Merchants Securities (HK) Co., Ltd

UNDERWRITING ARRANGEMENTS AND EXPENSES

Public Offer

Public Offer Underwriting Agreement

Pursuant to the Public Offer Underwriting Agreement, the Company has agreed to offer the Public Offer Shares for subscription by the public in Hong Kong on and subject to the terms and conditions of this prospectus and the Application Forms. Subject to, among other conditions, the granting of the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus by the Listing Committee of the Stock Exchange and to certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have severally agreed to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares now being offered which are not taken up under the Public Offer on the terms and conditions of this prospectus, the Application Forms and the Public Offer Underwriting Agreement.

Grounds for termination

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares are subject to termination if certain events, including force majeure, shall occur at any time at or before 8:00 a.m. (Hong Kong time) on the Listing Date. The Global Coordinator (on behalf of the Public Offer Underwriters) has the right, in its sole and absolute discretion, to terminate the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement upon the occurrence of, but not limited to, any of the following events:

(a) there has come to the notice of the Global Coordinator:

(i) that any statement, considered by the Global Coordinator in its sole and absolute opinion to be material, contained in this prospectus and the Application Forms or other documents in respect of the Placing (collectively, the "Offer Documents") was, when it was issued, or has become, untrue, incorrect or misleading in any respect or that any forecasts, expressions of opinion, intention or expectation expressed in any Offer Document are not, in the sole and absolute opinion of the Global Coordinator, in all material respects fair and honest and based on reasonable assumptions, when taken as a whole; or

(ii) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute an omission therefrom considered by the Global Coordinator to be material to the Global Offering; or

(iii) any breach of any of the obligations imposed upon any party (other than the Global Coordinator or any Underwriters) to the Public Offer Underwriting Agreement or to the Placing Underwriting Agreement; or

(iv) any change or development involving a prospective change in the conditions, business affairs, prospects, profits, losses or the financial or trading position or performance of any members of the Group which is considered by the Global Coordinator to be material in the context of the Global Offering; or

(v) any breach of any of the warranties contained in the Public Offer Underwriting Agreement, considered by the Global Coordinator in its sole and absolute opinion to be material in the context of the Global Offering; or

(vi) approval by the Listing Committee of the Stock Exchange of the listing of, and permission to deal in, the Shares is refused or not granted, other than subject to customary conditions, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld; or

(vii) the Company withdraws any of the Offer Documents (and any other documents used in connection with the contemplated subscription and sale of the Offer Shares) or the Global Offering; or

(viii) any person (other than the Global Coordinator and any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the Offer Documents or to the issue of any of the Offer Documents; or

(b) there shall develop, occur, exist or come into effect:

(i) any event, or series of events, beyond the reasonable control of the Underwriters (including, without limitation, acts of government or orders of any courts, strikes, calamity, crisis, lock-outs, fire, explosion, flooding, civil commotion, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God, acts of terrorism, declaration of a national or international emergency, riot, public disorder, economic sanctions, outbreaks of diseases or epidemics including Severe Acute Respiratory Syndrome, avian influenza A (H5N1) and such related or mutated forms or interruption or delay in transportation); or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, international, financial, economic, political, military, industrial, fiscal, regulatory, currency or market conditions or matters and/or disaster or monetary or trading settlement system (including without limitation any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the American Stock Exchange, the Nasdaq National Market, the Chicago Board of Options Exchange, the Chicago Mercantile Exchange or the Chicago Board of Trade, or a material fluctuation in the exchange rate of the Hong Kong dollar against any foreign currency, or any interruption in securities settlement or clearance service or procedures in Hong Kong or anywhere in the world); or

(iii) any new laws, rules, statutes, ordinances, regulations, guidelines, opinions, notices, circulars, orders, judgements, decrees or rulings of any governmental authority (the "Law") or change or development involving a prospective change in existing Laws or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority in any of Hong Kong, the PRC, the US, Japan, Korea, the Cayman Islands, the BVI or any other jurisdictions relevant to any member of the Group (the "Specific Jurisdictions"); or

(iv) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for the US or by the European Union (or any member thereof) on any of the Specific Jurisdictions; or

(v) a change or development occurs involving a prospective change in taxation or exchange control (or the implementation of any exchange control), currency exchange rates or foreign investments Laws in any of the Specific Jurisdictions or affecting an investment in the Shares; or

(vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(vii) any litigation or claim of material importance of any third party being threatened or instigated against any member of the Group; or

(viii) a Director being charged with an indictable offence or prohibited by operation of Law or otherwise disqualified from taking part in the management of a company; or

(ix) the chairman or chief executive officer of the Company vacating his office in circumstances where the operations of the Group will be materially and adversely affected; or

(x) the commencement by any regulatory body of any public action against a Director in his capacity as such or an announcement by any regulatory body that it intends to take any such action; or

(xi) a contravention by any member of the Group of the Companies Ordinance or any of the Listing Rules; or

(xii) a prohibition on the Company and the Selling Shareholders for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Global Offering; or

(xiii) non-compliance of this prospectus, the relevant offering circulars (or any other documents used in connection with the subscription and purchase of the Offer Shares) or any aspect of the Global Offering with the Listing Rules or any other applicable Law; or

(xiv) other than with the approval of the Global Coordinator, the issue or requirement to issue by the Company of a supplementary prospectus (or any other documents used in connection with the subscription or sale of the Offer Shares) pursuant to the Companies Ordinance or the Listing Rules; or

(xv) a valid demand by any creditor for repayment or payment of any indebtedness of any member of the Group or in respect of which any members of the Group is liable prior to its stated maturity; or

(xvi) any loss or damage sustained by any members of the Group (howsoever caused and whether or not the subject of any insurance or claim against any person); or

(xvii) a petition is presented for the winding-up or liquidation of any member of the Group or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up of any member of the Group or a provisional liquidator, receiver or manager is appointed to take over all or part of the assets or undertaking of any member of the Group or anything analogous thereto occurs in respect of any member of the Group; or

(xviii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary of Hong Kong and/or the Hong Kong Monetary Authority or otherwise), New York (imposed at the US federal or New York state level or otherwise), Japan or the PRC or a material disruption in commercial banking or securities settlement or clearance services in any of the Specific Jurisdictions; or

(xix) any event which may lead to the exercise by ABC of its power to sell, dispose of or realise all or part of the mortgaged Shares under any share mortgage granted by Sun Xu in favour of ABC, which in each case in the sole and absolute opinion of the Global Coordinator (for itself and on behalf of Public Offer Underwriters) (1) is or will or could be expected to have an adverse effect on the general affairs, management, business, financial, trading or other condition or prospects of the Company or the Group or any member of the Group or on any present or prospective shareholder in his, her or its capacity as such; or (2) has or will have or could be expected to have an adverse effect on the success, marketability or pricing of the Global Offering or the level of applications under the Public Offer or the level of interest under the Placing; or (3) makes it inadvisable, inexpedient or impracticable for the Global Offering to proceed or to market the Global Offering; or (4) would have the effect of making any part of the Public Offer Underwriting Agreement (including underwriting) incapable of performance in accordance with its terms or which prevents the processing of applications and/or payments pursuant to the Global Offering or pursuant to the underwriting thereof.

Undertakings

The Company has undertaken to the Global Coordinator and the Public Offer Underwriters in the Public Offer Underwriting Agreement that, and each of the Controlling Shareholders and the executive Directors has undertaken to procure that, except pursuant to the Global Offering and options which may be granted under a share option scheme or with the prior written consent of the Global Coordinator (for itself and on behalf of the Underwriters) and unless in compliance with the requirements of the Listing Rules, it will not, and will procure that its subsidiaries will not, allot or issue, or agree to allot or issue, Shares or other securities of the Company (including warrants or other convertible or exchangeable securities) or grant or agree to grant any options, warrants or other rights to subscribe for or convertible or exchangeable into Shares or other securities of the Company or repurchase Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or announce any intention to do so at any time during the First Lock-up Period and in the event of the Company doing any of the foregoing by virtue of the aforesaid exceptions or during the Second Lock-up Period, it will take all reasonable steps to ensure that any such act will not create a disorderly or false market for any Shares or other securities of the Company.

Each of the Controlling Shareholders has jointly and severally undertaken to each of the Global Coordinator, the Company and the Public Offer Underwriters that during the First Lock-up Period, it shall not, and shall procure that the relevant registered holder(s) and its Associates and companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Global Coordinator and unless in compliance with the requirements of the Listing Rules:

(i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, any Relevant Securities;

(ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such Shares, whether any of the foregoing transactions is to be settled by delivery or Shares or such other securities, in cash or otherwise; or

(iii) agree (conditionally or unconditionally) to enter into or effect any transaction with the same economic effect as any of the transactions referred to in paragraphs (i) or (ii) above; or

(iv) announce any intention to enter into or effect any of the transactions referred to in paragraphs (i), (ii) or (iii) above.

Each of the Controlling Shareholders has jointly and severally undertaken to the Global Coordinator, the Company and the Public Offer Underwriters that it shall not, and shall procure that the relevant registered holder(s) and its Associates or companies controlled by it and any nominee or trustee holding in trust for it shall not, without the prior written consent of the Stock Exchange in the Second Lock-up Period, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any Shares held by it or any of its Associates or companies controlled by it or any nominee or trustee holding in trust for it if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, it would cease to be Controlling Shareholder or would together cease to be Controlling Shareholders.

In the event of a disposal of any of the Shares or securities of the Company or any interest therein referred to in (i), (ii), (iii) or (iv) above within the First Lock-up Period and the Second Lock-up Period, the Controlling Shareholders shall take all reasonable steps to ensure that such a disposal will not create a disorderly or false market for any Shares or other securities of the Company.

Each of the Controlling Shareholders has further undertaken to each of the Company, the Global Coordinator and the Public Offer Underwriters that during the period commencing from the date of this prospectus and ending on the expiry of the first twelve months from the Listing Date, he or it will:

(i) when he/it pledges or charges any securities or interests in the Relevant Securities, immediately inform the Company and the Global Coordinator in writing of such pledges or charges together with the number of securities and nature of interests so pledged or charged; or

(ii) when he/it receives indications, either verbal or written, from any pledgee or chargee that any of the pledged or charged securities or interests in the securities of the Company will be sold, transferred or disposed of, immediately inform the Company and the Global Coordinator in writing of such indications.

Placing

In connection with the Placing, it is expected that the Company and the Selling Shareholders, among others, will enter into the Placing Underwriting Agreement with, inter alia, the Placing Underwriters, on terms and conditions that are substantially similar to the Public Offer Underwriting Agreement as described above and on the additional terms described below. Under the Placing Underwriting Agreement, the Placing Underwriters will severally agree to subscribe or purchase or procure subscribers or purchasers for the Placing Shares being offered pursuant to the Placing. The Selling Shareholders are expected to offer and sell the Sale Shares in the Placing only and not in the Public Offer.

The Over-allotment Option Grantors are expected to grant to the Global Coordinator the Over-allotment Option, exercisable by the Global Coordinator on behalf of the Placing Underwriters at any time from the Price Determination Date until 30 days after the last date for the lodging of applications under the Public Offer, to require one or more of the Over-allotment Option Grantors in the order of Summit, Sun Xu and Sun Zhong, to sell up to an aggregate of 40,500,000 additional Placing Shares representing 15% of the initial Offer Shares, at the same price per Share under the Placing to solely cover over-allocations in the Placing, if any, and/or the obligations of the Global Coordinator to return Shares which it may borrow under the Securities Lending Agreement.

Commission and expenses

The Underwriters will receive an underwriting commission of 2.5% on the aggregate Offer Price of all the Offer Shares, out of which any sub-underwriting commission will be paid.

The underwriting commissions, documentation fee, listing fees, Stock Exchange trading fee and transaction levy, legal and printing and other professional fees and other expenses relating to the Global Offering are estimated to amount to approximately HK$67.0 million in total, based on the issue price of HK$3.41 per Share and are payable by the Company and the Selling Shareholders in proportion to the number of Offer Shares issued or sold by each of them under the Global Offering. Stamp duty (if any) payable in respect of the Sale Shares shall be borne by the relevant Selling Shareholders.

Underwriters' interests in the Company

Save for their obligations under the Underwriting Agreements or otherwise as disclosed in this prospectus, none of the Underwriters has any shareholding interests in the Company nor has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any Shares in the Company nor any interest in the Global Offering.

GLOBAL OFFERING

The Global Offering comprises:

(i) the Public Offer of 27,000,000 Offer Shares (subject to adjustment as mentioned below) in Hong Kong as described below in the section headed "Structure of the Global Offering — Public Offer" below; and

(ii) the Placing of an aggregate of 243,000,000 Offer Shares (subject to adjustment and the Over-allotment Option as mentioned below) outside the United States (including to professional and institutional investors within Hong Kong).

Investors may apply for Offer Shares under the Public Offer or, if qualified to do so, apply for or indicate an interest for Offer Shares under the Placing, but may not do both.

The Offer Shares will represent 27.0% of the enlarged issued share capital of the Company immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option and the options that may be granted under the Share Option Scheme). If the Over-allotment Option is exercised in full, the Offer Shares will represent 31.05% of the enlarged issued share capital immediately after completion of the Global Offering and the exercise of the Over-allotment Option as set out in the paragraph headed "Over-allotment Option" below (without taking into account the exercise of the options that may be granted under the Share Option Scheme).

PUBLIC OFFER

Number of Offer Shares initially offered

The Company is initially offering 27,000,000 Offer Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Global Offering.

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions as set out in the section below headed "Structure of the Global Offering — Conditions of the Public Offer".

Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants, but, subject to that, will be made strictly on a pro-rata basis. Such allocation could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

The total number of Offer Shares available under the Public Offer (after taking account of any reallocation referred to below) are to be divided into 2 pools for allocation purposes: pool A and pool B. The Offer Shares in pool A will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of HK$5.0 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable) or less. The Offer Shares in pool B will be allocated on an equitable basis to applicants who have applied for Offer Shares with an aggregate price of more than HK$5.0 million (excluding the brokerage, SFC transaction levy and Stock Exchange trading fee payable). Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Offer Shares in one (but not both) of the pools are under-subscribed, the surplus Offer Shares will be transferred to the other pool to satisfy demand in this other pool and be allocated accordingly. For the purpose of this paragraph only, the "price" for Offer Shares means the price payable on application therefor (without regard to the Offer Price as finally determined). Applicants can only receive an allocation of Offer Shares from either pool A or pool B but not from both pools.

Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Offer Shares originally allocated to each pool (i.e. 13,500,000 Shares) are liable to be rejected.

Reallocation

The allocation of the Offer Shares between the Public Offer and the Placing is subject to adjustment. If the number of Offer Shares validly applied for under the Public Offer represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more of the number of Offer Shares initially available under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing so that the total number of Offer Shares available under the Public Offer will be increased to 81,000,000 Offer Shares (in the case of (i)), 108,000,000 Offer Shares (in the case of (ii)) and 135,000,000 Offer Shares (in the case of (iii)) representing 30%, 40% and 50% of the Offer Shares initially available under the Global Offering respectively (before any exercise of the Over-allotment Option). In each case, the additional Offer Shares reallocated to the Public Offer will be allocated between pool A and pool B and the number of Offer Shares allocated to the Placing will be correspondingly reduced in such manner as the Global Coordinator deems appropriate. In addition, the Global Coordinator may allocate Offer Shares from the Placing to the Public Offer to satisfy valid applications under the Public Offer.

If the Public Offer is not fully subscribed for, the Global Coordinator has the authority to reallocate all or any unsubscribed Public Offer Shares to the Placing, in such proportions as the Global Coordinator deems appropriate.

Applications

Each applicant under the Public Offer will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be) or it has been or will be placed or allocated Offer Shares under the Placing.

The listing of the Offer Shares on the Stock Exchange is sponsored by the Sponsor. Applicants under the Public Offer are required to pay, on application, the maximum price of HK$3.82 per Share in addition to any brokerage, SFC transaction levy and Stock Exchange trading fee payable on each Offer Share. If the Offer Price, as finally determined in the manner described in the section headed "Price determination of the Global Offering" below, is less than the maximum price of HK$3.82 per Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to successful applicants, without interest. Further details are set out below in the section headed "How to apply for Public Offer Shares".

References in this prospectus to applications, Application Forms, application monies or the procedure for application relate solely to the Public Offer.

PLACING

Number of Offer Shares offered

Subject to reallocation as described in this section and the exercise of the Over-allotment Option, the Selling Shareholders are initially offering 70,000,000 Placing Shares for sale and the Company is initially offering 173,000,000 Placing Shares for subscription, representing 90% of the total number of the Offer Shares initially available under the Global Offering.

Allocation

The Placing will include selective marketing of Offer Shares to institutional and professional investors and/or other investors anticipated to have a sizeable demand for such Offer Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of Offer Shares pursuant to the Placing will be effected in accordance with the book-building process described in the section headed "Price determination of the Global Offering" below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Global Offering, after the listing of the Offer Shares on the Stock Exchange. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of the Company and its shareholders as a whole.

The Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Offer Shares under the Placing, and who has made an application under the Public Offer to provide sufficient information to the Global Coordinator so as to allow it to identify the relevant applications under the Public Offer and to ensure that it is excluded from any application of Offer Shares under the Public Offer.

Over-allotment Option

In connection with the Global Offering, the Over-allotment Option Grantors, being 3 out of 4 Selling Shareholders, will grant an Over-allotment Option to the Placing Underwriters exercisable by the Global Coordinator on behalf of the Placing Underwriters.

Pursuant to the Over-allotment Option, the Global Coordinator has the right, exercisable at any time from the Price Determination Date until 30 days after the last date for the lodging of applications under the Public Offer, to require one or more of the Over-allotment Option Grantors, in the order of Summit, Sun Xu and Sun Zhong, to sell up to an aggregate of 40,500,000 additional Sale Shares, representing 15% of the number of the Offer Shares initially available under the Global Offering, at the same price per Share under the Placing to solely cover over-allocation in the Placing, if any, and/or the obligations of the Global Coordinator to return shares it may borrow under the Securities Leading Agreement. If the Over-allotment Option is exercised in full, the additional Offer Shares will represent approximately 4.05% of the Company's share capital immediately following completion of the Global Offering and the exercise of the Over-allotment Option (without taking into account the exercise of the options that may be granted under the Share Option Scheme). In the event that the Over-allotment Option is exercised, a press announcement will be made.

PRICE DETERMINATION OF THE GLOBAL OFFERING

The Placing Underwriters will be soliciting from prospective professional, institutional and/or other investors indications of interest in acquiring Offer Shares in the Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as book-building, is expected to continue up to, and to cease on or around, the last day for lodging applications under the Public Offer.

Pricing for the Offer Shares for the purpose of the various offerings under the Global Offering will be fixed on the Price Determination Date, which is expected to be on or around Saturday, 9 June 2007, and in any event on or before Monday, 11 June 2007, by agreement between the Global Coordinator (on behalf of the Underwriters) and the Company (for itself and on behalf of the Selling Shareholders), and the number of Offer Shares to be allocated under various offerings will be determined shortly thereafter.

The Offer Price will not be more than HK$3.82 per Share and is expected to be not less than HK$3.00 per Share unless otherwise announced, as further explained below, not later than the morning of the last day for lodging applications under the Public Offer. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this prospectus.**

The Global Coordinator, on behalf of the Underwriters, may, where considered appropriate, based on the level of interest expressed by prospective professional, institutional and/or other investors during the book-building process, and with the consent of the Company, reduce the number of Offer Shares offered in the Global Offering and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer, cause there to be published in the *South China Morning Post* and the *Hong Kong Economic Times* notices of the reduction. Upon issue of such a notice, the number of Offer Shares offered in the Global Offering and/or the revised offer price range will be final and conclusive and the offer price, if agreed upon by the Global Coordinator (on behalf of the Underwriters) and the Company, will be fixed within such revised offer price range. Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Public Offer.

Such notice will also include confirmation or revision, as appropriate, of the working capital statement and the Global Offering statistics as currently set out in this prospectus, and any other financial information which may change as a result of such reduction. **Applicants under the Public Offer should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the offer price range is so reduced.** In the absence of any such notice so published, the Offer Price, if agreed upon with the Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters), will under no circumstances be set outside the offer price range as stated in this prospectus.

The net proceeds of the Global Offering to the Company (after deduction of underwriting fees and estimated expenses payable by the Company in relation to the Global Offering) are estimated to be approximately HK$632.0 million assuming an Offer Price of HK$3.41 per Share, being the mid-point of the indicative range of the Offer Price of HK$3.00 to HK$3.82 per Share.

The final Offer Price, the indications of interest in the Global Offering, the results of applications and the basis of allotment of Offer Shares available under the Public Offer, are expected to be announced on 14 June 2007 in the *South China Morning Post* and the *Hong Kong Economic Times*.

PUBLIC OFFER UNDERWRITING AGREEMENT

The Public Offer is fully underwritten by the Public Offer Underwriters under the terms of the Public Offer Underwriting Agreement and is subject to, among other things, the Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters) agreeing on the Offer Price. Details of the underwriting arrangements are summarised in the section headed “Underwriting”.

CONDITIONS OF THE PUBLIC OFFER

Acceptance of all applications for Offer Shares pursuant to the Public Offer will be conditional on, among other things:

(i) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued being offered pursuant to the Global Offering (subject only to allotment);

(ii) the Offer Price having been fixed on or around the Price Determination Date; and

(iii) the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement becoming and remaining unconditional and not having been terminated in accordance with the terms of the Public Offer Underwriting Agreements,

in each case on or before the dates and times specified in the Public Offer Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than 30 days after the date of this prospectus.

If, for any reason, the Offer Price is not agreed between the Company (for itself and on behalf of the Selling Shareholders) and the Global Coordinator (on behalf of the Underwriters) on or before the Price Determination Date, the Global Offering will not proceed.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Public Offer will be published by the Company in the *South China Morning Post* and the *Hong Kong Economic Times* on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed "How to apply for Public Offer Shares". In the meantime, all application monies will be held in (a) separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

Share certificates for the Offer Shares are expected to be issued on Thursday, 14 June 2007 but will only become valid certificates of title at 8:00 a.m. on Friday, 15 June 2007 provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" has not been exercised.

DEALING

Assuming that the Global Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on Friday, 15 June 2007, it is expected that dealings in the Shares on the Stock Exchange will commence at 9:30 a.m. on Friday, 15 June 2007.

METHODS OF APPLYING FOR THE PUBLIC OFFER SHARES

You may apply for the Public Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf.

1. Who can apply for the public offer shares

You can apply for the Public Offer Shares if you or any person(s) for whose benefit you are applying, are an individual, and:

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States.

If the applicant is a firm, the application must be in the names of the individual members, not the firm's name. If the applicant is a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity.

If an application is made by a person duly authorised under a valid power of attorney, the Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of the attorney.

The number of joint applicants may not exceed four.

The Company and the Global Coordinator, in their capacity as the Company's agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

The Public Offer Shares are not available to existing beneficial owners of Shares, the Directors, or chief executives or their respective associates or any other connected persons (as defined in the Listing Rules) of the Company or persons who will become the connected persons of the Company immediately upon completion of the Global Offering.

You may apply for Shares under the Public Offer or indicate an interest for Shares under the Placing, but may not do both.

2. Which application method you should use

*(a) **WHITE** Application Forms*

Use a **WHITE** Application Form if you want the Public Offer Shares to be registered in your own name.

*(b) **YELLOW** Application Forms*

Use a **YELLOW** Application Form if you want the Public Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) Instruct HKSCC to make an electronic application on your behalf

Instead of using a **YELLOW** Application Form, you may give **electronic application instructions** to HKSCC via CCASS to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf. Any of the Public Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

You may not apply on a **WHITE** or **YELLOW** Application Form or give **electronic application instructions** to HKSCC at the same time.

3. Where to collect the Application Forms

(a) You can collect a **WHITE** Application Form and a prospectus from:

BNP Paribas Capital (Asia Pacific) Limited
61st Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

BOCI Asia Limited
26th Floor, Bank of China Tower
1 Garden Road
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27/F., Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

Core Pacific-Yamaichi International (H.K.) Limited
36/F, Cosco Tower, Grand Millennium Plaza
183 Queen's Road
Central
Hong Kong

CAF Securities Company Limited
13th Floor, Fairmount House
8 Cotton Tree Drive
Central
Hong Kong

China Merchants Securities (HK) Co., Ltd
48/F., One Exchange Square
Central
Hong Kong

or any of the following branches of Bank of China (Hong Kong) Limited, Industrial and Commercial Bank of China (Asia) Limited and Oversea-Chinese Banking Corporation Limited, Hong Kong Branch:

Bank of China (Hong Kong) Limited

District	Branch	Address
Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Central District (Wing On House) Branch	71 Des Voeux Road Central
	Quarry Bay Branch	Parkvale, 1060 King's Road Quarry Bay
	North Point (Kiu Fai Mansion) Branch	413-415 King's Road, North Point
Kowloon	Mong Kok (President Commercial Centre) Branch	608 Nathan Road, Mong Kok
	Kwun Tong Branch	20-24 Yue Man Square Kwun Tong
	Whampoa Garden Branch	Shop G8B, Site 1 Whampoa Garden, Hung Hom
	Humphrey's Avenue Branch	4-4A Humphrey's Avenue Tsim Sha Tsui
New Territories	Castle Peak Road (Tsuen Wan) Wealth Management Centre	167 Castle Peak Road Tsuen Wan
	Lucky Plaza Branch	Lucky Plaza, Wang Pok Street Shatin
	East Point City Branch	Shop 101, East Point City Tseung Kwan O

Industrial and Commercial Bank of China (Asia) Limited

District	Branch	Address
Hong Kong Island	Queen's Road Central Branch	122-126 Queen's Road Central, Central
	Wanchai Branch	117-123 Hennessy Road Wanchai
	Hennessy Road Branch	Shop 2A, G/F & Basement Cameron Commercial Centre 468 Hennessy Road Causeway Bay
Kowloon	Kwun Tong Branch	G/F, Lemmi Centre 50 Hoi Yuen Road Kwun Tong
	Mongkok Branch	G/F, Belgian Bank Building 721-725 Nathan Road Mongkok
	Mei Foo Branch	Shop N95A, 1/F Mount Sterling Mall Mei Foo Sun Chuen
New Territories	Sha Tsui Road Branch	Shop 4, G/F Chung On Building 297-313 Sha Tsui Road Tsuen Wan
	Yuen Long Branch	G/F, 197-199 Castle Peak Road Yuen Long

Oversea-Chinese Banking Corporation Limited, Hong Kong Branch

District	Branch	Address
Hong Kong Island	Central Main Branch	9/F, 9 Queen's Road, Central

(b) You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Monday, 4 June 2007 till 12:00 noon on Thursday, 7 June 2007 from:

(1) the **Depository Counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(2) your stockbroker, who may have such Application Forms and this prospectus available.

4. When may applications be made

*(a) **WHITE** or **YELLOW** Application Forms*

Completed **WHITE** or **YELLOW** Application Forms, together with cheque or banker's cashier order attached, must be lodged by 12:00 noon on Thursday, 7 June 2007, or, if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather on the opening of the application lists" below.

Your completed Application Form, together with payment attached, should be deposited in the special collection boxes provided at any of the branches of the banks listed under the section headed "Where to collect the Application Forms" above at the following times:

Monday, 4 June 2007	**—**	**9:00 a.m. to 5:00 p.m.**
Tuesday, 5 June 2007	**—**	**9:00 a.m. to 5:00 p.m.**
Wednesday, 6 June 2007	**—**	**9:00 a.m. to 5:00 p.m.**
Thursday, 7 June 2007	**—**	**9:00 a.m. to 12:00 noon**

(b) Electronic application instructions to HKSCC

CCASS Broker/Custodian Participants should input **electronic application instructions** via CCASS at the following times:

Monday, 4 June 2007	—	**9:00 a.m. to 8:30 p.m.**[(1)]
Tuesday, 5 June 2007	—	**8:00 a.m. to 8:30 p.m.**[(1)]
Wednesday, 6 June 2007	—	**8:00 a.m. to 8:30 p.m.**[(1)]
Thursday, 7 June 2007	—	**8:00 a.m.**[(1)] **to 12:00 noon**

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Monday, 4 June 2007 until 12:00 noon on Thursday, 7 June 2007 (24 hours daily, except the last application date).

The latest time for inputting your **electronic application instructions** via CCASS (if you are a CCASS Participant) is 12:00 noon on Thursday, 7 June 2007 or if the application lists are not open on that day, by the time and date stated in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below.

(c) *Application lists*

The application lists will be opened from 11:45 a.m. to 12:00 noon on Thursday, 7 June 2007, except as provided in the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" below. No proceedings will be taken on applications for the Public Offer Shares and no allocation of any such Shares will be made until after the closing of the application lists.

(d) *Effect of bad weather conditions on the opening of the application lists*

The application lists will be opened between 11:45 a.m. and 12:00 noon on Thursday, 7 June 2007, subject to weather conditions. The application lists will not be open in relation to the Public Offer if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning signal,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Thursday, 7 June 2007, or if there are similar extraneous factors as are acceptable to the Stock Exchange. Instead, they will be open between 11:45 a.m. and 12:00 noon on the next business day which does not fall within the above circumstances at any time between 9:00 a.m. and 12:00 noon in Hong Kong. Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

5. How to apply by using a WHITE or YELLOW Application Form

(a) Obtain a **WHITE** or **YELLOW** Application Form.

(b) You should read the instructions in this prospectus and the relevant Application Form carefully. If you do not follow the instructions, your application is liable to be rejected and returned by ordinary post together with the accompanying cheque or banker's cashier order to you (or the first-named applicant in the case of joint applicants) at your own risk to the address stated on your Application Form.

(c) Decide how many Public Offer Shares you want to purchase. Calculate the amount you must pay on the basis of the maximum Offer Price of HK$3.82 per Public Offer Share, plus brokerage fee of 1.0%, the SFC transaction levy of 0.004% and the Stock Exchange trading fee of 0.005%. This means that one board lot of 1,000 Shares will amount to HK$3,858.54. Each of the Application Forms has a table showing the exact amount payable for certain multiples of Public Offer Shares.

(d) Complete the Application Form in English (save as otherwise indicated) and sign it. Only written signatures will be accepted. Applications made by corporations, whether on their own behalf, or on behalf of other persons, must be stamped with the company chop (bearing the company name) and signed by a duly authorised officer, whose representative capacity must be stated. If you are applying for the benefit of someone else, you, rather than that person, must sign the Application Form. If it is a joint application, all applicants must sign it. If your application is made through a duly authorised attorney, the Company and the Global Coordinator (or their respective agents or nominees) may accept it at their discretion, and subject to any conditions they think fit, including production of evidence of the authority of your attorney.

(e) Each Application Form must be accompanied by either one cheque or one banker's cashier order, which must be stapled to the top left-hand corner of the Application Form.

If you pay by cheque, the cheque must:

- be in Hong Kong dollars;
- not be post-dated;
- be drawn on your Hong Kong dollar bank account in Hong Kong;
- show your account name, which must either be pre-printed on the cheque, or be endorsed on the back by a person authorised by the bank. This account name must be the same as the name on the Application Form. If it is a joint application, the account name must be the same as the name of the first-named applicant;
- be made payable to "Bank of China (Hong Kong) Nominees Limited — Sunny Optical Public Offer"; and
- be crossed "Account Payee Only".

Your application may be rejected if your cheque does not meet all these requirements or is dishonoured on its first presentation.

If you pay by banker's cashier order, the banker's cashier order must:

- be issued by a licensed bank in Hong Kong and have your name certified on the back by a person authorised by the bank. The name on the back of the banker's cashier order and the name on the Application Form must be the same. If it is a joint application, the name on the back of the banker's cashier order must be the same as the name of the first-named joint applicant;
- be in Hong Kong dollars;
- not be post-dated;
- be made payable to "Bank of China (Hong Kong) Nominees Limited — Sunny Optical Public Offer"; and
- be crossed "Account Payee Only".

Your application is liable to be rejected if your banker's cashier order does not meet all these requirements.

(f) Lodge your Application Form in one of the collection boxes by the time and at one of the locations, as respectively referred to in sub-paragraphs 3(a) and 4(a) above.

(g) Multiple or suspected multiple applications are liable to be rejected. Please refer to the section headed "Terms and conditions of the Public Offer — How many applications you can make".

(h) In order for the **YELLOW** Application Form to be valid:

- **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**

  — the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and

  — the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box.

- **If the application is made by an individual CCASS Investor Participant:**

  — the Application Form must contain the CCASS Investor Participant's name and Hong Kong identity card number; and

  — the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form.

- **If the application is made by a joint individual CCASS Investor Participant:**

  — the Application Form must contain all joint CCASS Investor Participant's names and the Hong Kong identity card number of all the joint CCASS Investor Participants; and

  — the participant I.D. must be inserted and the authorised signatory (ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form.

- **If the application is made by a corporate CCASS Investor Participant:**

  — the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and

  — the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatory(ies) must be inserted in the appropriate box in the Application Form.

(i) Nominees who wish to submit separate applications in their names on behalf of different beneficial owners are requested to designate on each Application Form in the box marked "For nominees" an identification number for each beneficial owner.

6. How to complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not strictly follow the instructions your application may be rejected.

If the Offer Price as finally determined is less than HK$3.82 per Offer Share, appropriate refund payments (including the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable to the surplus application money) will be made to successful or partially successful applications, without interest. Details of the procedure for refund are set out below in the paragraph headed "Refund of your money — Additional information" in the section headed "Terms and conditions of the Public Offer" in this prospectus.

7. How to apply by giving electronic application instructions to HKSCC

(a) CCASS Participants may give **electronic application instructions** via CCASS to HKSCC to apply for the Public Offer Shares and to arrange payment of the money due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

(b) If you are a CCASS Investor Participant, you may give **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System (https://ip.ccass.com) (according to the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited
Customer Service Center
2nd Floor, Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

(c) If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

(d) You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your CCASS Broker Participant or CCASS Custodian Participant, to the Company and its Hong Kong branch share registrar.

(e) You may give **electronic application instructions** in respect of a minimum of 1,000 Public Offer Shares. Each **electronic application instruction** in respect of more than 1,000 Public Offer Shares must be in one of the multiples set out in the table in the Application Form.

(f) Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Public Offer Shares:

(i) HKSCC Nominees is only acting as nominee for those persons and shall not be liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;

(ii) HKSCC Nominees does all the things on behalf of each such person as stated in sub-paragraph (c) in the section headed "Terms and conditions of the Public Offer — Effect of making any application" in this prospectus.

(g) If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

(h) For the purposes of allocating Public Offer Shares, HKSCC Nominees shall not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instruction is given shall be treated as an applicant.

(i) The section headed "Terms and conditions of the Public Offer — Personal Data" applies to any personal data held by the Sponsor, the Company and the Hong Kong branch share registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

Application for the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Global Coordinator, the Underwriters and any parties involved in the Global Offering take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet System, CCASS Investor Participants are advised not to wait until the last minute to input instructions. In the event that CCASS Investor Participants have problems in connecting to the CCASS Phone System or the CCASS Internet System to submit **electronic application instructions**, they should either: (a) submit the **WHITE** or **YELLOW** Application Form (as appropriate); or (b) go to HKSCC's Customer Service Centre to complete an input request form before 12:00 noon on Thursday, 7 June 2007 or such later time as described under the sub-paragraph headed "Effect of bad weather conditions on the opening of the application lists" above.

8. Substantial over-subscription

In a contingency situation involving a substantial over-subscription, the Sponsor shall, after consultation with the Company, advise the receiving bankers to implement certain contingency arrangements, including but not limited to, increase in number of additional branches of the relevant receiving bankers for distribution and collection of Application Forms and extension of distribution and collection hours of the receiving bankers. If the demand for the Shares under the Public Offer is overwhelming that the number of applications to be processed by the relevant receiving bankers becomes unmanageable, the pre-balloting procedures may be adopted and as a result, some of the applications for Public Offer Shares may not be processed.

9. Results of allocations

The results of allocations of the Public Offer Shares under the Public Offer, including applications made under **WHITE** and **YELLOW** Application Forms and by giving **electronic application instructions** to HKSCC, which will include the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers of successful applicants (where applicable) and the number of the Public Offer Shares successfully applied for, are expected to be published in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) on or before Thursday, 14 June 2007. Such information will also be published on the Company's website at www.sunnyoptical.com at the same time. No information contained on the website forms part of this prospectus.

1. GENERAL

(a) If you apply for the Public Offer Shares in the Public Offer, you will be agreeing with the Company and the Global Coordinator (on behalf of the Public Offer Underwriters) as set out below.

(b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Public Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

(c) In this section, references to “you”, “applicants”, “joint applicants” and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees is applying for the Public Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.

(d) Applicants should read this prospectus carefully, including other terms and conditions of the Public Offer set out in the section headed “Structure of the Global Offering — Public Offer”, and in the section headed “How to apply for Public Offer Shares” and the terms and conditions set out in the relevant Application Form or imposed by HKSCC prior to making an application for the Public Offer Shares.

2. OFFER TO PURCHASE THE PUBLIC OFFER SHARES

(a) You offer to purchase from the Company at the Offer Price the number of the Public Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.

(b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Public Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form. Details of the procedure for refunds relating to each of the Public Offer methods are contained below in the paragraphs headed “If your application for the Public Offer Shares is successful (in whole or in part)” and “Refund of your money — Additional information” in this section.

(c) Any application may be rejected in whole or in part.

(d) Applicants under the Public Offer should note that in no circumstances (save for those provided under section 40 of the Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

(a) The Public Offer Shares will be allocated after the application lists close. The Company expects to announce the final number of the Public Offer Shares, the level of applications under the Public Offer and the basis of allocations of the Public Offer Shares in the *South China Morning Post* (in English) and the *Hong Kong Economic Times* (in Chinese) on or before Thursday, 14 June 2007.

(b) The results of allocations of the Public Offer Shares under the Public Offer, including the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Public Offer Shares successfully applied for, will be made available on Thursday, 14 June 2007 in the manner described in the section headed "How to apply for Public Offer Shares — Results of allocations".

(c) The Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(d) If the Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Public Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied and the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

(e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. HOW MANY APPLICATIONS YOU CAN MAKE

(a) You may make more than one application for the Public Offer Shares only if:

- You are a **nominee**, in which case you may make an application as a nominee by: (i) giving **electronic application instructions** to HKSCC (if you are a CCASS Participant); and (ii) lodging more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked "For nominees" you must include:

  – an account number; or

  – another identification number for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit. Otherwise, multiple applications are liable to be rejected.

(b) All of your applications under the Public Offer are liable to be rejected as multiple applications if you, or you and other joint applicants together:

- make more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC;

- apply on one **WHITE** or **YELLOW** Application Form (whether individually or jointly with others) or by giving **electronic application instructions** to HKSCC to apply for more than 100% of the Offer Shares being initially available in either Pool A or Pool B; or as more particularly described in the section headed "Structure of the Global Offering — Public Offer"; or

- receive any Placing Shares under the Placing.

(c) **All** of your applications are liable to be rejected as multiple applications if more than one application is made for **your benefit** (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and: (i) the only business of that company is dealing in securities; and (ii) you exercise statutory control over that company, then the application will be treated as being for your benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you: (i) control the composition of the board of directors of that company; or (ii) control more than half of the voting power of that company; or (iii) hold more than half of the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

5. EFFECT OF MAKING ANY APPLICATION

(a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person you act as agent or nominee:

- **instruct** and **authorise** the Company and the Global Coordinator (or their respective agents or nominees) to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to effect the registration of any Public Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Memorandum and the Articles of Association and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- **undertake** to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Public Offer Shares allocated to you, and as required by the Memorandum and the Articles of Association;

- **represent** and **warrant** that you understand that the Offer Shares have not been and will not be registered under the U.S. Securities Act, that you are not a U.S. person (as defined in Regulation S) and that you are outside the United States and will be acquiring the Offer Shares in an offshore transaction (as defined under Regulation S);

- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representation concerning the

Company and you agree that neither the Company, the Selling Shareholders, the Global Coordinator and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering will have any liability for any such other information or representations;

- **agree** (without prejudice to any other rights which you may have) that once your application has been accepted, you may not revoke or rescind it because of an innocent misrepresentation;

- (if the application is made for your own benefit) **warrant** that the application is the only application which will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant);

- (if the application is made by an agent on your behalf) **warrant** that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;

- (if you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC (if you are a CCASS Participant or applying through a CCASS Broker Participant or a CCASS Custodian Participant), and that you are duly authorised to sign the Application Form or to give **electronic application instruction** as that other person's agent;

- **agree** that once your application is accepted, your application will be evidenced by the results of the Public Offer made available by the Company;

- **undertake** and **confirm** that you (if the application is made for your benefit) or other person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any Placing Shares in the Placing, nor otherwise participate in the Placing;

- **warrant** the truth and accuracy of the information contained in your application;

- **agree** to disclose to the Company, the receiving bankers, the Global Coordinator, the Hong Kong branch share registrar, the Public Offer Underwriters and their respective advisers or agents any information about you or the person(s) for whose benefit you have made the application which they require;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- **undertake** and **agree** to accept the Offer Shares applied for, or any lesser number allocated to you under the application;

- **authorise** the Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of the Company as the holder(s) of any Public Offer Shares allocated to you, and the Company and/or its agents to send any Share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 1,000,000 Public Offer Shares or more and have indicated in your application form that you wish to collect your Share certificate(s) and/or refund cheque (where applicable) in person, then you can collect your Share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Thursday, 14 June 2007 (Hong Kong time) from Computershare Hong Kong Investor Services Limited;

- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of the Company, the Global Coordinator and the Underwriters nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;

- **agree** with the Company, for itself and for the benefit of each Shareholder (and so that the Company will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each Shareholder) to observe and comply with the Companies Laws, the Memorandum and the Articles of Association;

- **agree** with the Company and each Shareholder that the Shares are freely transferable by the holders thereof;

- **authorise** the Company to enter into a contract on behalf of you with each director and officer of the Company whereby such directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association;

- **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and the Application Forms and agree to be bound by them;

- **confirm** that you are aware of the restrictions on offering of the Offer Shares described in this prospectus; and

- **understand** that these declarations and representations will be relied upon by the Company and the Global Coordinator in deciding whether or not to allocate any Public Offer Shares in response to your application.

(b) If you apply for the Public Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that:

- any Public Offer Shares allocated to you shall be issued in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the application form;

- each of HKSCC and HKSCC Nominees reserves the right in its absolute discretion (1) **not to accept** any or part of such allotted Public Offer Shares issued to you in the name of HKSCC Nominees or **not to accept** such allotted Public Offer Shares for deposit into CCASS; (2) to cause such allotted Public Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Public Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to post the Share certificate(s) for such allotted Public Offer Shares at your own risk to the address on your application form by ordinary post **or to make available the same for your collection**;

- each of HKSCC and HKSCC Nominees may adjust the number of allotted Public Offer Shares issued in the name of HKSCC Nominees;

- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms;

- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

(c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:

- **instruct** and **authorise** HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Public Offer Shares on your behalf;

- **instruct** and **authorise** HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK$3.82 per Share, refund the appropriate portion of the application money by crediting your designated bank account;

- **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf all the things which is stated to do on your behalf in the **WHITE** Application Form;

- (in addition to the confirmations and agreements set out in paragraph (a) above) instruct and authorise HKSCC to cause HKSCC Nominees to do on your behalf the following:

  – **agree** that the Public Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;

  – **undertake** and **agree** to accept the Public Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;

  – (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

  – (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;

  – **understand** that the above declaration will be relied upon by the Company and BNP Paribas Capital in deciding whether or not to make any allocation of the Public Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

  – **authorise** the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Public Offer Shares allocated in respect of your **electronic application instructions** and to send Share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;

  – **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

  – **confirm** that you have only relied on the information and representations in this prospectus in giving your **electronic application instructions** or instructing your CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;

  – **agree** that the Company, BNP Paribas Capital and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus;

  – **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

– **agree** to disclose your personal data to BNP Paribas Capital, the Company, the Hong Kong branch share registrar, the receiving banker(s), their respective agents and advisers together with any information about you which they require;

– **agree** that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Wednesday, 13 June 2007, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Wednesday, 13 June 2007, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the 5th day after the time of the opening of the application lists (excluding for this purpose any day which his not a business day (including Saturday)) if a person responsible for this prospectus under section 40 of the Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

– **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Public Offer made available by the Company; and

– **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Public Offer Shares.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED PUBLIC OFFER SHARES

You should note the following situations in which Public Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting **electronic application instructions** to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before Wednesday, 13 June 2007. This agreement will take effect as a collateral contract with the Company, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC and an application has been made by HKSCC Nominees on your behalf accordingly. This collateral contract will be in consideration of the Company agreeing that it will not offer any Public Offer Shares to any person before Wednesday, 13 June 2007 except by means of one of the procedures referred to in this prospectus.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked before the 5th day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day (including Saturday)) if a person responsible for this prospectus under section 40 of the Companies Ordinance (as applied by section 342E of the Companies Ordinance) gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) If the allocation of Public Offer Shares is void:

Your allocation of Public Offer Shares (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be void if the Listing Committee of the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or

- within a longer period of up to six weeks if the Listing Committee of the Stock Exchange notifies the Company of that longer period within three weeks of the closing of the application lists.

(c) If you make applications under the Public Offer as well as the Placing:

By filling in any of the Application Forms or giving application instructions to HKSCC electronically, you agree not to apply for Placing Shares under the Placing. Reasonable steps will be taken to identify and reject applications under the Public Offer from investors who have received Placing Shares in the Placing, and to identify and reject indications of interest in the Placing from investors who have received Public Offer Shares in the Public Offer.

(d) If the Company or the Global Coordinator (where applicable) or their respective agents exercise their discretion to reject your application:

The Company and the Global Coordinator (where applicable) or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) Your application will be rejected or not be accepted if:

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive the Placing Shares under the Placing;
- if you apply for more than 50% of the Public Offer Shares initially being offered in the public for subscription; or
- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof.

7. IF YOUR APPLICATION FOR THE PUBLIC OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

You will receive one Share certificate for all of the Public Offer Shares issued to you under the Public Offer (except pursuant to applications made on YELLOW Application Forms or by electronic application instructions to HKSCC via CCASS, in which case Share certificates will be deposited in CCASS).

Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 15 June 2007 provided that the Public Offer has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Underwriting arrangements and expenses — Public Offer — Grounds for termination" has not been exercised.

(a) If you are applying using a WHITE Application Form and you elect to receive any Share certificate(s) in your name:

- Refund cheques for these applicants who apply for less than 1,000,000 Shares and who apply for 1,000,000 Shares or more and have not indicated in their Application Forms that they wish to collect Share certificates and (where applicable) refund cheque are expected to be despatched on or before Thursday, 14 June 2007 to the same address as that for Share certificate(s).
- Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Public Offer and have indicated in their Application Forms that they wish to collect Share certificates and (where applicable) refund cheques in person from the Company's Hong Kong branch share registrar may collect Share certificates and (where applicable) refund cheques in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 14 June 2007 or such other place and date as notified by the Company in the newspapers as the place and date of collection of refund cheques.

- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's Hong Kong branch share registrar.

- Uncollected Share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms.

(b) If: (i) you are applying on a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Public Offer Shares deposited directly into CCASS:

If your application is wholly or partly successful, your Share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), at the close of business on Thursday, 14 June 2007 or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- *If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:*

  For Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Public Offer Shares allocated to you with that CCASS Participant.

- *If you are applying as a CCASS Investor Participant on a YELLOW Application Form:*

  The Company is expected to make available the results of the Public Offer, including the results of CCASS Investor Participants' applications, in the manner described in the section headed "How to apply for Public Offer Shares — Results of allocations", on Thursday, 14 June 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 June 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your CCASS Investor Participant stock account you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your stock account.

- *If you have given electronic application instructions to HKSCC:*

  The Company is expected to make available the application results of the Public Offer, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner, if supplied), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the section headed "How to apply for Public Offer Shares — Results of Allocations", on Thursday, 14 June 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 14 June 2007 or any other date HKSCC or HKSCC Nominees chooses.

- *If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:*

  You can also check the number of Public Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- *If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:*

  You can also check the number of the Public Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Thursday, 14 June 2007. HKSCC will also make available to you an activity statement showing the number of the Public Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

(a) In a contingency situation involving a substantial over-subscription, at the discretion of the Company and the Global Coordinator, cheque or banker's cashier order for applications for certain small denominations of Public Offer Shares (apart from successful and reserved applications) may not be cleared and therefore such applications will not be entitled to a refund.

(b) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of the Company) if:

- your application is not successful, in which case the Company will refund your application money together with brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;

- your application is accepted only in part, in which case the Company will refund the appropriate portion of your application money, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;

- the Offer Price (as finally determined) is less than the price per Share initially paid by the applicant on application, in which case the Company will refund the surplus application money together with the appropriate portion of brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and

- the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions".

(c) If you apply on **YELLOW** Application Form for 1,000,000 Shares or more under the Public Offer, you may collect your refund cheque (if any) in person from the Hong Kong branch share registrar on Thursday, 14 June 2007. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) of the paragraph headed "If your application for the Public Offer Shares is successful (in whole or in part)" in this section.

(d) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Thursday, 14 June 2007.

(e) All refunds by cheque will be crossed "Account Payee Only", and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.

(f) Refund cheques are expected to be despatched on Thursday, 14 June 2007. The Company intends to make special efforts to avoid undue delays in refunding money.

(g) Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such data will be used for checking the validity of Application Forms and such data would also be transferred to a third party for such purpose and refund purpose. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong identity card number/passport number may lead to delay in encashment of or may even invalidate your refund cheque.

9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) came into effect in Hong Kong on 20 December 1996. This Personal Information

Collection Statement informs the applicant for and holder of the Public Offer Shares of the policies and practices of the Company and the Hong Kong branch share registrar in relation to personal data and the Personal Data (Privacy) Ordinance.

(a) Reasons for the collection of your personal data

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to the Company or its agents and the Hong Kong branch share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong branch share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of the Company or its Hong Kong branch share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Public Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s), and/or the despatch of or encashment of refund cheque(s) to which you are entitled.

It is important that holders of securities inform the Company and the Hong Kong branch share registrar immediately of any inaccuracies in the personal data supplied.

(b) Purposes

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and refund cheque, where applicable and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Public Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the names of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of the Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of the Company, such as dividends, rights issues and bonus issues;
- distributing communications from the Company and its subsidiaries;
- compiling statistical information and shareholder profiles;

- making disclosures as required by laws, rules or regulations;
- disclosing identities of successful applicants by way of press announcement(s) or otherwise;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable the Company and the Hong Kong branch share registrar to discharge their obligations to holders of securities and/or regulators and/or any other purpose to which the holders of securities may from time to time agree.

(c) Transfer of personal data

Personal data held by the Company and the Hong Kong branch share registrar relating to the applicants and the holders of securities will be kept confidential but the Company and the Hong Kong branch share registrar may, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- the Company or its appointed agents such as financial advisers and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Public Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to the Company and/or the Hong Kong branch share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

(d) Access and correction of personal data

The Personal Data (Privacy) Ordinance provides the applicants and the holders of securities with rights to ascertain whether the Company and/or the Hong Kong branch share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Personal Data (Privacy) Ordinance, the Company and the Hong Kong branch share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to the Company for the attention of the Company Secretary or (as the case may be) the Hong Kong share branch registrar for the attention of the Privacy Compliance Officer (for the purposes of the Personal Data (Privacy) Ordinance).

By signing an Application Form or by giving electronic application instructions to HKSCC, you agree to all of the above.

10. MISCELLANEOUS

(a) Commencement of dealings in the Shares

- Dealings in the Shares on the Stock Exchange are expected to commence at 9:30 a.m. on Friday, 15 June 2007.
- The Shares will be traded in board lots of 1,000 Shares. The stock code of the Shares is 2382.
- Any Share certificates in respect of the Public Offer Shares collected or received by successful applicants will not be valid if the Global Offering is terminated in accordance with the terms of the Underwriting Agreements.

(b) The Shares will be eligible for admission into CCASS

- If the Stock Exchange grants the listing of and permission to deal in the Shares and the stock admission requirements of HKSCC are complied with, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.
- All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.
- Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.
- All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the full text of a report, prepared for the purpose of incorporation in this prospectus, received from the independent reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong. As described in the section headed "Documents delivered to the Registrar of Companies and available for inspection" in Appendix VI, a copy of the following accountants' report is available for public inspection.

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

4 June 2007

The Directors
Sunny Optical Technology (Group) Company Limited
BNP Paribas Capital (Asia Pacific) Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Sunny Optical Technology (Group) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 December 2006 (the "Track Record Period") for inclusion in the prospectus of the Company dated 4 June 2007 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law Chapter 22 (Law 3 of 1961 as consolidated and revised) of the Cayman Islands on 21 September 2006. Pursuant to a group reorganisation, as more fully explained in the section headed "History, Reorganisation and Group Structure" in the Prospectus (the "Group Reorganisation"), the Company has become the holding company of the Group since 24 October 2006.

At 31 December 2006 and at the date of this report, the Company has the following indirectly owned subsidiaries, other than Sun Yu Optical Technology Limited which is directly owned by the Company:

Name of subsidiary	Place and date of incorporation/ registration	Issued and fully paid up share capital/registered capital	Attributable equity interest held by the Group	Principal activities	Legal form
舜宇光學科技有限公司 Sun Yu Optical Technology Limited ("Sun Yu Optical")	The British Virgin Islands ("The BVI") 6 July 2006	Ordinary shares US$100,000	100%	Investment holding	Private limited liability company
舜享光學海外有限公司 Sun Xiang Optical Overseas Limited ("Sun Xiang Optical")	The BVI 6 July 2006	Ordinary shares US$10	100%	Investment holding	Private limited liability company

Name of subsidiary	Place and date of incorporation/ registration and operation	Issued and fully paid up share capital/registered capital	Attributable equity interest held by the Group	Principal activities	Legal form
舜利儀器海外有限公司 Sun Li Instrument Overseas Limited ("Sun Li Instrument")	The BVI 6 July 2006	Ordinary shares US$10	100%	Investment holding	Private limited liability company
Summit Optics Technology Limited ("Summit Technology (BVI)")	The BVI 6 July 2006	Ordinary shares US$1	100%	Investment holding	Private limited liability company
Summit Optics Investment Limited ("Summit Investment (BVI)")	The BVI 6 July 2006	Ordinary shares US$1	100%	Investment holding	Private limited liability company
舜宇光電海外有限公司 Sunny Optical Overseas Limited ("Sunny Optical Overseas")	Hong Kong 31 October 2005	Ordinary shares US$10	100%	Investment holding	Private limited liability company
舜宇儀器海外有限公司 Sunny Instruments Overseas Limited ("Sunny Instruments Overseas")	Hong Kong 6 May 2006	Ordinary shares US$10	100%	Investment holding	Private limited liability company
Summit Optical Technology Limited ("Summit Technology (HK)")	Hong Kong 4 May 2006	Ordinary shares HK$1	100%	Investment holding	Private limited liability company
Summit Optical Investment Limited ("Summit Investment (HK)")	Hong Kong 4 May 2006	Ordinary shares HK$1	100%	Investment holding	Private limited liability company
浙江舜宇光學有限公司 Zhejiang Sunny Optics Co., Ltd. ("Sunny Optics")	The People's Republic of China ("the PRC") 29 December 2001	Registered and contributed capital RMB105,000,000	100%	Manufacture and sale of optical components	Wholly foreign-owned enterprise
寧波舜宇儀器有限公司 Ningbo Sunny Instruments Co., Ltd. ("Ningbo Instruments")	The PRC 31 December 2001	Registered and contributed capital RMB37,500,000	100%	Manufacture and sale of optical instruments	Wholly foreign-owned enterprise
舜宇光學(中山)有限公司 Sunny Optics (Zhongshan) Co., Ltd ("Sunny Zhongshan")	The PRC 24 March 2004	Registered and contributed capital US$7,260,000	100%	Manufacture and sale of optical components	Sino-foreign equity joint venture
南京舜宇光學儀器有限公司 Nanjing Sunny Optical Instruments Co., Ltd. ("Nanjing Instruments")	The PRC 8 August 2005	Registered and contributed capital RMB3,000,000	100%	Sale of optical instruments	Limited liability company
寧波舜宇光電信息有限公司 Ningbo Sunny Opotech Co., Ltd. ("Sunny Opotech")	The PRC 5 December 2005	Registered and contributed capital US$6,200,000	100%	Manufacture and sale of optoelectronics products	Sino-foreign equity joint venture

Name of subsidiary	Place and date of incorporation/ registration and operation	Issued and fully paid up share capital/registered capital	Attributable equity interest held by the Group	Principal activities	Legal form
寧波舜宇紅外技術有限公司 Ningbo Sunny Infrared Technologies Company Ltd. ("Sunny Infrared")	The PRC 14 April 2006	Registered capital RMB1,500,000	95%	Research and development of infrared technologies	Limited liability company
舜宇日本株式會社 Sunny Japan Co., Ltd. ("Sunny Japan")	Japan 21 August 2006	Registered and contributed capital JPY99,000,000	100%	Trading of optical instruments and optoelectronics products	Limited liability company

The financial year-end date of the Company and its subsidiaries is 31 December. No audited financial statements have been prepared for the Company, Sun Yu Optical, Sun Xiang Optical, Sun Li Instrument, Summit Technology (BVI) and Summit Investment (BVI) as they were incorporated in jurisdictions where there is no statutory audit requirements. Pursuant to the relevant law in Japan, Sunny Japan is not required to prepare audited financial statements for the Track Record Period. For the purpose of this report, we have reviewed all the relevant transactions of these companies since their respective dates of incorporation to the date of this report and carried out such procedures as we considered necessary for inclusion in the Financial Information.

The statutory financial statements of the following subsidiaries were prepared in accordance with relevant accounting principles and financial regulations applicable to enterprises established in Hong Kong or the PRC and were audited by us or the following certified public accountants registered in the PRC.

Name of Company	Financial year	Name of auditors
Sunny Optical Overseas	For the period from 31 October 2005 (date of establishment) to 31 December 2006	Deloitte Touche Tohmatsu, Hong Kong
Sunny Instruments Overseas	For the period from 6 May 2006 (date of establishment) to 31 December 2006	Deloitte Touche Tohmatsu, Hong Kong
Summit Technology (HK)	For the period from 4 May 2006 (date of establishment) to 31 December 2006	Deloitte Touche Tohmatsu, Hong Kong
Summit Investment (HK)	For the period from 4 May 2006 (date of establishment) to 31 December 2006	Deloitte Touche Tohmatsu, Hong Kong
Sunny Optics	Each of the three years end 31 December 2006	Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司
Ningbo Instruments	Each of the three years end 31 December 2006	Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司

Name of Company	Financial year	Name of auditors
Sunny Zhongshan	For the period from 24 March 2004 (date of establishment) to 31 December 2004 and each of the two years end 31 December 2006	Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司
Nanjing Instruments	For the period from 8 August 2005 (date of establishment) to 31 December 2005 and the year ended 31 December 2006	Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司
Sunny Opotech	For the period from 5 December 2005 (date of establishment) to 31 December 2006	Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司
Sunny Infrared	For the period from 14 April 2006 (date of establishment) to 31 December 2006	Deloitte Touche Tohmatsu CPA Ltd. 德勤華永會計師事務所有限公司

For the purpose of this report, we have undertaken an independent audit of the consolidated financial statements of the Company (the "Underlying Financial Statements"), which were prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), for the Track Record Period, in accordance with Hong Kong Standards on Auditing issued by HKICPA.

For the purpose of this report, we have examined the Underlying Financial Statements in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Financial Information set out in this report has been prepared from the Underlying Financial Statements and in accordance with the basis set out in note 2 of Section A to the Financial Information. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of preparation set out in note 2 of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as of 31 December 2004, 2005 and 2006 and of the Company as of 31 December 2006 and of the consolidated results and consolidated cash flows of the Group for the Track Record Period.

A. FINANCIAL INFORMATION

Consolidated Income Statements

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*6*	307,929	588,298	900,698
Cost of sales		(194,889)	(407,891)	(652,917)
Gross profit		113,040	180,407	247,781
Other income	*7*	3,672	4,306	4,965
Selling and distribution expenses		(5,622)	(9,420)	(19,087)
Research and development expenditure		(5,426)	(10,680)	(12,310)
Administrative expenses		(17,222)	(36,731)	(55,723)
Discount on acquisition of additional interest in subsidiaries		—	—	3,408
Loss on disposal of a subsidiary		—	—	(136)
Impairment loss on goodwill		(7)	—	—
Finance costs	*8*	(108)	(4,683)	(2,913)
Share of result of an associate		(169)	(32)	—
Loss on dissolution of an associate		—	(2)	—
Profit before taxation	*9*	88,158	123,165	165,985
Income tax charge	*10*	(30,329)	(14,589)	—
Profit for the year		57,829	108,576	165,985
Attributable to:				
Equity holders of the Company		44,125	82,368	117,158
Minority interests		13,704	26,208	48,827
		57,829	108,576	165,985
Dividends	*11*	70,788	13,277	103,215
Earnings per share — Basic	*12*	RMB0.08	RMB0.15	RMB0.20

Consolidated Balance Sheets

	Notes	At 31 December 2004 RMB'000	At 31 December 2005 RMB'000	At 31 December 2006 RMB'000	Company as at 31 December 2006 RMB'000
NON-CURRENT ASSETS					
Property, plant and equipment	*14*	184,641	215,736	301,890	—
Prepaid lease payments	*15*	4,941	11,120	10,848	—
Investment in a subsidiary	*16*	—	—	—	244,989
Interests in an associate	*17*	831	—	—	—
Deferred tax assets	*18*	275	—	—	—
		190,688	226,856	312,738	244,989
CURRENT ASSETS					
Inventories	*19*	46,401	67,207	108,342	—
Trade and other receivables	*20*	84,861	243,172	202,127	—
Prepaid lease payments	*15*	119	271	271	—
Amounts due from related parties	*31(c)*	25,852	16,580	1,030	—
Pledged bank deposits	*21*	8,116	1,011	609	—
Bank balances and cash	*21*	39,181	132,927	160,275	—
		204,530	461,168	472,654	—
CURRENT LIABILITIES					
Trade and other payables	*23*	66,772	90,837	160,853	—
Dividends payable	*24*	86,400	90,547	236,009	—
Amounts due to related parties	*31(c)*	108	855	33,648	—
Tax payable		8,921	—	—	—
Bank borrowings — due within one year	*25*	22,000	104,095	—	—
		184,201	286,334	430,510	—
NET CURRENT ASSETS		20,329	174,834	42,144	—
TOTAL ASSETS LESS CURRENT LIABILITIES		211,017	401,690	354,882	244,989
NON-CURRENT LIABILITY					
Amount due to a related party	*31(c)*	—	70,100	—	—
		211,017	331,590	354,882	244,989
CAPITAL AND RESERVES					
Paid-in capital/Share capital	*26*	109,169	109,169	101	101
Reserves		48,943	81,352	354,776	244,888
Attributable to equity holders of the Company		158,112	190,521	354,877	244,989
Minority interests		52,905	141,069	5	—
		211,017	331,590	354,882	244,989

Consolidated Statements of Changes in Equity

	Attributable to the equity holders of the Company									
		Reserves								
	Paid-in capital/ Share capital *RMB'000*	Share premium *RMB'000*	Special reserve *RMB'000*	Statutory reserves *RMB'000* *(note a)*	Discre-tionary surplus reserve *RMB'000* *(note a)*	Other reserves *RMB'000* *(note b)*	Retained earnings *RMB'000*	Sub-total of reserves *RMB'000*	Minority Interest *RMB'000*	Total *RMB'000*
As at 1 January 2004	82,355	12,047	—	12,230	150	—	77,993	102,420	56,721	241,496
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	1,385	1,385
Capital contribution	—	—	—	—	—	—	—	—	2,707	2,707
Transfer *(note c)*	26,814	—	—	—	—	—	(26,814)	(26,814)	—	—
Profit for the year	—	—	—	—	—	—	44,125	44,125	13,704	57,829
Dividend	—	—	—	—	—	—	(70,788)	(70,788)	(21,612)	(92,400)
Appropriations	—	—	—	7,294	766	—	(8,060)	—	—	—
As at 31 December 2004 and 1 January 2005	109,169	12,047	—	19,524	916	—	16,456	48,943	52,905	211,017
Capital contribution	—	—	—	—	—	—	—	—	29,655	29,655
Acquisition of 11.22% equity interest in Sunny Optics and Ningbo Instruments by the Sunny Group Limited ("Sunny Group") *(note d)*	—	—	22,417	—	—	—	—	22,417	(22,417)	—
Disposal of 24.47% equity interest in Sunny Optics and Ningbo Instruments by the Sunny Group *(note e)*	—	—	(59,099)	—	—	—	—	(59,099)	59,099	—
Profit for the year	—	—	—	—	—	—	82,368	82,368	26,208	108,576
Dividend	—	—	—	—	—	—	(13,277)	(13,277)	(4,381)	(17,658)
Appropriations	—	—	—	325	—	—	(325)	—	—	—
As at 31 December 2005 and 1 January 2006	109,169	12,047	(36,682)	19,849	916	—	85,222	81,352	141,069	331,590
Issue of share upon incorporation	746	—	—	—	—	—	—	—	—	746
Exchange of share upon group reorganisations *(note f)*	(109,862)	(59,612)	271,528	—	—	—	—	211,916	(102,054)	—
Allotment of new shares *(note g)*	48	47,565	—	—	—	—	—	47,565	—	47,613
Acquisition of 30%, 28%, 10%, 30.3% equity interest in Sunny Zhongshan, Sunny Opotech, Nanjing Instruments and Sunny Japan, respectively *(note h)*	—	—	—	—	—	—	—	—	(38,630)	(38,630)
Disposal of a subsidiary	—	—	—	—	—	—	—	—	(1,277)	(1,277)
Capital contribution	—	—	—	—	—	—	—	—	2,044	2,044
Profit for the year	—	—	—	—	—	—	117,158	117,158	48,827	165,985
Dividend	—	—	—	—	—	—	(103,215)	(103,215)	(49,974)	(153,189)
Appropriations	—	—	—	11,154	—	29,070	(40,224)	—	—	—
As at 31 December 2006	101	—	234,846	31,003	916	29,070	58,941	354,776	5	354,882

Notes:

(a) The statutory reserves and discretionary surplus reserve are non-distributable and the transfer to these reserves is determined by board of directors in accordance with the Articles of Association of the subsidiaries. Statutory reserves composed statutory surplus reserve and statutory welfare reserve. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the Group's PRC subsidiaries. Statutory welfare reserve and discretionary surplus reserve can be used to expand the existing operations of the Group's PRC subsidiaries.

(b) Other reserves represent enterprise expansion fund and reserve fund. These reserves are non-distributable and the transfer to these reserves is determined by board of directors in accordance with the Articles of Association of the subsidiaries. Other reserves can be used to make up for previous year's losses or convert into additional capital of the Group's PRC subsidiaries.

(c) The amounts represented the transfer of retained earning to share capital of Sunny Optics as approved by board of directors and relevant government authority.

(d) Special reserve arising from the acquisition of 11.22% equity interest in Sunny Optics and Ningbo Instruments by Sunny Group represents the net carrying amount of 11.22% equity interest in Sunny Optics and Ningbo Instruments at the date of acquisition.

(e) Special reserve arising from the disposal of 24.47% equity interest in Sunny Optics and Ningbo Instruments by Sunny Group represents the net carrying amount of 24.47% equity interest in Sunny Optics and Ningbo Instruments at the date of disposal.

(f) The amount recorded in the special reserve, resulting from the Group Reorganisation involving share exchange transactions as detailed in note 2 to the Financial Information, includes:

(i) the difference between the share capital and share premium of Sunny Optics and Ningbo Instruments attributable to Sunny Group (representing 63.36% equity interest in each of Sunny Options and Ningbo Instrument) and the nominal value of the share capital of Sun Yu Optical;

(ii) net carrying amount of 36.64% equity interest in Sunny Optics and Ningbo Instruments at the dates of exchange of 36.64% equity interest in Sunny Optics and Ningbo Instruments with shares in Sun Yu Optical; and

(iii) the difference between the share capital and share premium of Sun Yu Optical and the nominal value of the share capital of the Company through an exchange of shares.

(g) The amount recorded in the share premium represents the difference between the nominal value of allotment of 6,120 new shares with per value of US$1.00 in Sun Yu Optical and the cash consideration of US$6,000,000 (equivalent to RMB47,613,000).

(h) In September, November and December 2006, minority interest of 30%, 28%, 10%, 30.3% in Sunny Zhongshan, Sunny Opotech, Nanjing Instruments and Sunny Japan, respectively, were acquired by Sun Yu Optical and the Company for a total consideration of approximately RMB35,222,000. The excess of the total carrying amounts of these minority interest at the respective dates of acquisition (amounted to RMB38,630,000) over the purchase consideration, which amounted to RMB3,408,000, had been recognised as a discount on acquisition of additional interest in subsidiaries.

Consolidated Cash Flow Statements

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
OPERATING ACTIVITIES			
Profit before taxation	88,158	123,165	165,985
Adjustments for:			
Depreciation of property, plant and equipment	22,808	32,706	37,435
Loss on disposal of property, plant and equipment	15	157	38
Release of prepaid lease payment	120	271	272
Share of result of an associate	169	32	—
Discount on acquisition of additional interest in subsidiaries	—	—	(3,408)
Loss on disposal of a subsidiary	—	—	136
Loss on dissolution of an associate	—	2	—
Impairment loss on goodwill	7	—	—
Allowance for inventories	1,100	852	1,725
(Reversal of) allowance for bad and doubtful debts	(19)	211	16
Interest income	(924)	(1,431)	(1,516)
Interest expenses	108	4,683	2,913
Operating cash flows before movements in working capital	111,542	160,648	203,596
Increase in inventories	(22,554)	(21,658)	(42,860)
(Increase) decrease in trade and other receivables	(1,103)	(158,522)	40,982
Decrease in amounts due from related parties	1,461	64	1
Increase in trade and other payables	16,799	23,758	56,301
Increase in amounts due to related parties	108	92	161
Cash generated from operations	106,253	4,382	258,181
PRC Income taxes (paid)	(32,877)	(23,235)	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES	73,376	(18,853)	258,181

		Year ended 31 December		
		2004	**2005**	**2006**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
INVESTING ACTIVITIES				
Interest received		924	784	2,163
Advance to related parties		(25,344)	(26,932)	(98)
Repayment of advance from related parties		—	36,787	15,000
Purchases of property, plant and equipment		(81,671)	(64,123)	(111,354)
Payment of prepaid lease payments		—	(6,602)	—
Proceeds from disposal of property, plant and equipment		63	472	1,418
Proceeds from dissolution of an associate		—	797	—
Acquisition of additional interest in subsidiaries		—	—	(35,222)
Acquisition (disposal) of a subsidiary	*30*	1,762	—	(1,342)
(Increase) decrease in pledged bank deposits		(8,116)	7,105	402
NET CASH USED IN INVESTING ACTIVITIES		(112,382)	(51,712)	(129,033)
FINANCING ACTIVITIES				
Interest paid		(108)	(4,683)	(2,863)
Dividends paid		(6,000)	(13,511)	(7,727)
Issue of new shares		—	—	48,359
Loans from a related party		—	93,100	4,000
Repayment of loans to a related party		—	(23,000)	(40,863)
Advance (repayment of advance) from related parties		—	655	(655)
New bank borrowings raised		22,000	195,790	56,000
Repayment of bank borrowings		(10,000)	(113,695)	(160,095)
Capital contribution by minority shareholders of subsidiaries		2,707	29,655	2,044
NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES		8,599	164,311	(101,800)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(30,407)	93,746	27,348
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		69,588	39,181	132,927
CASH AND CASH EQUIVALENTS AT END OF YEAR, represented by bank balances and cash		39,181	132,927	160,275

Notes to financial information

1. GENERAL INFORMATION

Sunny Optical Technology (Group) Company Limited 舜宇光學科技（集團）有限公司 is a limited company incorporated in the Cayman Islands. The Company's registered office is located at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, PO Box 2681 GT, George Town, Grand Cayman, British West Indies and its place of business is located at Suite 3403, Two Exchange Square, 8 Connaught Place, Central, Hong Kong. The Company is an investment holding company.

The Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the principal subsidiaries).

2. BASIS OF PREPARATION OF FINANCIAL INFORMATION AND CAPITAL TRANSACTIONS DURING THE TRACK RECORD PERIOD

Prior to the equity transfers with Sun Yu Optical as mentioned below, Sunny Group effectively controlled the companies comprising the Group as follows:

Principal subsidiaries:	1 January 2004 to 13 March 2005	14 March 2005 to 31 July 2005 *Note (a)*	1 August 2005 # to 31 August 2006 *Note (b)*
Sunny Optics	76.61%	87.83%	63.36%
Ningbo Instruments	76.61%	87.83%	63.36%
Sunny Zhongshan	53.63%	61.48%	44.35%
Sunny Opotech	N/A	N/A	45.62%

from date of establishment if later

Notes:

(a) On 3 February 2005, Sunny Group entered into agreements to acquire a 11.22% equity interest in each of Sunny Optics and Ningbo Instruments from Yuyao City Jinrui Assets Operation Company 餘姚市金瑞資產經營公司("Jinrui"). The acquisition was completed on 14 March 2005.

(b) On 10 May 2005, Sunny Group entered into agreements to dispose of a 24.47% equity interest in each of Sunny Optics and Ningbo Instruments to Summit Optical Holding, Inc. ("Summit"). The disposal was completed on 1 August 2005.

Pursuant to the Group Reorganisation, the Company became the holding company of the Group since 24 October 2006.

The major steps of the Group Reorganisation were as follows:

(i) On 28 July 2006, Sun Yu Optical and its then subsidiaries entered into equity transfer agreements to exchange a 72.13% equity interest in each of Sunny Optics and Ningbo Instruments (63.36% from Sunny Group and 8.77% from other shareholders). The exchange of equity interest was completed on 1 September 2006. The controlling shareholders' ultimate beneficial ownership structure of Sun Yu Optical after this exchange of equity interest was the mirror images of, and equivalent to, the ultimate beneficial ownership of the 72.13% equity interest in each of Sunny Optics and Ningbo Instruments as at 28 July 2006;

(ii) On 13 September 2006, Sun Yu Optical, through the exchange of its shares for the entire equity interest in Summit Technology (BVI), obtained a 27.87% equity interest in each of Sunny Optics and Ningbo Instruments from Summit. The exchange was satisfied by the issue of 27.87% equity interest in Sun Yu Optical; and

The transactions as detailed in (i) and (ii) above are collectively referred to as "Equity Swap".

(iii) On 24 October 2006, the transfer of the entire equity interest in Sun Yu Optical to the Company was effected by means of an exchange of shares.

Other capital transactions entered into during the Track Record Period includes:

(i) On 14 September 2006, Sun Yu Optical, through the acquisition of the entire equity interest in Summit Investment (BVI), acquired a 30% equity interest in Sunny Zhongshan and a 28% equity interest in Sunny Opotech from Summit for a cash consideration of US$4,125,900 (approximately RMB33,060,000);

(ii) On 15 September 2006, Sun Yu Optical issued 6,120 new shares with par value of US$1.00 to CWI Optical Holding, Inc. for a cash consideration of US$6,000,000 (approximately RMB47,613,000);

(iii) On 28 November 2006, the Group acquired a 30.3% equity interest in Sunny Japan from a minority shareholder for a cash consideration of RMB2,062,000;

(iv) On 30 December 2006, the Group acquired a 10% equity interest in Nanjing Instruments from a minority shareholder for a cash consideration of RMB100,000; and

(v) Sunny Optics acquired and disposed of a 55% interest in Shanghai Keyi Optical Engineering Co., Ltd. 上海科依光學工程有限公司 ("Shanghai Keyi"), details of which are set out in note 30.

The Financial Information has been prepared on the basis as if the Company had always been the holding company of Sun Yu Optical and its subsidiaries using the principles of merger accounting. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the Track Record Period includes the results and cash flows of the companies comprising the Group as if the current group structure had been existence throughout the Track Record Period or since their respective dates of incorporation/acquisition or up to the effective date of disposal where this is a shorter period, except that the results attributable to the shareholders of the group companies other than Sunny Group prior to the Equity Swap were treated as minority interest. The consolidated balance sheets of the Group as at 31 December 2004 and 31 December 2005 have been prepared to present the assets and liabilities of the companies now comprising the Group and Shanghai Keyi as if the current group structure had been in existence as of those dates in accordance with the then effective interests held by Sunny Group as at those dates.

If the Group Reorganisation had been completed on 1 January 2006, and the current group structure had been in existence throughout the year ended 31 December 2006, the profit for the year ended 31 December 2006 attributable to the equity holders of the Company would have been RMB165,985,000.

3. ADOPTION OF NEW HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA issued a number of new or revised Hong Kong Accounting Standards ("HKAS(s)") and Hong Kong Financial Reporting Standards ("HKFRS(s)") and Interpretations ("INT(s)"), (herein collectively referred to as "New HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005, December 1, 2005 and January 1, 2006. For the purposes of preparing and presenting Financial Information of the Track Record Period, the Group has adopted consistently all these New HKFRSs throughout the Track Record Period.

At the date of this report, the HKICPA has issued the following standards, amendment and INTs that are not yet effective. The Group has not early adopted these new and revised standards, amendment and INTs. The directors of the Company anticipate that the application of these new and revised standards, amendments and INTs will have no material impact on how the results and financial position of the Group are prepared and presented.

HKAS1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC) – INT 8	Scope of HKFRS 2[4]
HK(IFRIC) – INT 9	Reassessment of embedded derivatives[5]
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transaction[7]
HK(IFRIC) – INT 12	Service concession arrangements[8]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2009.
[3] Effective for annual periods beginning on or after 1 March 2006.
[4] Effective for annual periods beginning on or after 1 May 2006.
[5] Effective for annual periods beginning on or after 1 June 2006.
[6] Effective for annual periods beginning on or after 1 November 2006.
[7] Effective for annual periods beginning on or after 1 March 2007.
[8] Effective for annual periods beginning on or after 1 January 2008.

4. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information sets out in this report has been prepared under the historical cost basis. The principal accounting policies which have been adopted in preparing the Financial Information sets out in this report and which conform with HKFRS are as follows:

Business combinations under common control combinations

Business combinations under common control are accounted for in accordance with the merger accounting. In applying merger accounting, the combined financial information incorporate the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or business first came under the control of controlling party.

The net assets of the combining entities or businesses are combined using the existing book values prior to the common control combinations from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of common control combination.

The comparative amounts in the consolidated financial information are presented as if the entities or businesses had been combined at the previous balance date or when they first came under common control, whichever is the shorter.

Business combinations other than common control combinations

The acquisitions of subsidiaries under business combination other than common control combinations are accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Inter-company transactions, balances and unrealised gains on transactions between group enterprises are eliminated on consolidation; unrealised losses are also eliminated unless cost cannot be recovered. Where necessary, adjustments are made to the financial information of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interest in subsidiaries

When the Group increases its interest in a controlled entity, the excess of the consideration paid by the parent to minority shareholders over the carrying value of the ownership interests acquired by the parent is recognised as goodwill. The excess of the carrying value of the ownership interests acquired by the parent over the consideration paid by the parent to minority shareholders is recognised in profit or loss.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheets at cost less any identified impairment loss.

Interest in an associate

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

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Subcontracting service income is recognised when services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Operating leases

Leases are classified as operating leases whenever the terms of the lease retain substantially all the risks and rewards of ownership to the lessor.

Rentals payable under operating leases are charged to the consolidated income statements on a straight-line basis over the terms of the relevant leases.

Foreign currencies

The individual financial information of each group company is presented in the currency of the primary economic environment in which the group company operates (its functional currency). For the purpose of presenting the Financial Information, the results and financial position of each company are expressed in RMB, the functional currency of the Company.

In preparing the financial information of the individual companies, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period.

For the purposes of presenting the Financial Information, the assets and liabilities of the Group's foreign operations are translated into RMB at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Government grants

Government grants are recognised as income on a systematic and rational basis over the periods necessary to match them with the related costs. If no basis exists for allocating a grant to a period other than the one in which it is received and the grant is unconditional, the grant is recognised as income on a receipts basis.

Retirement benefit costs

Payments to defined contribution retirement benefit plans are charged as an expense when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Taxation

Income tax expenses represent the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any recognised impairment loss.

Construction in progress is stated at cost, which includes all development expenditure and other direct costs attributable to such projects, less any recognised impairment loss. It is not depreciated until completion of construction and the asset is ready for intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

Research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from the Group's development is recognised only if all of the following conditions are met:

— an asset is created that can be identified;

— it is probable that the asset created will generate future economic benefits; and

— the development cost of the asset can be measured reliably.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Prepaid lease payments

Prepaid lease payments represent land use rights in the PRC are stated at cost and amortised on a straight-line basis over the lease terms. Prepaid lease payments which are to be amortised in the next twelve months or less are classified as current assets.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's consolidated balance sheets when the Group becomes a party to the contractual provisions of the instrument.

Trade and other receivables and amounts due from related parties

Trade and other receivables and amounts due from related parties are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest computed at initial recognition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Trade and other payables and amounts due to related parties

Trade and other payables and amounts due to related parties are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the Financial Information in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 4, management had made the following judgments that have the most significant effect on the amounts recognised in the Financial Information and estimation that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Depreciation

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives, using the straight-line method.

Management exercises judgment in estimating the useful lives of the depreciable assets.

Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price less all the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Operational procedures have been in place to monitor this risk as a significant proportion of the Group's of working capital is devoted to inventories. Procedurewise, management reviews the inventory aging listing on a periodical basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. In addition, physical count on all inventories are carried out on a periodical basis in order to determine whether allowance need to be made in respect of any obsolete and defective inventories identified. In this regard, management is satisfied that this risk is minimal and adequate allowance for obsolete and slow-moving inventories has been made in the Financial Information.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In making the judgment, management considers detailed procedures have been in place to monitor this risk as a significant proportion of the Group's working capital is devoted to trade receivables. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aging status and the likelihood of collection. Following the identification of doubtful debts, the responsible sales personnel discuss with the relevant customers and report on the recoverability, specific allowance is only made for trade receivables that are unlikely to be collected. In this regard, management is satisfied that this risk is minimal and adequate allowance for doubtful debts has been made in the Financial Information in light of the historical records of the Group.

6. REVENUE AND SEGMENTAL INFORMATION

Revenue is measured at the fair value of the consideration received or receivable and represents the net amounts received and receivable for goods sold to outside customers, less returns and discount, if any, and net of value-added tax during the Track Record Period.

Business segment

For management purposes, the Group is organised into three operating divisions — optical components, optoelectronics products and optical instruments. These divisions are the basis on which the Group reports its primary segment information.

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue			
— Optical components	198,020	210,711	309,259
— Optoelectronics products	39,471	278,666	468,016
— Optical instruments	70,438	98,921	123,423
	307,929	588,298	900,698
Segment results			
— Optical components	61,277	34,789	66,254
— Optoelectronics products	5,060	67,459	59,546
— Optical instruments	18,433	21,328	34,861
	84,770	123,576	160,661
Unallocated income	3,672	4,306	4,965
Discount on acquisition of additional interest in subsidiaries	—	—	3,408
Loss on disposal of a subsidiary	—	—	(136)
Impairment loss on goodwill	(7)	—	—
Finance costs	(108)	(4,683)	(2,913)
Share of result of an associate	(169)	(32)	—
Loss on dissolution of an associate	—	(2)	—
Profit before taxation	88,158	123,165	165,985
Income tax charge	(30,329)	(14,589)	—
Profit for the year	57,829	108,576	165,985

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Other information			
Capital additions:			
— Optical components	76,665	54,401	112,075
— Optoelectronics products	1,121	5,110	10,729
— Optical instruments	6,125	4,919	2,451
	83,911	64,430	125,255
Depreciation of property, plant and equipment:			
— Optical components	20,969	29,654	32,833
— Optoelectronics products	139	264	1,832
— Optical instruments	1,700	2,788	2,770
	22,808	32,706	37,435
(Gain) loss on disposal of property, plant and equipment:			
— Optical components	14	144	53
— Optoelectronics products	—	—	3
— Optical instruments	1	13	(18)
	15	157	38
Allowance for inventories:			
— Optical components	867	503	1,578
— Optoelectronics products	—	—	—
— Optical instruments	233	349	147
	1,100	852	1,725

Balance sheet

	At 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Assets			
Segment assets			
— Optical components	261,007	374,196	498,140
— Optoelectronics products	34,616	174,228	153,905
— Optical instruments	77,723	95,432	118,322
	373,346	643,856	770,367
Interests in an associate	831	—	—
Unallocated corporate assets	21,041	44,168	15,025
Consolidated total assets	395,218	688,024	785,392
Liabilities			
Segment liabilities			
— Optical components	31,213	41,474	112,991
— Optoelectronics products	10,658	19,990	21,915
— Optical instruments	16,711	22,226	26,308
	58,582	83,690	161,214
Unallocated corporate liabilities	125,619	272,744	269,296
Consolidated total liabilities	184,201	356,434	430,510

Geographical segments

The following table provides an analysis of the Group's sales by geographical market:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Mainland China	108,487	303,904	327,459
Hong Kong	51,217	125,486	337,522
Japan	57,669	48,818	83,374
Taiwan	47,269	46,299	37,736
Others *(note)*	43,287	63,791	114,607
	307,929	588,298	900,698

All the Group's segment assets are located in the PRC. Accordingly, no geographical segment analysis of segment assets and cost incurred to acquire segment assets are presented.

Note: Others composed of sales to Korea, Europe and other markets in which the individual amount is not over 10% of the Group's sales.

7. OTHER INCOME

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Bank interest income	514	374	1,516
Interest income from a related party *(note 31(b))*	410	1,057	—
	924	1,431	1,516
Government grants *(note)*	1,445	274	1,084
Net gain on sales of scrap materials	1,223	1,466	534
Subcontracting service income	—	637	961
Others	80	498	870
Total	3,672	4,306	4,965

Note: Government grants are received from the local government unconditionally to recognise the eminence of development of new products and export business of the Group. In the opinion of directors of the Company, the grants are non-recurring and available to other companies.

8. FINANCE COSTS

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Interest expenses on:			
Bank borrowings	76	1,776	609
Loans from a related party *(note 31(b))*	—	1,230	2,002
Discounted bills	32	1,677	302
Total	108	4,683	2,913

9. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Directors' remuneration *(note 13)*	170	315	931
Other staff's salaries and allowances	34,459	56,844	89,627
Other staff's discretionary bonuses	2,473	6,856	5,754
Other staff's contribution to retirement benefit scheme	4,372	5,182	7,222
Total staff costs	41,474	69,197	103,534
Auditors' remuneration	768	1,346	788
Depreciation of property, plant and equipment	22,808	32,706	37,435
Release of prepaid lease payments	120	271	272
Allowance for inventories	1,100	852	1,725
Net foreign exchange losses	224	2,369	4,112
Loss on disposal of property, plant and equipment	15	157	38

10. INCOME TAX CHARGE

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
The charge comprises:			
Current tax	(29,056)	(14,314)	—
Deferred tax *(note 18)*	(1,273)	(275)	—
	(30,329)	(14,589)	—

The current tax charge for each of the years ended 31 December 2004 and 2005 represents income tax in the PRC which is calculated at the prevailing tax rate on the taxable income of the group entities in the PRC.

For the period from 1 January 2004 to 22 May 2005, Sunny Optics and Ningbo Instruments were domestic limited liability companies with applicable tax rate of 33%. On 23 May 2005, for the purpose of China tax registration, Sunny Optics and Ningbo Instruments became sino-foreign equity joint ventures of manufacturing nature established in coastal economic open zone in the PRC. Their applicable tax rate were reduced to 26.4% from June 2005 onwards. Furthermore, in accordance with Foreign Enterprise Income Tax ("FEIT") Laws in PRC, Sunny Optics and Ningbo Instruments were approved to be exempted from FEIT for two years starting from their first profit making year after becoming sino-foreign equity joint ventures, followed by a 50% tax relief for the next three years. Sunny Optics and Ningbo Instruments were therefore exempted from FEIT for the period from 1 June 2005 to 31 December 2005 and the year ended 31 December 2006.

Sunny Zhongshan and Sunny Opotech were established as sino-foreign equity joint ventures of manufacturing nature established in coastal economic open zone in the PRC. Their applicable tax rates are 24% and 26.4%, respectively. In accordance with FEIT Laws in PRC, Sunny Zhongshan and Sunny Opotech are also entitled to the exemptions from FEIT for two years starting from their first profit making year, followed by a 50% tax relief for the next three years. Sunny Zhongshan had no tax assessable profit for the period from 24 March 2005 (date of registration) to 31 December 2005. The assessable profit of Sunny Zhongshan for the year ended 31 December 2006 has been fully offset by tax losses brought forward. Sunny Opotech had no tax assessable profit for the period from 5 December 2005 (date of registration) to 31 December 2005. In the opinion of directors of the Company, 2006 will be the first tax exemption year of Sunny Opotech and, accordingly, no provision for taxation has been made on the estimated assessable profit of Sunny Opotech for the year ended 31 December 2006.

Nanjing Instruments and Sunny Infrared were domestic limited liability companies with applicable tax rate of 33%. Nanjing Instruments had no tax assessable profit for the period from 8 August 2005 (date of registration) to 31 December 2005 and the year ended 31 December 2006. Sunny Infrared had no tax assessable profit for the period from 14 April 2006 (date of registration) to 31 December 2006.

The income tax charge for the Track Record Period can be reconciled to the profit before taxation per the consolidated income statements as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Profit before taxation	88,158	123,165	165,985
Tax at applicable income tax rate of 33%	29,092	40,644	54,775
Tax effect of expenses that are not deductible in determining taxable profit *(note)*	995	1,060	6,421
Tax incentive and exemption of subsidiaries	(253)	(31,478)	(59,559)
Tax effect of tax losses not recognised	495	4,363	1,389
Tax effect of utilisation of tax losses not previously recognised	—	—	(3,026)
Income tax charge	30,329	14,589	—

Note: The amount for the year ended 31 December 2006 mainly represents staff costs that are not deductible under the relevant PRC tax regulation.

Details of deferred tax are set out in note 18.

11. DIVIDENDS

No dividend has been declared by the Company since its incorporation up to 31 December 2006. During the Track Record Period, Sunny Optics, Ningbo Instruments and Sunny Opotech declared dividends to their then shareholders prior to Group Reorganisation. The amount of dividend declared by Sunny Optics, Ningbo Instruments and Sunny Opotech attributable to the equity holders of the Company is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Sunny Optics	75,600	15,033	113,732
Ningbo Instruments	16,800	2,625	31,336
Sunny Opotech	—	—	8,121
	92,400	17,658	153,189
Less: Dividends attributable to the minority shareholders	21,612	4,381	49,974
	70,788	13,277	103,215

The rates of dividend and the number of shares ranking for dividend are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Track Record Period is based on the profit attributable to equity holder of the Company for the Track Record Period and by reference to the weighted average number of 575,372,000, 565,980,000 and 574,869,000 shares for the year ended 31 December 2004, 2005 and 2006 which has been adjusted to reflect the 800,000,000 shares in issue, comprising 1,000,000 shares in issue before the capitalisation issue and 799,000,000 shares issued pursuant to the capitalisation issue as more fully described in the section headed "Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to the prospectus.

13. REMUNERATION OF DIRECTORS AND FIVE HIGHEST PAID INDIVIDUALS

The emoluments of directors are analysed as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Directors			
— fee	—	—	—
— salaries and other allowances	64	81	458
— Discretionary bonuses	92	211	430
— retirement benefit scheme contributions	14	23	43
Total emoluments	170	315	931

The emoluments of the directors on a named basis are as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
王文鑾 (Wang Wenjian)	—	—	470
葉遼寧 (Ye Liaoning)	170	315	317
謝明華 (Xie Minghua)	—	—	144
吳進賢 (Wu Jinxian)	—	—	—
	170	315	931

The five highest paid individuals of the Group included 1 director for each of the year ended 31 December 2004 and 2005 and 2 directors for the year ended 31 December 2006, details of their emoluments are set out above. The remuneration of the remaining highest paid individuals during the Track Record Period is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Employees			
— salaries and other allowances	225	282	339
— bonuses	225	552	339
— retirement benefit scheme contributions	57	71	18
	507	905	696

During the Track Record Period, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the Track Record Period.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Machinery and production equipment	Motor vehicles	Fixtures and office equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 1 January 2004	33,321	106,097	3,234	2,561	1,200	146,413
Additions	3	18,970	667	3,371	60,900	83,911
Acquired on acquisition of a subsidiary	—	30	350	—	—	380
Transfer	—	11,036	—	—	(11,036)	—
Disposals	—	(122)	—	—	—	(122)
At 31 December 2004	33,324	136,011	4,251	5,932	51,064	230,582
ACCUMULATED DEPRECIATION						
At 1 January 2004	3,107	18,772	521	777	—	23,177
Charge for the year	1,417	19,966	819	606	—	22,808
Eliminated on disposals	—	(44)	—	—	—	(44)
At 31 December 2004	4,524	38,694	1,340	1,383	—	45,941
CARRYING AMOUNT						
At 31 December 2004	28,800	97,317	2,911	4,549	51,064	184,641
COST						
At 1 January 2005	33,324	136,011	4,251	5,932	51,064	230,582
Additions	1,649	21,469	1,000	7,067	33,245	64,430
Transfer	36,394	33,817	289	—	(70,500)	—
Disposals	(94)	(400)	—	(410)	—	(904)
At 31 December 2005	71,273	190,897	5,540	12,589	13,809	294,108
ACCUMULATED DEPRECIATION						
At 1 January 2005	4,524	38,694	1,340	1,383	—	45,941
Charge for the year	3,837	26,638	942	1,289	—	32,706
Eliminated on disposals	(18)	(241)	—	(16)	—	(275)
At 31 December 2005	8,343	65,091	2,282	2,656	—	78,372
CARRYING AMOUNT						
At 31 December 2005	62,930	125,806	3,258	9,933	13,809	215,736
COST						
At 1 January 2006	71,273	190,897	5,540	12,589	13,809	294,108
Additions	7,518	21,515	1,364	13,028	81,830	125,255
Transfer	8,393	78,684	—	5,184	(92,261)	—
Disposal of a subsidiary	—	(86)	(386)	—	—	(472)
Disposals	—	(1,070)	(230)	(596)	—	(1,896)
At 31 December 2006	87,184	289,940	6,288	30,205	3,378	416,995
ACCUMULATED DEPRECIATION						
At 1 January 2006	8,343	65,091	2,282	2,656	—	78,372
Charge for the year	6,485	26,018	1,043	3,889	—	37,435
Disposal of a subsidiary	—	(60)	(202)	—	—	(262)
Eliminated on disposals	—	(245)	(61)	(134)	—	(440)
At 31 December 2006	14,828	90,804	3,062	6,411	—	115,105
CARRYING AMOUNT						
At 31 December 2006	72,356	199,136	3,226	23,794	3,378	301,890

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, using straight-line method, over their estimated useful lives as follows:

Buildings	20 years
Machinery and production equipment	5 to 10 years
Motor vehicles	5 years
Fixtures and office equipment	5 to 10 years

Buildings with net book value of approximately RMB7,513,000 as at 31 December 2004 were pledged against certain bank facilities granted to the Group (note 25). This arrangement expired in 2005.

15. PREPAID LEASE PAYMENTS

	The Group
	RMB'000
At 1 January 2004	5,180
Released to consolidated income statement	(120)
At 31 December 2004 and 1 January 2005	5,060
Additions	6,602
Released to consolidated income statement	(271)
At 31 December 2005 and 1 January 2006	11,391
Released to consolidated income statement	(272)
At 31 December 2006	11,119

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Analysed for reporting purpose as:			
Current assets	119	271	271
Non-current assets	4,941	11,120	10,848
	5,060	11,391	11,119

The amount represents the prepayment of rentals for land use rights situated in the PRC and held under medium-term leases.

The amount is depreciated over the term of leases ranging from 44 years to 46 years.

Land use rights with a net book value of RMB2,002,000 as at 31 December 2004 were pledged against certain bank facilities granted to the Group (note 25). This arrangement expired in 2005.

16. INVESTMENT IN A SUBSIDIARY

	The Company
	RMB'000
Unlisted equity investment, at cost	244,989

17. INTERESTS IN AN ASSOCIATE

	The Group At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Unlisted investment, at cost	1,000	—	—
Share of result	(169)	—	—
	831	—	—

Details of the Group's associate at 31 December 2004, which was established in the PRC, were as follows:

Name of associate	Registered capital *RMB*	Attributable equity interest to the Group	Principal activity
寧波舜宇進出口有限公司 Ningbo Shun Yu Import & Export Company Limited ("Import & Export Company")	5,000,000	20%	Trading of optical instruments

Import & Export Company was dissolved in September 2005.

18. DEFERRED TAX ASSETS

The Group

The deferred tax assets recognised by the Group, and the movements thereon, during the Track Record Period are as follows:

	Allowance on bad and doubtful debts	Pre-operating costs	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2004	1,249	299	1,548
Charged to consolidated income statement	(1,062)	(211)	(1,273)
At 31 December 2004 and 1 January 2005	187	88	275
Charged to consolidated income statement	(187)	(88)	(275)
At 31 December 2005 and at 31 December 2006	—	—	—

The Group had unrecognised tax losses as follows:

	RMB'000
At 1 January 2004	—
Arose during the year	1,500
At 31 December 2004 and 1 January 2005	1,500
Arose during the year	13,221
At 31 December 2005 and 1 January 2006	14,721
Utilised in the year	(9,170)
Arose during the year	4,209
At 31 December 2006	9,760

The tax losses are principally attributable to subsidiaries in the PRC which are entitled to tax exemption in accordance with FEIT Laws. These losses were incurred before the tax exemption period of the PRC subsidiaries started and, hence, the reversal of these tax losses in the tax exemption year of the PRC subsidiaries would have no material impact to the tax position of the Group. Consequently, no deferred tax assets had been recognised. These tax losses arising in 2004 through 2006 can be carried forward for five years and will expire in 2009 through 2011.

The Group has no other significant unprovided deferred tax for the Track Record Period or at the respective balance sheet dates.

19. INVENTORIES

	The Group At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	18,013	27,160	46,924
Work in progress	14,590	19,052	29,624
Finished goods	13,798	20,995	31,794
	46,401	67,207	108,342

20. TRADE AND OTHER RECEIVABLES

The Group

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

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
Within 90 days	60,757	113,101	133,788
91 to 180 days	11,050	11,902	6,372
Over 180 days	1,395	2,297	2,607
	73,202	127,300	142,767
Note receivables			
Within 90 days	3,998	25,205	33,540
91 to 180 days	1,924	9,660	6,100
	5,922	34,865	39,640
Discounted note receivables with recourse aged within 90 days	—	74,095	—
Advances to suppliers	1,572	2,064	7,584
Prepayments	1,336	2,055	9,568
Others	2,829	2,793	2,568
	5,737	81,007	19,720
	84,861	243,172	202,127

The Group's trade and other receivables that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	At 31 December		
	2004	**2005**	**2006**
	'000	*'000*	*'000*
Japanese Yen	17,906	42,000	19,446
United States dollars	4,599	7,547	9,921
Hong Kong dollars	5,725	9,117	3

The directors consider that the carrying amount of trade and other receivables approximates to their fair value.

21. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledge bank deposits

The amount represents deposits pledged to banks for obtaining letter of credit facilities granted to the Group.

The directors consider the carrying amount of pledged bank deposits approximates to their fair value.

Bank balances and cash

Bank balances and cash comprise cash and short-term deposits with an original maturity of three months or less which are held with financial institutions and carry interest at prevailing market rates. The directors consider the carrying amount of these assets approximates to their fair value.

Bank balances and cash at 31 December 2004, 2005 and 2006 were mainly denominated in RMB which is not a freely convertible currency in the international market. The exchange rate of RMB is determined by the government of the PRC and the remittance of these funds out of the PRC is subject to exchange restrictions imposed by the government of the PRC.

22. FINANCIAL INSTRUMENTS

22a. Financial risk management objective and policies

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and amounts due from related parties, which represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group's credit risk is primarily attributable to its trade and other receivables. The amounts presented in the Financial Information are net of allowances for doubtful receivables, estimated by the Group's management based on prior experience and the current economic environment.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The credit risk on bank balances is limited because the counterparties are banks with high credit ratings.

Foreign currency risk

Several subsidiaries of the Company have foreign currency sales and purchases, which expose the Group to foreign currency risk.

Certain trade receivables and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Fair value interest rate risk

The Group's fair value interest rate risk relates primarily to fixed-rate bank borrowings for the Track Record Period. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

Liquidity risk

The directors consider that the Group's liquidity risk is limited after considering the cash flows of the Group in the foreseeable future.

22b. Fair value

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

23. TRADE AND OTHER PAYABLES

The Group

The following is an aged analysis of trade payables at the balance sheet dates:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
Within 90 days	32,496	47,749	102,233
91 to 180 days	14,562	8,427	4,338
Over 180 days	1,086	5,878	252
Total trade payables	48,144	62,054	106,823
Payable for purchase of property, plant and equipment	2,240	2,547	16,448
Accrued staff costs	5,160	16,090	18,831
Advance from customers	1,762	3,643	8,450
Value added tax payables and other tax payables	4,055	1,822	482
Others	5,411	4,681	9,819
	18,628	28,783	54,030
	66,772	90,837	160,853

The Group's trade and other payables that are denominated in currencies other than the functional currency of the relevant group entities are set out below:

	At 31 December		
	2004	**2005**	**2006**
	'000	*'000*	*'000*
Japanese Yen	256	28,668	4,040
United States dollars	1,353	1,455	3,373

Trade and other payables principally comprise amounts outstanding for trade purchases and ongoing costs. The credit period taken for trade purchases is typically within 90 days.

The directors consider that the carrying amount of trade and other payables approximates to their fair value.

24. DIVIDENDS PAYABLE

	The Group At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Sunny Group 舜宇集團有限公司	66,191	79,122	175,000
Yuyao City Jinrui Assets Operation Company 餘姚市金瑞資產經營公司	9,692	—	—
Hangzhou Zhicheng Optoelectronic Technology Investment Limited 杭州志成光電技術投資有限公司 ("Zhicheng")	8,640	9,172	20,788
Yuyao City Sanyuan Vehicles Electronics Factory 餘姚市三園汽車電器廠 ("Sanyuan")	1,117	985	2,609
Yuyao City Baoma Printing Equipment Limited 餘姚市寶馬印刷器材有限公司 ("Baoma")	760	1,268	1,930
Summit Optical Holdings, Inc.	—	—	35,682
	86,400	90,547	236,009

The dividends payable to various parties at 31 December 2006 were settled before the listing of the Company's shares on the Main Board of the Hong Kong Stock Exchange.

25. BANK BORROWINGS

	The Group At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Bank loans repayable within one year			
Unsecured *(Note i)*	—	74,095	—
Secured *(Note ii)*	16,000	30,000	—
Pledged *(Note iii)*	6,000	—	—
	22,000	104,095	—

Notes:

(i) The amount represented bills discounted to bankers with recourse at an average interest rate of 2.69% per annum which were not due at 31 December 2005.

(ii) As at 31 December 2004 and 2005, the bank loans were guaranteed by Sunny Group up to an amount of RMB 36,500,000. The bank loans were interest bearing at 5.22% per annum at 31 December 2004 and 3.78% per annum at 31 December 2005.

(iii) The bank loans were secured by property, plant and equipment and land use rights of the Group, details of which are set out in notes 14 and 15, respectively. The bank loans were interest bearing at 5.22% per annum at 31 December 2004.

The Group's bank borrowings were denominated in RMB.

The directors consider that the carrying amount of bank borrowings approximates to their fair value.

26. PAID-IN CAPITAL/SHARE CAPITAL

	Number of shares	Amount *HK$*	Equivalent to *RMB'000*
Authorised:			
Ordinary shares of HK$1 each on incorporation and at 31 December 2006	380,000	380,000	384
Issued & fully paid:			
Ordinary shares of HK$ on incorporation	1	1	—
Issue of shares on 24 October 2006	99,999	99,999	101
On 31 December 2006	100,000	100,000	101

Notes:

(1) The Company was incorporated on 21 September 2006 with an authorised share capital of HK$380,000.

(2) At the time of incorporation, 1 share of HK$1 was issued at par to the subscriber to provide the initial capital to Company.

(3) On 24 October 2006, the Company issued 99,999 ordinary shares of HK$1 each for an exchange of the entire issued share capital of Sun Yu Optical.

The paid-in capital of the Group at 31 December 2004 and 2005 represented the combined paid-in capital of Sunny Optics and Ningbo Instruments as of the respective dates.

27. CAPITAL COMMITMENTS

	The Group At 31 December		
	2004 *RMB'000*	**2005** *RMB'000*	**2006** *RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment	24,994	1,297	1,068

28. OPERATING LEASE COMMITMENTS

	The Group At 31 December		
	2004 *RMB'000*	**2005** *RMB'000*	**2006** *RMB'000*
Minimum lease payments under operating leases recognised in the income statement for the year	83	2,868	5,728

At the balance sheet date, the Group had outstanding commitments under operating leases in respect of premises which fall due as follows:

	The Group At 31 December		
	2004 *RMB'000*	**2005** *RMB'000*	**2006** *RMB'000*
Within one year	116	194	891
In the second to fifth year inclusive	—	19	1,141
	116	213	2,032

Operating lease payments represent rentals payable by the Group for premises used for production and operation. Leases are negotiated for a term of 1 to 2 years.

29. RETIREMENT BENEFIT SCHEME

	Year ended 31 December		
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Retirement benefit scheme contribution made during the year	4,386	5,205	7,265

The employees of the Group's PRC subsidiaries are members of a state-managed retirement benefit scheme operated by the local government. The subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

30. ACQUISITION AND DISPOSAL OF A SUBSIDIARY

(a) On 30 April 2004, the Group acquired from Sunny Group a 55% interest in Shanghai Keyi for a consideration of approximately RMB1,700,000. The acquisition has been accounted for using the purchase method. Impairment loss has been recognised on the goodwill arising on acquisition of approximately RMB7,000.

Details of the net assets acquired and the goodwill arising on acquisition are set out as below:

	Carrying amount and fair value
	RMB'000
Net assets acquired:	
Property, plant and equipment	380
Trade and other receivables	340
Bank balances and cash	3,462
Trade and other payable	(1,088)
Tax payable	(16)
	3,078
Minority interests	(1,385)
Goodwill arising on acquisition	7
Satisfied by cash	1,700
Net cash inflow arising on acquisition:	
Cash consideration paid	(1,700)
Bank balances and cash acquired	3,462
	1,762

Shanghai Keyi contributed no revenue and a loss of approximately RMB778,000 to the Group's income statement for the period from the date of acquisition to 31 December 2004.

If the acquisition had been completed on 1 January 2004, there would be no change to the Group's revenue, and profit for the year ended 31 December 2004 would be approximately RMB57,514,000. The above information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2004, nor is it intended to be a projection of future results.

(b) On 10 August 2006, the investment in Shanghai Keyi was disposed. Details of the net assets disposed are set out as below:

	RMB'000
Net assets disposed of:	
Property, plant and equipment	210
Trade and other receivables	47
Bank balances and cash	2,700
Trade and other payable	(186)
	2,771
Minority interests	(1,277)
Loss on disposal	(136)
Total consideration	1,358
Net cash outflow arising on disposal:	
Cash consideration	1,358
Bank balances and cash disposal of	(2,700)
	(1,342)

31. RELATED PARTY DISCLOSURES

(a) Names and relationships with related parties during the Track Record Period are as follows:

Name	**Principal activities**	**Relationship**
Sunny Group	Investment holding	Shareholders of Sunny Optics and Ningbo Instruments before the Group Reorganisation
Zhicheng	Technology development and provision of technology consulting and training services	Former shareholders of Sunny Optics and Ningbo Instruments
Baoma	Manufacture and sale of printing machines, printing equipment and components of autocar electrical appliance	Former shareholders of Sunny Optics and Ningbo Instruments
Sanyuan	Manufacture of autocar electrical appliances	Former shareholders of Sunny Optics and Ningbo Instruments
Ningbo Sunny Science & Technology Limited 寧波舜宇科技有限公司("Ningbo SST")	Manufacture and sale of telescopes and riflescopes	Company controlled by Sunny Group
Ningbo Sunny Mould Limited 寧波舜宇模具有限公司("Sunny Mould")	Manufacture and sale of various precision moulds for cars	Company controlled by Sunny Group
Yuyao City Urban Fanxing Electrical Appliance Factory 餘姚市城區范興電器廠("Fanxing")	Manufacture and sale of hardware and plastic components	Company controlled by a family member of Wu Jinxian
Yuyao City Xingbang Optoelectronic Instruments Company Limited 餘姚市興邦光電儀器有限公司("Xingbang")	Manufacture and sale of parts for optical instruments	Company controlled by a family member of Wu Jinxian
Yuyao City Xingli Optics Instruments Factory 餘姚市興立光學器材廠("Xingli")	Manufacture and sale of parts for optical instruments	Company controlled by a family member of Ye Liaoning

(b) During the Track Record Period, in addition to those disclosed in notes 25 and 30, the Group entered into the following significant transactions with related parties:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Sales of goods *(note 1)*			
Ningbo SST#	390	1,375	1,145
Sunny Mould#	30	6	1
	420	1,381	1,146
Purchase of raw materials *(note 1)*			
Ningbo SST#	1,190	1,031	3,211
Sunny Mould#	73	104	10
Fanxing#	482	548	673
Xingbang#	295	301	87
Xingli#	10	—	273
	2,050	1,984	4,254

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Property rental expenses *(note 2)*			
— Sunny Group#	—	2,518	3,890
Interest expenses *(note 3)*			
— Sunny Group	—	1,230	2,002
Interest income *(note 4)*			
— Ningbo SST	410	1,057	—
Purchase of property, plant and equipment *(note 1)*			
— Sunny Group	—	—	10,401

The directors of the Company represented to us that the above transactions with related parties denoted with asterisk '#' were expected to continue after the listing of the Companys' shares on the Main Board of the Stock Exchange.

Ningbo SST and Sunny Mould will continue to be related parties in 2007 as a family member of Mr Wang Wenjian has beneficial interests subsequent to the disposal of Sunny Group's interests in Ningbo SST and Sunny Mould on 30 January 2007.

Notes:

(1) The transactions were entered into in accordance with the terms agreed by the relevant parties.

(2) The property rental expenses were charged based on the terms agreed by the relevant parties.

(3) The interest expenses were charged based on the loan agreement and entrusted loan agreements entered into between the Group and Sunny Group, details of which are set out in note 31(c).

(4) The interest income was calculated based on the loan agreements and entrusted loan agreements entered into between the Group and Ningbo SST, details of which are set out in note 31(c).

The directors of the Company represented to us that the related party transactions disclosed above were conducted in normal commercial terms and in the ordinary and usual course of Group's business.

(c) At each balance sheet date, in addition to those disclosed in note 24, the Group has the following significant balances with related parties:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Current assets:			
Amounts due from related parties			
Ningbo SST *(note 1)*	25,787	15,647	—
Sunny Mould *(note 2)*	65*	1*	—
Sunny Group *(note 2)*	—	819	862
Zhicheng *(note 2)*	—	93	132
Sanyuan *(note 2)*	—	12	21
Baoma *(note 2)*	—	8	15
	25,852	16,580	1,030
Current liabilities:			
Amounts due to related parties			
Fanxing *(note 2)*	108*	181*	281*
Xingbang *(note 2)*	—	19*	73*
Xingli *(note 2)*	—	—	7*
Ningbo SST *(note 2)*	—	336	—
Sunny Mould *(note 2)*	—	10	—
Sunny Group *(note 3)*	—	309	33,287
	108	855	33,648
Non-current liability:			
Amount due to a related party			
Sunny Group *(note 3)*	—	70,100	—

Notes:

1. Included in the amount due from Ningbo SST are the followings:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Loans receivable *(i)*	25,344	—	—
Entrusted loans receivable *(ii)*	—	15,000	—
Interest receivable *(iii)*	—	647	—
Other receivable *(iii)*	443	—	—
	25,787	15,647	—

(i) In 2004, the Group entered into loan agreements with Ningbo SST for the provision of loans amounting to RMB25,344,000. The loans were unsecured, interest bearing at 3.6% per annum and were fully repaid in 2005.

(ii) In 2005, the Group, through China Minsheng Banking Corp. Ltd., entered into entrusted loan agreements with Ningbo SST for the provision of loans amounting to RMB26,000,000. The loans were unsecured, interest bearing at 4.6% per annum and were repayable within one year. RMB11,000,000 of the entrusted loans was repaid within 2005 and the remaining balance of RMB15,000,000 was fully repaid in 2006.

(iii) The interest receivable and other receivable are unsecured, non-interest bearing and are repayable on demand. They are aged within 1 year and 90 days, respectively.

2. Other than those amounts denoted with asterisk '*' which are of trading nature, the other amounts are of non-trade nature. The amounts are unsecured, interest free and are repayable on demand. They are aged within 180 days from the respective balance sheet dates and have been settled after the balance sheet date.

3. Included in the amount due to Sunny Group are the followings:

	At 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Entrusted loans payable *(i)*	—	70,100	29,237
Loan payable *(ii)*	—	—	4,000
Interest payable *(iii)*	—	—	50
Other payables *(iii)*	—	309	—
	—	70,409	33,287

(i) In 2005, Sunny Group, through Agricultural Bank of China, entered into entrusted loan agreements with the Group for the provision of loans amounting to RMB93,100,000. The loans are unsecured, interest bearing at 5.58% per annum and are repayable in 2007. RMB23,000,000 of the entrusted loans was repaid by the Group within 2005 and RMB40,863,000 was repaid in 2006.

(ii) In 2006, the Group entered into loan agreement with Sunny Group for the provision of loan amounting to RMB4,000,000. The loans is unsecured, interest bearing at 4.70% per annum and is repayable on demand.

(iii) Interest and other payables are unsecured, interest free and are repayable on demand. They are aged within 90 days from the balance sheet date.

The payables to Sunny Group at 31 December 2006 were settled before the listing of the Company's shares on the Main Board of the Stock Exchange.

The directors consider the carrying amounts of balances with related parties approximate to their fair value.

(d) Compensation of key management personnel

The remuneration of key management, excluding all directors whose remuneration has been set out in note 13, during the Track Record Period is as follows:

	Year ended 31 December		
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Short-term benefits	677	2,151	2,818
Post-employment benefits	131	189	194
	808	2,340	3,012

B. DIRECTORS' REMUNERATIONS

Save as disclosed in this report, no other remuneration has been paid or is payable, in respect of the Track Record Period referred to in this report by the Company or any of its subsidiaries to the Company's directors.

Under the arrangement presently in force, the aggregate amount of the directors' fees and emoluments for the year ending 31 December 2007 is estimated to be approximately RMB1,967,000.

C. SUBSEQUENT EVENTS

The following significant events took place subsequent to 31 December 2006:

(a) On 12 February 2007, Ningbo Instruments entered into the property sale and purchase agreement to acquire a piece of land together with properties erected thereon from Sunny Group at a consideration of RMB28,000,000.

(b) On 25 May 2007, shareholders' resolution of the Company were passed to approve the matters set out in the paragraph headed "Written resolutions passed by all the Shareholders on 25 May 2007" in Appendix V to the Prospectus.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any financial period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set out in this appendix does not form part of the accountants' report prepared by the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong as set out Appendix I to this prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the accountants' report as set out Appendix I to this prospectus.

Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the financial position of the Group as at 31 December 2006 or at any further date.

For illustrature purpose only, the following statement of unaudited pro forma adjusted net tangible assets of the Group prepared in according to Rule 4.29 of the Listing Rules is set out here to illustrate the effect of the Global Offering on the consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006 as if they had taken place on 31 December 2006 and based on the audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006 as shown in the accountants' report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	Audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006	**Estimated net proceeds from the Global Offering**	**Unaudited pro forma net tangible assets attributable to the equity holders of the Company as at 31 December 2006**	**Unaudited pro forma net tangible assets attributable to the equity holders of the Company as at 31 December 2006 per Share**	
	RMB'000	*RMB'000*	*RMB'000*	*RMB*	*HK$*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$3.00 per Share	354,877	553,000	907,877	0.908	0.908
Based on an Offer Price of HK$3.82 per Share	354,877	711,000	1,065,877	1.066	1.066

Notes:

1. The audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006 has been extracted without adjustment from the accountants' report set out in Appendix I to this prospectus.

2. The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.00 per Share, and HK$3.82 per Share, respectively after deduction of the underwriting fees and other related expenses payable by the Company and assuming the translation of Hong Kong dollars to Renminbi as stated below in note 4.

3. The unaudited pro forma net tangible assets attributable to the equity holders of the Company as at 31 December 2006 per Share is based on 1,000,000,000 Shares expected to be in issue immediately following completion of the Global Offering. No account has been taken for the Shares which may be issued or repurchased pursuant to any exercise of general mandate to issue or repurchase shares.

4. The amount in Renminbi is converted to Hong Kong dollars with the exchange rate at HK$1.00 to RMB1.00.

5. By comparing the valuation of the Group's property interests of RMB116.7 million as set out in Appendix III to this prospectus and the unaudited net book value of these properties of RMB82.2 million as of 31 March 2007, the net valuation surplus is approximately RMB34.5 million, which has not been included in the above net tangible assets attributable to the equity holders of the Company as at 31 December 2006. The revaluation of the Group's property interests will not be incorporated in the Group's financial statements. If the revaluation surplus is to be included in the Group's financial statements, an additional depreciation charge of approximately RMB664,000 would be recorded.

B. ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report received from the reporting accountants of the Company, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong in respect of the unaudited pro forma financial information for the purpose of incorporation in this prospectus.

Deloitte.
德勤

Accountants' Report on Unaudited Pro Forma Financial Information

To the Directors of Sunny Optical Technology (Group) Company Limited

We report on the unaudited pro forma financial information of Sunny Optical Technology (Group) Company Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed placing and public offer of an aggregate of 270,000,000 shares of HK$0.1 each in the Company might have affected the financial information presented, for inclusion in Appendix II to the prospectus dated 4 June 2007 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of the financial position of the Group as at 31 December 2006 or any future date.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

DELOITTE TOUCHE TOHMATSU
Certified Public Accountants
Hong Kong
4 June 2007

The following is the text of a letter, summary of valuations and valuation certificates issued by DTZ Debenham Tie Leung Limited, an independent property valuer, prepared for the purpose of incorporation in this prospectus in connection with its valuations of the properties held by the Group as at 31 March 2007.

DTZ 戴德梁行

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

4 June 2007

The Directors
Sunny Optical Technology (Group) Company Limited
Nos. 66–68 Shunyu Road,
Cheng District,
Yuyao City,
Zhejiang Province,
The People's Republic of China

Dear Sirs,

In accordance with your instructions for us to value the properties held by Sunny Optical Technology (Group) Company Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), Korea and Japan as listed in the attached summary of valuations, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the market values of such properties as at 31 March 2007 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In valuing the properties, we have complied with the requirements set out in Chapter 5, Practice Note 12 and Practice Note 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Valuation Standards (First Edition 2005) on Properties issued by the Hong Kong Institute of Surveyors.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

We have valued the property Nos. 1 and 2 in Group I, which are owned and occupied by the Group in the PRC, due to the specific nature of the buildings and structures, there are no readily identifiable market sales comparables and the buildings and structures cannot be valued by comparison with appropriate market transactions. Therefore, we have adopted the Depreciated Replacement Cost ("DRC") Approach in valuing the properties. The DRC Approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures, from which deductions are then made to allow for the age, condition and functional obsolescence. The DRC Approach generally furnishes the most reliable indication of value for property in the absence of a known market based on comparable sales.

Regarding property No. 3 in Group I, which are owned and occupied by the Group in the PRC, we have valued it by the Direct Comparison Method by making reference to comparable sales transactions as available in the relevant market.

We have ascribed no commercial value to the Group II because the Certificate for the Use of State-owned Land and Building Ownership Certificates have not been obtained yet as at the date of valuation.

The properties in Groups III, IV and V which are leased to the Group in the PRC, Korea and Japan respectively, have no commercial values due to prohibition of assignment or sub-letting or lack of substantial profit rents.

We have been provided with copies of extract of documents in relation to the title to the owned properties and copies of tenancy agreements in relation to all properties. However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us but have relied upon the information given to us by the Group in the respect of the Group's interest in the properties. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and other related parties and have accepted advice given to us on such matters as planning approvals or statutory notice, easements, tenure, identification of properties, completion dates of buildings, particulars of occupancy, site and floor areas, site and floor plans and all other relevant matters.

Dimensions, measurements and areas included in the attached valuation certificates are based on information provided to us and are therefore only approximations. We have not carried out on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. We have had no reasons to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuations. We were also advised by the Group that no material facts have been omitted from the information provided.

In the course of our valuation of the properties in the PRC, we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fee have been granted and that any premium payable has already been fully paid. We have assumed that the grantees or the users of the properties have free and uninterrupted rights to use or to assign the properties for the whole of the respective unexpired terms as granted. We have relied on the advice given by the Group and the Group's legal adviser, High Mark Law Firm, regarding PRC law and the title to each of the properties.

We have inspected the exterior and, wherever possible, the interior of each of the properties. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no unexpected costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not been, however, able to report whether the properties are free of rot, infestation or other structural defects. No test was carried out on any of the services.

Unless otherwise stated, all money amounts stated in our valuations are in Renminbi, the official currency of the PRC.

We enclose herewith a summary of our valuations and our valuation certificate.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K. F. Chan
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. Andrew K.F. Chan is a Registered Professional Surveyor who has over 19 years' experience in the valuation of properties in the PRC and other Asian countries.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 31 March 2007 *RMB*
Group I — Properties owned and occupied by the Group in the PRC	
1. An industrial complex situated at Shabian Village, Zhongshan Torch Hi-Tech Industrial Development Zone, Zhongshan, Guangdong Province, the PRC	51,000,000
2. An industrial complex situated at Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	64,000,000
3. Room 4205, Building No. 2, No. 88 Zhujiang Road, Xuanwu District, Nanjing, Jiangsu Province, the PRC	1,700,000
Sub-total:	116,700,000

Property	Capital value in existing state as at 31 March 2007 *RMB*
Group II — Property to be acquired by the Group in the PRC	
4. An industrial complex situated at Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	No commercial value
Sub-total:	No commercial value
Group III — Properties leased to the Group in the PRC	
5. Part of Level 3, No. 829 Yishan Road, Shanghai City, the PRC	No commercial value
6. Room 612, Phase 2, Tian An Innovation Science and Technology Plaza, Futian District, Shenzhen, Guangdong Province, the PRC	No commercial value
7. Unit 20B, No. 252 Wenshan Road, Hangzhou City, Zhejiang Province, the PRC	No commercial value
8. No. 2, Level 9, Jinsong Court, No. 98 Qifeng Road, Cheng District, Dongguan, Guangdong Province, the PRC	No commercial value

Property	Capital value in existing state as at 31 March 2007 *RMB*
9. An office building, a canteen, a guard room, a power room and a boiler room in Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	No commercial value
10. A waste water treatment room in Nos. 66–68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	No commercial value
11. North of Nos. 66-68 Shunyu Road, Beijiao Village, Cheng District, Yuyao City, Zhejiang Province, the PRC	No commercial value
12. West of Zhongjiang, Bus Station North, Cheng District, Yuyao City, Zhejiang Province, the PRC	No commercial value
13. Factory Block No. 3 and 4, No. 48 Shunke Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	No commercial value
Sub-total:	No commercial value

Property	Capital value in existing state as at 31 March 2007 *RMB*
Group IV — Property leased to the Group in Korea	
14. Unit #1102 Busan Digital Valley Factory Building 132–7, Gamjeon-dong Sasang-gu, Busan City Korea	No commercial value
Sub-total:	No commercial value
Group V — Properties leased to the Group in Japan	
15. 12–25 Nishi-Ekimaecho Ibaraki-shi Osaka-fu Japan	No commercial value
16. 5–16 Shinchujocho Ibaraki-shi Osaka-fu Japan	No commercial value
17. 2-2-12 Kasuga Ibaraki-shi Osaka-fu Japan	No commercial value
Sub-total:	No commercial value
Grand Total:	**116,700,000**

VALUATION CERTIFICATE

Group I — Properties owned and occupied by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007
1.	An industrial complex situated at Shabian Village, Zhongshan Torch Hi-Tech Industrial Development Zone, Zhongshan, Guangdong Province, the PRC	The property comprises an industrial complex erected upon a plot of land with a site area of approximately 35,621.80 sq.m. (383,433 sq.ft.). The industrial complex comprises a workshop building, a composite building and ancillary building all completed in 2005. Total gross floor area of the complex is approximately 24,054.40 sq.m. (258,922 sq.ft.). The land use rights of the property have been granted for a term due to expire on 14 June 2048 for industrial use.	The property is currently occupied by Sunny Optics (Zhongshan) Co., Ltd. (舜宇光學(中山)有限公司) as factory with ancillary offices.	RMB51,000,000

Notes:

(1) According to Transfer Contract for Land Use Rights entered into between Jon Jee High & New Technology and Industrial Group Ltd. (中炬高新技術實業(集團)股份有限公司), an independent third party, ("Party A") and Sunny Optics (Zhongshan) Co., Ltd. (舜宇光學(中山)有限公司), an indirect wholly-owned subsidiary of the Group, ("Party B") on 29 December 2003, Party B has agreed to purchase the land with a total site area of 35,621.80 sq.m for the consideration of RMB6,625,654.80.

(2) According to Certificate for the Use of State-owned Land Zhong Fu Guo Yong (2004) Di Yi No. 154304 issued by Zhongshan Land Recourse Bureau on 10 October 2004, the land use rights of the property comprising a site area of 35,621.80 sq.m. have been granted to Sunny Optics (Zhongshan) Co., Ltd. (舜宇光學(中山)有限公司) for a term due to expire on 14 June 2048 for industrial use.

(3) According to Building Ownership Certificate Yue Fang Di Zheng Zi Di No. C4695383 issued by Peoples' Government of Guangdong Province on 18 June 2006, the building ownership of the property is vested in Sunny Optics (Zhongshan) Co., Ltd. (舜宇光學(中山)有限公司), with total gross floor area of 24,054.40 sq.m..

(4) According to Business Licence Qi He Yue Zhong Zong Zi Di No. 004494 dated 11 September 2006, Sunny Optics (Zhongshan) Co., Ltd.(舜宇光學(中山)有限公司) was established as a foreign-owned enterprise with a registered capital of US$7,260,000 for a valid operation period from 24 March 2004 to 22 March 2015.

(5) According to the PRC legal opinion:

(i) Sunny Optics (Zhongshan) Co., Ltd. (舜宇光學(中山)有限公司) has obtained the land use rights and building ownership rights of the property.

(ii) Sunny Optics (Zhongshan) Co., Ltd. (舜宇光學(中山)有限公司) is entitled to transfer, mortgage, lease, bestow, use and dispose of the land use rights and building ownership rights of the property to any third parties without any supplementary payment of land premium and other substantial fees.

(iii) The property is not subject to any mortgage.

(iv) The property is used for its intended purpose.

(6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007
2.	An industrial complex situated at Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	The property comprises an industrial complex erected upon five plots of land with a total site area of approximately 51,890.05 sq.m. (558,544 sq.ft.). The industrial complex comprises nine workshop buildings, two power rooms, two office buildings, two guard rooms and one warehouse all completed from 1996 to 2003 with a total gross floor area of approximately 45,124.09 sq.m. (485,716 sq.ft.). The land use rights of the property have been granted for a term of 50 years due to expire on 27 May 2047 for industrial use.	Portions of the property, comprising a total gross floor area of 7,842.39 sq.m. is leased to Ningbo Sunny Opotech Co., Ltd. (寧波舜宇光電信息有限公司), an indirect wholly owned subsidiary of the Group, and Ningbo Sunny Infrared Technologies Company Ltd. (寧波舜宇紅外技術有限公司), which is owned as to 95% by Zhejiang Sunny Optics Co., Ltd (浙江舜宇光學有限公司), from 1 January 2007 to 31 December 2009 at a total monthly rental of RMB106,022.34 for industrial and office use. The remaining portions 37,281.70 of the property are currently occupied by the Group for industrial and ancillary office use.	RMB64,000,000

Notes:

(1) According to 5 Certificates for the Use of State-owned Land Yu Guo Yong (2005) Di Nos. 03231, 03233, 03234, 03235 and 03236 issued by Yuyao Municipal Land Recourse Bureau on 1 June 2005, the land use rights of the property comprising a site area of 51,890.05 sq.m. have been granted to Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司), an indirect wholly owned subsidiary of the Group, for a term of 50 years due to expire on 27 May 2047 for industrial use with details as follows:

Certificate No.	Site Area *(sq.m.)*	Address
(2005)03231	10,800.40	Nos.66–68 Sunyu Road (South Side)
(2005)03233	1,978.45	Nos.66–68 Sunyu Road (North Side)
(2005)03234	10,200.10	Nos.66–68 Sunyu Road (South Side)
(2005)03235	14,900.90	Nos.66–68 Sunyu Road (South Side)
(2005)03236	14,010.20	Nos.66–68 Sunyu Road (South Side)
Total:	**51,890.05**	

(2) According to 7 Building Ownership Certificates Yu Fang Quan Zheng Cheng Qu Zi Di Nos. A0505160, A0700508, A0505216, A0505217, A0505218, A0505219 and A0618133 issued by Yuyao Municipal Housing and Land Resources Administrative Bureau, the building ownership of the property comprising a total gross floor area of 45,124.09 sq.m., is vested in Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) with details as follows:

Certificate No.	Building Name	Completion Date	No. of storey	GFA *(sq.m.)*
A0505160	Guard Room	1999	1	59.87
A0700508	Warehouse	1999	1	616.86
	Workshop	1999	2	3,816.43
	Workshop	1999	2	945.31
	Workshop	1999	2	3,742.64
	Fire Pump Room	1999		31.55
A0505216	Workshop	2002	2	21,435.85
	Power Room	2002	1	1,312.17
A0505217	Workshop	2003	2	1,090.53
A0505218	Workshop	2000	2	2,909.67
	Guard Room	2000	1	39.60
	Workshop	2000	2	556.19
	Power Room	2000	1	593.31
A0505219	Office	1996	2	675.46
	Office	1996	2	610.47
	Workshop	1996	2	2,954.41
	Workshop	1996	1	1,553.92
A0618133	Office	2006	4	2,179.85
			Total:	**45,124.09**

(3) According to Business Licence No. 009151 dated 30 August 2006, Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) was established as a foreign-owned enterprise with a registered capital of RMB105,000,000 for a valid operation period from 23 May 2005 to 22 May 2025.

(4) According to PRC legal opinion:

(i) Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) has obtained the land use rights and building ownership rights of the property.

(ii) Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) is entitled to transfer, mortgage, lease, bestow, use and dispose of the land use rights and building ownership rights of the property to any third parties without any supplementary payment of land premium and other substantial fees.

(iii) The property is not subject to any mortgage.

(iv) The property is used for its intended purpose.

(5) The status of title and grant of major approvals and licences in accordance with the PRC legal opinion and information provided by the Group are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007
3.	Room 4205, Building No. 2, No. 88 Zhujiang Road, Xuanwu District, Nanjing, Jiangsu Province, the PRC	The property comprises a unit of a 46-storey building, completed in 2003 with a total gross floor area of approximately 204.43 sq.m. (2,200 sq.ft.). The land use rights have been granted for a term due to expire on 30 May 2063 for residential use.	The property is currently occupied by Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) as office.	RMB1,700,000

Notes:

(1) According to Commodity Housing Sale and Purchase Agreement entered into between Nanjing Huawei Real Estate Development Co., Ltd. (南京華威房地產開發有限公司), an independent third party, ("Party A") and Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) a wholly-owned subsidiary of the Group ("Party B"), Party B have agreed to purchase a residential unit with a total gross floor area of 204.43 sq.m. at a consideration of RMB1,528,727.

(2) According to Certificate for the Use of State-owned Land Ning Xuan Guo Yong (2006) Di No. 13764 issued by Nanjing Land Recourse Bureau on 6 December 2006, the land use rights of the property have been granted to Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司), for a term due to expire on 30 May 2063 for residential use.

(3) According to Building Ownership Certificate No. 269343 issued by Nanjing Real Estate Administration Bureau on 24 November 2006, the building ownership of the property is vested in Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司), with total gross floor area of 204.43 sq.m..

(4) According to the Business Licence No. 3201000002006l2300069 (2/2) dated 30 December 1996, Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) was established with a registered capital of RMB3,000,000 for a valid operation period from 8 August 2005 to 8 August 2015.

(5) According to the PRC legal opinion:

(i) Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) has obtained the land use rights and building ownership rights of the property.

(ii) Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) is entitled to transfer, mortgage, lease, bestow, use and dispose of the land use rights and building ownership rights of the property to any third parties without any supplementary payment of land premium and other substantial fees.

(iii) The property is not subject to any mortgage.

(iv) Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) registered in the Nanjing Administration for Industry and Commerce Bureau as office. Although the usage is different from the Building Ownership Certificates, it is approved by the Nanjing Administration for Industry and Commerce Bureau. Nanjing Sunny Optical Instruments Co., Ltd. (南京舜宇光學儀器有限公司) should have no significant legal consequence by using the property for office use.

(6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licences are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group II — Property to be acquired by the Group in the PRC

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2007
4.	An industrial complex situated at Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	The property comprises an industrial complex erected upon a plot of land with a total site area of approximately 17,748.60 sq.m. (191,046 sq.ft.). The industrial complex comprises a workshop building and an ancillary building all completed in 2004 with a total gross floor area of approximately 18,667.50 sq.m (200,937 sq.ft.). The land use rights of the property have been granted for a term of 50 years due to expire on 7 December 2050 for industrial use.	The property is currently leased to Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司) , a wholly owned subsidiary of the Group, for a term of 3 years from 1 January 2007 to 31 December 2009 at a total monthly rental of RMB178,639.44 for industrial and office use.	No commercial value

Notes:

(1) According to Land use Rights Transfer Contract entered into between Sunny Group Limited (舜宇集團有限公司) ("Party A") and Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司) ("Party B") on 12 February 2007, Party B has been agreed to purchase the land and buildings with a site area of approximately 17,748.60 sq.m. and gross floor area of approximately 18,667,50 sq.m. for the consideration of RMB28,000,000 for industrial use.

(2) In the course of our valuation, we have ascribed no commercial value to the property as State-owned Land Use Rights Certificate and the Building Ownership certificates have not been obtained. For reference purposes, had the Group obtained a valid State-owned Land Use Rights Certificate and Building Ownership Certificates, the market value of the property as at 31 March 2007 assuming that the land premium has been fully paid, in its existing state would be RMB28,000,000.

(3) According to the legal opinion issued by the Company's PRC legal advisers:

(i) Sunny Group Limited (舜宇集團有限公司) has obtained the land use rights and building ownership rights of the property.

(ii) Sunny Group Limited (舜宇集團有限公司) is entitled to transfer the land use rights and building ownership rights of the property to Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司).

(iii) The terms and conditions of the Land Use Rights Transfer Contract and the transactions contemplated therein are legal and valid.

(iv) Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司) should have no legal impediment to obtaining the land use rights and building ownership rights of the property after the land premium has been settled.

VALUATION CERTIFICATE

Group III — Properties leased to the Group in the PRC

	Property	Description and tenure occupancy	Capital value in existing state as at 31 March 2007
5.	Part of Level 3, No. 829 Yishan Road, Shanghai City, the PRC	The property comprises the whole of 3rd level of a 5-storey industrial building completed in or about 1996. The property has a gross floor area of approximately 610.98 sq.m. (6,577 sq.ft.) and is currently occupied by the Group as office. The property is currently leased from an independent third party to Ningbo Sunny Opotech Co., Ltd. (寧波舜宇光電信息有限公司) for a term of 3 years from 1 April 2006 to 31 March 2009 at an annual rental of RMB580,000.	No commercial value
6.	Room 612, Phase 2, Tian An Innovation Science and Technology Plaza, Futian District, Shenzhen, Guangdong Province, the PRC	The property comprises an office unit on the 6th level of a 20-storey office building completed in 2005. The property has a gross floor area of approximately 106 sq.m. (1,141 sq.ft.) and is currently occupied by the Group as office. The property is currently leased from an independent third party to Ningbo Sunny Opotech Co., Ltd. (寧波舜宇光電信息有限公司) for a term of 1 year from 6 July 2006 to 5 July 2007 at a monthly rental of RMB10,600.	No commercial value
7.	Unit 20B, No. 252 Wenshan Road, Hangzhou City, Zhejiang Province, the PRC	The property comprises an office unit on the 20th level of a 20-storey office building completed in or about 1996. The property has a lattable area of approximately 486.02 sq.m. (5,232 sq.ft.) and is currently occupied by the Group as office. The property is currently leased from Sunny Group Limited (舜宇集團有限公司), a connected party to the Group, to Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司) for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of RMB14,580.6.	No commercial value
8.	No. 2, Level 9, Jinsong Court, No. 98 Qifeng Road, Cheng District, Dongguan, Guangdong Province, the PRC	The property comprises a unit on the 9th level of a 17-storey residential building completed in 2001. The property has a lettable area of approximately 127.96 sq.m. (1,377 sq.ft.) and is currently occupied by the Group as dormitory. The property is currently leased from Sunny Group Limited (舜宇集團有限公司), a connected party to the Group, to Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司) for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of RMB2,559.2.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Capital value in existing state as at 31 March 2007
9.	An office building, a canteen, a guard room, a power room and a boiler room in Nos. 66-68 Shunyu Road, Cheng District Yuyao City, Zhejiang Province, the PRC	The property comprises an office building, a canteen, a guard room, a power room, and a boiler room which are all completed in or about 2003. The property has a gross floor area of approximately 13,134.15 sq.m. (141,376 sq.ft.) and is currently occupied by the Group as office and ancillary use. The property is currently leased from Sunny Group Limited (舜宇集團有限公司), a connected party to the Group, to Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of RMB107,126.66.	No commercial value
10.	A waste water treatment room in Nos. 66-68 Shunyu Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	The property comprises a waste water treatment room on an industrial building completed in 2004. The property has a gross floor area of approximately 150.30 sq.m. (1,618 sq.ft.) and is currently occupied by the Group as industrial use. The property is currently leased from Sunny Group Limited (舜宇集團有限公司), a connected party to the Group to Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of RMB1,503.	No commercial value
11.	North of Nos. 66-68 Shunyu Road, Beijiao Village, Cheng District, Yuyao City, Zhejiang Province, the PRC	The property comprises 69 rooms on a building completed in 2004. The property has a gross floor area of approximately 2,070 sq.m. (22,281 sq.ft.) and is currently occupied by the Group as dormitory. The property is currently leased from Sunny Group Limited (舜宇集團有限公司), a connected party to the Group to Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司), Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司), Ningbo Sunny Opotech Co., Ltd. (寧波舜宇光電信息有限公司), Ningbo Sunny Infrared Technologies Company Ltd. (寧波舜宇紅外技術有限公司) for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of RMB150 each room.	No commercial value

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Capital value in existing state as at 31 March 2007
12.	West of Zhongjiang, Bus Station North, Cheng District, Yuyao City, Zhejiang Province, the PRC	The property comprises 229 standard rooms and 3 suites on a building completed in from 2002 to 2003. The property has a gross floor area of approximately 6,472.60 sq.m. (69,671 sq.ft.) and is currently occupied by the Group as dormitory. The property is currently leased from Sunny Group Limited (舜宇集團有限公司), a connected party to the Group to Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司), Ningbo Sunny Instruments Co., Ltd. (寧波舜宇儀器有限公司), Ningbo Sunny Opotech Co., Ltd. (寧波舜宇光電信息有限公司), Ningbo Sunny Infrared Technologies Company Ltd. (寧波舜宇紅外技術有限公司) for a term of 3 years from 1 January 2007 to 31 December 2009 at a monthly rental of RMB170 each standard room and RMB450 each suite.	No commercial value
13.	Factory Block No. 3 and 4, No. 48 Shunke Road, Cheng District, Yuyao City, Zhejiang Province, the PRC	The property in a industrial building completed in 2004. The property has a gross floor area of approximately 2,150 sq.m. (23,143 sq.ft.) and is currently occupied by the Group as dormitory. The property is currently leased from an independent third party to Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) for a term of 3 years from 23 October 2006 to 22 October 2009 at an annual rental of RMB227,000.	No commercial value

Note:

(1) Summary of the PRC legal opinion:

The leases of Property Nos. 6, 7, 9, 10, 11, 12 and 13 comply with the respective Laws in the PRC and have been duly registered in the respective government departments. The lessors are the legal owners of the properties and are entitled to lease the properties. The leases are legal and valid. The existing use of the properties complies with the prescribed use of the properties.

The leases of Property Nos. 5 and 8 have not been duly registered in the respective government departments but the leases are legal and valid. The lessors are the legal owners of the properties and are entitled to lease the properties. The existing use of the properties complies with the prescribed use of the properties.

VALUATION CERTIFICATE

Group IV — Property leased to the Group in Korea

Property	Description and tenancy particulars	Capital value in existing state as at 31 March 2007
14. Unit #1102 Busan Digital Valley Factory Building, 132–7, Gamjeon-dong, Sasang-gu, Busan-city, Korea	The property comprises a unit of a 12-storey industrial building completed in 2004. The property has a gross floor area of approximately 224.58 sq.m. (2,417 sq.ft.) and is currently occupied by the Group as office. The property is currently leased from an independent third party to Representative Office of Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) in Korea for a term of 1 year from 1 January 2007 to 31 December 2007 at a monthly rental of KRW400,000. According to the Korea legal opinion, the Tenancy Agreements, as executed, constitutes legal, valid and binding obligations of Representative Office of Zhejiang Sunny Optics Co., Ltd. (浙江舜宇光學有限公司) in Korea and the Landlords enforceable in accordance with its terms.	No commercial value

Group V — Properties leased to the Group in Japan

Property	Description and tenure	Capital value in existing state as at 31 March 2007
15. 12-25 Nishi-Ekimaecho Ibaraki-shi Osaka-fu Japan	The property comprises a unit of a 5-storey composite building completed in 1989. The property has a gross floor area of approximately 43.20 sq.m. (465 sq.ft.) and is currently occupied by the Group as dormitory. The property is currently leased from an independent third party to Sunny Japan Co., Ltd. (舜宇日本株式會社) for a term of 2 years from 20 September 2006 to 19 September 2008 at a monthly rental of JPY80,000.	No commercial value
16. 5-16 Shinchujocho Ibaraki-shi Osaka-fu Japan	The property comprises a unit of a 3-storey residential building completed in 1989. The property has a gross floor area of approximately 48.50 sq.m. (522 sq.ft.) and is currently occupied by the Group as dormitory. The property is currently leased from an independent third party to Sunny Japan Co., Ltd. (舜宇日本株式會社) for a term of 2 years from 26 April 2006 to 25 April 2008 at a monthly rental of JPY75,000.	No commercial value
17. 2-2-12 Kasuga Ibaraki-shi Osaka-fu Japan	The property comprises a unit of a 5-storey composite building completed in 1987. The property has a gross floor area of approximately 65.24 sq.m. (702 sq.ft.) and is currently occupied by the Group as office. The property is currently leased from an independent third party to Sunny Japan Co., Ltd. (舜宇日本株式會社) for a term of 2 years from 28 March 2006 to 27 March 2008 at an annual rental of JPY120,000. According to the Japan legal opinion, the Tenancy Agreements of Property Nos. 15–17, as executed, constitutes legal, valid and binding obligations of Sunny Japan Co., Ltd. (舜宇日本株式會社) and the Landlords enforceable in accordance with its terms.	No commercial value

Set out below is a summary of certain provisions of the Articles and the Memorandum of Association of the Company and of certain aspects of Cayman company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 21 September 2006 under the Companies Law. The Memorandum of Association and the Articles comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

(a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted and except as prohibited or limited by the Companies Law, the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit.

(b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 25 May 2007. The following is a summary of certain provisions of the Articles:

(a) Classes of shares

The share capital of the Company consists of ordinary shares. The authorised capital of the Company at the date of adoption of the Articles is HK$10,000,000,000 divided into 100,000,000,000 Shares.

(b) Directors

(i) Power to allot and issue shares and warrants

Subject to the provisions of the Companies Law, the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Company may by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the board may determine). Subject to the Companies Law, the rules of any Designated Stock Exchange (as defined in the Articles) and the Memorandum and Articles, any share may be issued on terms that, at the option of the Company or the holder thereof, they are liable to be redeemed. Every share certificate shall be issued under the Seal or a facsimile thereof and shall specify the number and class and distinguishing numbers (if any) of the shares to which it relates, and the amount paid up thereon and may otherwise be in such form as the Directors may from time to time determine.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles) and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company shall be at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) Power to dispose of the assets of the Company or any subsidiary

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) Compensation or payments for loss of office

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) Loans and provision of security for loans to Directors

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and, subject to the Articles, upon such terms as the board may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) in addition to any remuneration provided for by or pursuant to any other Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. Subject as otherwise provided by the Articles, the board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

Subject to the Companies Law and the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company shall declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not unless invited by all the independent non-executive Directors, be entitled to attend any meeting of the board where a resolution will be proposed for purposes of approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested and in any event, shall not be entitled to vote (nor be counted in the quorum) on such resolution but the foregoing prohibitions shall not apply to any of the following matters, namely:

(aa) any contract or arrangement for giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

(bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves guaranteed or secured or otherwise assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;

(cc) any contact or arrangement by the Director or his associate(s) to subscribe for shares or debentures or other securities of the Company to be issued pursuant to any offer or invitation to the shareholders or debenture or securities holders of the Company or to the public which does not provide the Director and his associate(s) any privilege not accorded to any shareholders or debenture or securities holders of the Company or to the public;

(dd) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer and/or for the purposes of making any representations, the giving of any covenants, undertakings or warranties or assuming any other obligations in connection with such offer;

(ee) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company and/or his/their being the offeror or one of the offerors or is interested in one of the offerors for the purchase or effective acquisition of such shares, debentures or other securities;

(ff) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder or in which the Director and any of his associates is/are beneficially interested in shares of that company provided that, such Director and any of his associates are not in aggregate beneficially interested in five (5) per cent. or more of the issued shares or of the voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); or

(gg) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(hh) any proposal concerning the adoption, modification or operation of any employees' share scheme involving the issue or grant of options over shares or other securities by the Company to, or for the benefit of the employees of the Company or its subsidiaries under which the Director or his associate(s) may benefit; and

(ii) any contract, transaction or proposal concerning the purchase and/or maintenance of any insurance policy for the benefit of any Director, his associate(s), officer or employee pursuant to the Article.

(vi) Remuneration

The ordinary remuneration of the Directors shall from time to time be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors shall also be entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration (whether by way of salary, commission, participation in profits or otherwise) as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration (whether by way of salary, commission or participation in profits or otherwise or by all or any of those modes) and such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(vii) Retirement, appointment and removal

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement by rotation at least once every three years at the general meeting. There are no provisions relating to retirement of Directors upon reaching any age limit.

The Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director so appointed shall hold office only until the next following general meeting in the case of filling a casual vacancy and until the next following annual general meeting in the case of an addition to the Board and shall then be eligible for reappointment. Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and may by ordinary resolution appoint another in his place. Any director so appointed shall hold office during such time only as the director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a director, either to fill a casual vacancy or as an addition to the existing directors. Any director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the directors, be eligible for election to the office of director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office or director shall be vacated:

(aa) if he resigns his office by notice in writing delivered to the Company at the registered office of the Company for the time being or tendered at a meeting of the Board;

(bb) becomes of unsound mind or dies;

(cc) if, without special leave, he is absent from meetings of the board (unless an alternate director appointed by him attends) for six (6) consecutive months, and the board resolves that his office is vacated;

(dd) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;

(ee) if he is prohibited from being a director by law;

(ff) if he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may from time to time appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments.

The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

(viii) Borrowing powers

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: These provisions, in common with the Articles in general, can be varied with the sanction of a special resolution of the Company.

(ix) Proceedings of the Board

The board may meet for the despatch of business, adjourn and otherwise regulate their meetings as they think fit.

Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

(x) Register of Directors and Officers

The Companies Law and the Articles provide that the Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within thirty (30) days of any change in such directors or officers.

(c) Alterations to constitutional documents

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

(d) Alteration of capital

The Company may from time to time by ordinary resolution in accordance with the relevant provisions of the Companies Law:

(i) increase its capital by such sum, to be divided into shares of such amounts as the resolution shall prescribe;

(ii) consolidate and divide all or any of its capital into shares of larger amount than its existing shares;

(iii) divide its shares into several classes and without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;

(iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; or

(v) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provisions of the Companies Law reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

(e) Variation of rights of existing shares or classes of shares

Subject to the Companies Law, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will *mutatis mutandis* apply, but so that the necessary quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy whatever the number of shares held by them shall be a quorum. Every holder of shares of the class shall be entitled on a poll to one vote for every such share held by him, and any holder of shares of the class present in person or by proxy may demand a poll.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking pari passu therewith.

(f) Special resolution-majority required

Pursuant to the Articles, a special resolution of the Company must be passed by a majority of not less than three-fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which not less than twenty-one (21) clear days' notice, specifying the intention to propose the resolution as a special resolution, has been duly given.

Provided that, except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the shares giving that right and, in the case of an annual general meeting, if so agreed by all Members entitled to attend and vote thereat, a resolution may be proposed and passed as a special resolution at a meeting of which less than twenty-one (21) clear days' notice has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(g) Voting rights (generally and on a poll) and right to demand a poll

Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with the Articles, at any general meeting on a show of hands, every member who is present in person or by proxy or being a corporation, is present by its duly authorised representative shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in the Articles, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. On a poll, a member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange (as defined in the Articles) or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by (i) the chairman of the meeting or (ii) at least three members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy for the time being entitled to vote at the meeting or (iii) any member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting or (iv) a member or members present in person or, in the case of a member being a corporation, by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid equal to not less than one-tenth of the total sum paid up on all the shares conferring that right or (v) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including the right to vote individually on a show of hands. Where the Company has any knowledge that any shareholder is, under the rules of the Designated Stock Exchange (as defined in the Articles), required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

(h) Requirements for annual general meetings

An annual general meeting of the Company must be held in each year, other than the year of adoption of the Articles (within a period of not more than 15 months after the holding of the last preceding annual general meeting or a period of 18 months from the date of adoption of the Articles, unless a longer period would not infringe the rules of any Designated Stock Exchange (as defined in the Articles)) at such time and place as may be determined by the board.

(i) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such persons a summary financial statement derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to a summary financial statement, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(j) Notices of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting at which it is proposed to pass a special resolution shall (save as set out in sub-paragraph (e) above) be called by at least twenty-one (21) clear days' notice in writing, and any other extraordinary general meeting shall be called by at least fourteen (14) clear days' notice (in each case exclusive of the day on which the notice is served or deemed to be served and of the day for which it is given). The notice must specify the time and place of the meeting and, in the case of special business, the general nature of that business. In addition notice of every general meeting shall be given to all members of the Company other than such as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to the auditors for the time being of the Company.

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(i) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat; and

(ii) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than ninety-five (95) per cent. in nominal value of the issued shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(aa) the declaration and sanctioning of dividends;

(bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;

(cc) the election of directors in place of those retiring;

(dd) the appointment of auditors and other officers;

(ee) the fixing of the remuneration of the directors and of the auditors;

(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty (20) per cent. in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

(k) Transfer of shares

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by the Designated Stock Exchange (as defined in the Articles) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time. The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee in any case in which it thinks fit, in its discretion, to do so and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof. The board may also resolve either generally or in any particular case, upon request by either the transferor or the transferee, to accept mechanically executed transfers.

The board in so far as permitted by any applicable law may, in its absolute discretion, at any time and from time to time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the board otherwise agrees, no shares on the principal register shall be transferred to any branch register nor may shares on any branch register be transferred to the principal register or any other branch register. All transfers and other documents of title shall be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the registered office in the Cayman Islands or such other place at which the principal register is kept in accordance with the Companies Law.

The board may, in its absolute discretion, and without assigning any reason, refuse to register a transfer of any share (not being a fully paid up share) to a person it does not approve or any share issued under any share incentive scheme for employees upon which a restriction on transfer imposed thereby still subsists, and it may also refuse to register any transfer of any share to more than four joint holders or any transfer of any share (not being a fully paid up share) on which the Company has a lien.

The board may decline to recognise any instrument of transfer unless a fee of such maximum sum as any Designated Stock Exchange (as defined in the Articles) may determine to be payable or such lesser sum as the Directors may from time to time require is paid to the Company in respect thereof, the instrument of transfer, if applicable, is properly stamped, is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in a relevant newspaper and, where applicable, any other newspapers in accordance with the requirements of any Designated Stock Exchange (as defined in the Articles), at such times and for such periods as the board may determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole thirty (30) days in any year.

(l) Power for the Company to purchase its own shares

The Company is empowered by the Companies Law and the Articles to purchase 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 any Designated Stock Exchange (as defined in the Articles).

Subject to the Companies Law, any preference shares may be issued or converted into shares that, at a determinable date or at the option of the Company or the holder, are liable to be redeemed on such terms and in such manner as the Company before the issue or conversion may by ordinary resolution of the Members determine. Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender shall be limited to a maximum price as may from time to time be determined by the Company in general meeting, either generally or with regard to specific purchases. If purchases are by tender, tenders shall be available to all members alike.

(m) Power for any subsidiary of the Company to own shares in the Company

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

(n) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit. The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

(o) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. On a poll or on a show of hands, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorized in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

(p) Call on shares and forfeiture of shares

Subject to the Articles and to the terms of allotment, the board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or installment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty (20) per cent. per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non-payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty (20) per cent. per annum as the board determines.

(q) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(r) Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

Save as otherwise provided by the Articles the quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of that class.

A corporation being a member shall be deemed for the purpose of the Articles to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

(s) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression.

However, certain remedies are available to Shareholders under Cayman law, as summarised in paragraph 3(f) of this Appendix.

(t) Procedures on liquidation

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares (i) if the Company shall be wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively and (ii) if the Company shall be wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company shall be wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

(u) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the

Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(v) Subscription rights reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman law. Set out below is a summary of certain provisions of Cayman company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

(a) Operations

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

(b) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course business.

The Companies Law provides that, subject to confirmation by the Cayman Court, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

The Articles includes certain protections for holders of special classes of shares, requiring their consent to be obtained before their rights may be varied. The consent of the specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed at a separate meeting of the holders of those shares is required.

(c) Financial assistance to purchase shares of a company or its holding company

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries, its holding company or any subsidiary of such holding company in order that they may buy Shares in the Company or shares in any subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of Shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

(d) Purchase of shares and warrants by a company and its subsidiaries

Subject to the provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner or purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

(e) Dividends and distributions

With the exception of section 34 of the Companies Law, there is no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see paragraph 2(m) above for further details).

(f) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Cayman Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Cayman Court shall direct.

Any shareholder of a company may petition the Cayman Court which may make a winding up order if the Cayman Court is of the opinion that it is just and equitable that the company should be wound up.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

(g) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company.

However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(h) Accounting and auditing requirements

A company shall cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(i) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(j) Taxation

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor-in-Cabinet:

(1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and

(2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 10 October 2006.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

(k) Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

(l) Loans to directors

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

(m) Inspection of corporate records

Members of the Company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

(n) Winding up

A company may be wound up by either an order of the Cayman Court or by a special resolution of its members. The court has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Court, just and equitable to do so.

A company may be wound up voluntarily when the members so resolve in general meeting by special resolution, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum expires, or the event occurs on the occurrence of which the memorandum provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Cayman Court, there may be appointed one or more than one person to be called an official liquidator or official liquidator; and the Cayman Court may appoint to such office such person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Cayman Court shall declare whether any act hereby required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Cayman Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Cayman Court. In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (pari passu if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting shall be called by Public Notice (as defined in the Companies Law) or otherwise as the Registrar of Companies of the Cayman Islands may direct.

(o) Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five (75) per cent. in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Cayman Courts. Whilst a dissenting shareholder would have the right to express to the Cayman Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Cayman Courts are unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

(p) Compulsory acquisition

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than ninety (90) per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Cayman Court within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Cayman Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

(q) Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

4. GENERAL

Conyers Dill & Pearman, the Company's legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law.

This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VI to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

I. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

The Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 21 September 2006. The Company has established a principal place of business in Hong Kong at Suite 3403, 34/F, Two Exchange Square, 8 Connaught Place, Central, Hong Kong and was registered as an oversea company in Hong Kong under Part XI of the Companies Ordinance on 23 November 2006. Ms Lee Suk Yee of Flat 1705, Block 13, Heng Fa Chuen, Chai Wan, Hong Kong has been appointed as the authorised representative of the Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong. The Company was incorporated in the Cayman Islands and is subject to the Companies Law. A summary of certain relevant provisions of its constitution and relevant aspects of the Companies Law is set out in Appendix IV to this prospectus.

2. Changes in share capital of the Company

On the date of incorporation of the Company, its authorised share capital was HK$380,000 divided into 380,000 shares of HK$1.00 each, one of which was allotted and issued at par to Codan Trust Company (Cayman) Limited without being paid. Such unpaid share was transferred to Sun Xu on 21 September 2006.

On 24 October 2006, the Company issued 59,483 shares, 8,231 shares, 26,165 shares and 6,120 shares of HK$1.00 each to Sun Xu, Sun Zhong, Summit and CWI, respectively, and credited the unpaid one share of HK$1.00 held by Sun Xu as fully paid in consideration of the transfer of the entire issued share capital of Sun Yu Optical to the Company then held by them.

Pursuant to the written resolutions signed by all the Shareholders on 25 May 2007, (i) each share of HK$1.00 in the share capital of the Company was sub-divided into 10 Shares so that the authorised share capital of the Company became HK$380,000 divided into 3,800,000 Shares and 100,000 issued shares of HK$1.00 each became 1,000,000 issued Shares; and (ii) the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000,000 by the creation of additional 99,996,200,000 Shares.

Immediately following completion of the Global Offering and irrespective of the exercise of the Over-allotment Option, the authorised share capital of the Company will be HK$10,000,000,000 divided into 100,000,000,000 Shares and the issued share capital of the Company will be HK$100,000,000 divided into 1,000,000,000 Shares fully paid or credited as fully paid, with 99,000,000,000 Shares remaining unissued.

Save as disclosed herein and as mentioned in the following sections respectively headed “Further information about the Company — Written resolutions passed by all the Shareholders on 25 May 2007” and “Futher information about the Company — Reorganisation”, there has been no alteration in the share capital of the Company since the date of its incorporation.

3. Written resolutions passed by all the Shareholders on 25 May 2007

On 25 May 2007, resolutions of all the Shareholders were passed pursuant to which:

(a) (i) each share of HK$1.00 in the share capital of the Company was sub-divided into 10 Shares so that the authorised share capital of the Company became HK$380,000 divided into 3,800,000 Shares and 100,000 issued shares of HK$1.00 each became 1,000,000 issued Shares; and

(ii) the authorised share capital of the Company was increased from HK$380,000 to HK$10,000,000,000 by the creation of additional 99,996,200,000 Shares which rank *pari passu* in all respects with the Shares then in issue;

(b) the Articles were approved and adopted by the Company as its new articles of association;

(c) conditional on the same conditions as stated in the section headed "Structure of the Global Offering — Conditions of the Public Offer" in this prospectus having been fulfilled:

(i) the Global Offering and the Over-allotment Option were approved and the Directors were authorised to approve the allotment and issue of the New Shares pursuant to the Global Offering and to approve the transfers of the Sale Shares by the Selling Shareholders under the Placing;

(ii) the rules of the Share Option Scheme were approved and adopted and the Directors were authorised to implement the same, grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant thereto and to take all such steps as they considered necessary or desirable to implement the Share Option Scheme;

(d) the Directors were authorised to capitalise HK$79,900,000 standing to the credit of the special reserve account of the Company by applying such sum in paying up in full at par 799,000,000 Shares; such Shares to be allotted and issued to Shareholders, whose names appear on the register of members of the Company at the close of business on 25 May 2007 (or as they may direct) in proportion to their then existing shareholdings in the Company and the Directors were authorised to issue such Shares;

(e) conditional on the same conditions as stated in the section headed "Structure of the Global Offering — Conditions of the Public Offer" in this prospectus having been fulfilled, a general unconditional mandate was given to the Directors to allot, issue and deal with, otherwise than pursuant to a rights issue, or an issue of Shares upon the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time or any scrip dividend scheme or similar arrangement providing for the allotment and issue of Shares in lieu of whole or part of a dividend on Shares in accordance with the Articles or pursuant to the exercise of any subscription rights attaching to the options granted under the Share Option Scheme or similar arrangement or pursuant to the Global Offering, Shares with an aggregate nominal value not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate;

(f) conditional on the same conditions as stated in the section headed "Structure of the Global Offering — Conditions of the Public Offer" in this prospectus having been fulfilled, a general unconditional mandate was given to the Directors to exercise all the powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the Share Option Scheme), such mandate to remain in effect until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the passing of an ordinary resolution of the Shareholders in general meeting revoking, varying or renewing such mandate; and

(g) conditional on the passing of the resolutions mentioned in paragraphs (e) and (f) above, the general unconditional mandate mentioned in paragraph (e) above was extended to include the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (f) above provided that such extended amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the Share Option Scheme).

4. Reorganisation

In preparation for the Listing, the companies comprising the Group underwent the Reorganisation to rationalise the corporate structure of the Group and the Company became the ultimate holding company of the Group. The Reorganisation involved the following:

Incorporation of the Company

(a) on 21 September 2006, the Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with an initial authorised share capital of HK$380,000 divided into 380,000 shares of HK$1.00 each, of which 1 nil-paid share was issued and allotted to Codan Trust Company (Cayman) Limited, which was transferred to Sun Xu on the same day;

Incorporation of intermediate holding companies

(b) on 6 July 2006, Sun Yu Optical was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(c) on 6 July 2006, Sun Xiang Optical was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(d) on 6 July 2006, Sun Li Instrument was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each;

(e) on 31 October 2005, Sunny Optical Overseas was incorporated in Hong Kong with an authorised share capital of HK$7,800,000 divided into 7,800,000 shares of HK$1.00 each;

(f) on 6 May 2006, Sunny Instruments Overseas was incorporated in Hong Kong with an authorised capital of HK$10,000 divided into 10,000 shares of HK$1.00 each;

Reorganisation of companies

(g) the following allotment and transfers took place prior to the main part of the Reorganisation:

  (i) on 6 July 2006, Summit Technology (BVI) was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 1 share was issued and allotted to Summit at a consideration of US$1.00;

  (ii) on 6 July 2006, Summit Investment (BVI) was incorporated in the BVI with an authorised share capital of US$50,000 divided into 50,000 shares of US$1.00 each, of which 1 share was issued and allotted to Summit at a consideration of US$1.00;

  (iii) on 4 May 2006, Summit Technology (HK) was incorporated in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, of which 1 share was issued and allotted to the subscriber thereof at a consideration of HK$1.00;

(iv) on 4 May 2006, Summit Investment (HK) was incorporated in Hong Kong with an authorised share capital of HK$10,000 divided into 10,000 shares of HK$1.00 each, of which 1 share was issued and allotted to the subscriber thereof at a consideration of HK$1.00;

(v) on 24 July 2006, Summit Technology (BVI) acquired 1 share of HK$1.00 each in the share capital of Summit Technology (HK) from the subscriber thereof at a consideration of HK$1.00;

(vi) on 24 July 2006, Summit Investment (BVI) acquired 1 share of HK$1.00 each in the share capital of Summit Investment (HK) from the subscriber thereof at a consideration of HK$1.00;

(vii) on 24 August 2006, Summit entered into an equity transfer agreement with Summit Technology (HK), pursuant to which Summit transferred its 27.87% equity interest in Sunny Optics to Summit Technology (HK) at a consideration of RMB29,263,500, and such consideration was subsequently waived by Summit on 13 September 2006;

(viii) on 24 August 2006, Summit entered into an equity transfer agreement with Summit Technology (HK), pursuant to which Summit transferred its 27.87% equity interest in Ningbo Instruments to Summit Technology (HK) at a consideration of RMB10,451,250, and such consideration was subsequently waived by Summit on 13 September 2006;

(ix) on 24 August 2006, Summit entered into an equity transfer agreement with Summit Investment (HK), pursuant to which Summit transferred its 30% equity interest in Sunny Zhongshan to Summit Investment (HK) at a consideration of US$2,180,000, and such consideration was subsequently waived by Summit on 14 September 2006;

(x) on 24 August 2006, Summit entered into an equity transfer agreement with Summit Investment (HK), pursuant to which Summit transferred its 28% equity interest in Sunny Opotech to Summit Investment (HK) at a consideration of US$1,736,000, and such consideration was subsequently waived by Summit on 14 September 2006;

(h) on 24 July 2006, Sun Xu and Sun Zhong subscribed for 29,742 shares and 4,115.5 shares of US$1.00 each in the share capital of Sun Yu Optical, respectively, at considerations of US$29,742 and US$4,115.5, respectively;

(i) on 24 July 2006, Sun Yu Optical subscribed for 1 share of US$1.00 each in the share capital of Sun Xiang Optical at a consideration of US$1.00;

(j) on 24 July 2006, Sun Yu Optical subscribed for 1 share of US$1.00 each in the share capital of Sun Li Instrument at a consideration of US$1.00;

(k) on 24 July 2006, Sun Xiang Optical acquired 1 share of HK$1.00 each in the share capital of Sunny Optical Overseas from the subscriber thereof at a consideration of HK$1.00;

(l) on 24 July 2006, Sun Li Instrument acquired 1 share of HK$1.00 each in the share capital of Sunny Instruments Overseas from the subscriber thereof at a consideration of HK$1.0;

(m) on 31 August 2006, Sun Xu and Sun Zhong entered into a loan agreement with AF Investment Holdings Limited and Investor AB Funds, pursuant to which AF Investment Holdings Limited and Investor AB Funds advanced a loan in the sum of US$20,000,000 to Sun Xu and Sun Zhong. As security to the loan, Sun Xu and Sun Zhong provided AF Investment Holdings Limited and Investor AB Funds with securities including (i) a personal guarantee by Mr Wang; (ii) a charge over the bank accounts maintained by Sun Xu, Sun Zhong, Sun Xiang Optical, Sun Li Instrument, and Sun Yu Optical; and (iii) a share charge on their shares in Sun Yu Optical which was subsequently replaced by another charge on the Shares held by Sun Xu and Sun Zhong on 24 October 2006 when the Company acquired the shares in Sun Yu Optical from Sun Yu and Sun Zhong as detailed in paragraph (x) below;

(n) on 31 August 2006, Sun Xu and Sun Zhong subscribed for 29,742 shares and 4,115.5 shares of US$1.00 each in the share capital of Sun Yu Optical, respectively, at considerations of US$17,439,691.56 and US$2,413,188.44, respectively;

(o) on 31 August 2006, Sun Yu Optical subscribed for 900 shares of US$0.01 each in the share capital of Sun Xiang Optical at a consideration of US$15,272,732;

(p) on 31 August 2006, Sun Yu Optical subscribed for 900 shares of US$0.01 each in the share capital of Sun Li Instrument at a consideration of US$4,580,148;

(q) on 31 August 2006, Sun Xiang Optical subscribed for 77 shares of HK$1.00 each in the share capital of Sunny Optical Overseas at a consideration of US$15,272,732;

(r) on 31 August 2006, Sun Li Instrument subscribed for 77 shares of HK$1.00 each in the share capital of Sunny Instruments Overseas at a consideration of US$4,580,148;

(s) on 28 July 2006, Sunny Group, Zhicheng, Sanyuan and Baoma entered into equity transfer agreements to transfer 63.36%, 7.21%, 0.93% and 0.63% equity interests in Sunny Optics, respectively, to Sunny Optical Overseas at considerations of US$13,415,781, US$1,526,638, US$196,917 and US$133,396, respectively;

(t) on 28 July 2006, Sunny Group, Zhicheng, Sanyuan and Baoma entered into equity transfer agreements to transfer 63.36%, 7.21%, 0.93% and 0.63% equity interests in Ningbo Instruments, respectively, to Sunny Instruments Overseas at considerations of US$4,023,266, US$457,824, US$59,054 and US$40,004, respectively;

(u) on 13 September 2006, Sun Yu Optical entered into a sale and purchase agreement with Summit pursuant to which Sun Yu Optical acquired the entire issued share capital of Summit Technology (BVI) to Sun Yu Optical by the issue and allotment of 26,165 shares of US$1.00 each in the share capital of Sun Yu Optical to Summit;

(v) on 14 September 2006, Sun Yu Optical entered into a sale and purchase agreement with Summit, pursuant to which Sun Yu Optical acquired the entire issued share capital of Summit Investment (BVI) at a consideration of US$4,125,900;

(w) on 15 September 2006, CWI entered into a subscription agreement with Sun Yu Optical to subscribe for 6,120 shares of US$1.00 each in the share capital of Sun Yu Optical at a consideration of US$6,000,000;

(x) On 24 October 2006, Sun Xu, Sun Zhong, Summit and CWI entered into a sale and purchase agreement with the Company, pursuant to which the Company acquired the entire issued share capital of Sun Yu Optical by the issue and allotment of 59,483 shares, 8,231 shares, 26,165 shares and 6,120 shares of HK$1.00 to Sun Xu, Sun Zhong, Summit and CWI, respectively and crediting the 1 unpaid share of HK$1.00 each held by Sun Xu as fully paid; and

(y) on 27 October 2006, Sun Xu and Sun Zhong entered into a 3-year loan agreement with ABC, pursuant to which ABC advanced the ABC's Loan in the sum of HK$167,700,000 to Sun Xu and Sun Zhong for the purpose of refinancing the loan as mentioned in paragraph (m) above. The ABC's Loan carries an annual interest of Hong Kong Interbank Offering Rate (HIBOR) plus 1.3% with the following repayment schedule:

(i) 30% of the ABC's Loan before 31 October 2007;

(ii) 30% of the ABC's Loan within 24 months from 27 October 2006, being the date of advance of the ABC's Loan;

(iii) 40% of the ABC's Loan within 36 months from 27 October 2006, being the date of advance of the ABC's Loan.

As security of the payment obligations of Sun Xu and Sun Zhong, the following securities have been provided to ABC:

(i) personal guarantee given by Mr Wang;

(ii) share mortgage on certain Shares, being 20.31% of the issued share capital of the Company as of the date of the grant of the share mortgage held by Sun Xu and Sun Zhong;

(iii) share mortgage on certain Shares, being 47.40% of the issued share capital of the Company as of the date of the grant of the share mortgage held by Sun Xu and Sun Zhong under the Share Mortgage Deed;

(iv) a charge over the bank accounts maintained by Sun Xu and Sun Zhong;

(v) a debenture on all of the assets and undertakings of the Company,

of which the share mortgage set out in (ii) above will be released on or before the Price Determination Date and the debenture on all of the assets and undertakings of the Company will be released when the Underwriting Agreements become unconditional, while the other securities including the personal guarantee given by Mr Wang, the share mortgage under the Share Mortgage Deed and the charge over the bank accounts maintained by Sun Xu and Sun Zhong will be released when Sun Xu and Sun Zhong have fully repaid the ABC's Loan and the interest accrued thereon. It is the present intention of Sun Xu and Sun Zhong to repay the ABC's loan in full with the net proceeds from the sale of the Sale Shares and to have all outstanding securities released shortly after the Listing Date (which is expected to be not later than July 2007).

5. Changes in share capital of subsidiaries

The subsidiaries of the Company are referred to in the accountants' report, the text of which is set out in Appendix I to this prospectus. The following alterations in the share capital of the Company's subsidiaries took place within the two years immediately preceding the date of this prospectus:

(a) on 30 August 2006, the authorised share capital of Sun Yu Optical was increased from US$50,000 divided into 50,000 shares of US$1.00 each to US$200,000 divided into 200,000 shares of US$1.00 each;

(b) on 30 August 2006, the authorised share capital of Sun Li Instrument was altered from US$50,000 divided into 50,000 shares of US$1.00 each to 5,000,000 shares of US$0.01 each;

(c) on 30 August 2006, the authorised share capital of Sun Xiang Optical was altered from US$50,000 divided into 50,000 shares of US$1.00 each to 5,000,000 shares of US$0.01 each;

(d) on 31 August 2006, the authorised share capital of Sunny Optical Overseas was altered from HK$7,800,000 divided into 7,800,000 shares of HK$1.00 each to US$1,000,000 divided into 100,000,000 shares of US$0.01 each;

(e) on 31 August 2006, the authorised share capital of Sunny Instruments Overseas was increased from HK$10,000 divided into 10,000 shares of HK$1.00 each to US$2,000 divided into 200,000 shares US$0.01 each.

Save as disclosed in this prospectus and except as referred to in the section headed "Further information about the Company — Reorganisation" above, there has been no alteration in the share capital of any subsidiary of the Company within the two years immediately preceding the date of this prospectus.

6. Repurchase by the Company of its Shares

This section includes information required by the Stock Exchange to be included in this prospectus concerning the repurchase by the Company of its own securities.

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listing is on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

(i) Shareholders' approval

All proposed repurchases of securities, which must be fully paid up in the case of shares, on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of a general mandate or by a specific approval of a particular transaction.

Note: Pursuant to a written resolution passed by all the Shareholders on 25 May 2007, the Repurchase Mandate was granted to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange, or on any other approved stock exchange on which the securities of the Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the total nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the Share Option Scheme) at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws of the Cayman Islands to be held or when such mandate is revoked, varied or renewed by an ordinary resolution of the shareholders of the Company in a general meeting, whichever is the earliest.

(ii) Source of funds

Any repurchase by a company may only be funded out of funds legally available for such purpose in accordance with its memorandum and articles of association, the applicable laws of the Cayman Islands and the Listing Rules. A company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(iii) Shares to be repurchased

The Listing Rules provide that the shares which are proposed to be repurchased by a company must be fully paid up.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from the shareholders to enable the Company to repurchase the Shares in the market. Repurchases of the Shares will only be made when the Directors believe that such repurchases will benefit the Company and its Shareholders as a whole. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share.

(c) Funding of repurchases

In repurchasing Shares, the Company may only apply funds legally available for such purpose in accordance with the Memorandum and the Articles, the Listing Rules and the applicable laws of the Cayman Islands.

The Directors consider that, if the Repurchase Mandate were to be exercised in full, it might have a material adverse effect on the working capital and/or the gearing position of the Company as compared with the position disclosed in this prospectus. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels.

(d) Director's undertaking

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable they will exercise the Repurchase Mandate in accordance with the Listing Rules, the Companies Law, any other applicable laws of the Cayman Islands and the Articles.

(e) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates, as defined in the Listing Rules, has any present intention to sell any Shares to the Company or its subsidiaries.

No connected person, as defined in the Listing Rules, has notified the Company that he or she has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If, as a result of a securities repurchase pursuant to the Repurchase Mandate, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code.

Accordingly, a shareholder, or a group of shareholders acting in concert, depending on the level of increase of shareholders' interest, could obtain or consolidate control of the company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase. Exercise in full of the Repurchase Mandate would result in an increase in the percentage of the Shares held by Sun Xu from approximately 42.23% to approximately 46.92% (assuming the Over-allotment Option is not exercised) and Sun Xu would be obliged to make a mandatory offer under Rule 26 of the Takeovers Code. Save as aforesaid, the Directors are not aware of any consequences which may arise under the Takeovers Code if the Repurchase Mandate is exercised.

The Company has not made any repurchase of its own Shares in the past six months.

The Directors have no present intention to exercise the Repurchase Mandate to such an extent as would result in takeover obligations under the Takeovers Code.

II. FURTHER INFORMATION ABOUT THE BUSINESS OF THE GROUP

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) the equity transfer agreement dated 28 July 2006 entered into between Sunny Group and Sunny Optical Overseas, pursuant to which Sunny Group agreed to transfer 63.36% equity interest in Sunny Optics to Sunny Optical Overseas at a consideration of US$13,415,781;

(b) the equity transfer agreement dated 28 July 2006 entered into between Zhicheng and Sunny Optical Overseas, pursuant to which Zhicheng agreed to transfer 7.21% equity interest in Sunny Optics to Sunny Optical Overseas at a consideration of US$1,526,638;

(c) the equity transfer agreement dated 28 July 2006 entered into between Sanyuan and Sunny Optical Overseas, pursuant to which Sanyuan agreed to transfer 0.93% equity interest in Sunny Optics to Sunny Optical Overseas at a consideration of US$196,917;

(d) the equity transfer agreement dated 28 July 2006 entered into between Baoma and Sunny Optical Overseas, pursuant to which Baoma agreed to transfer 0.63% equity interest in Sunny Optics to Sunny Optical Overseas at a consideration of US$133,396;

(e) the equity transfer agreement dated 28 July 2006 entered into between Sunny Group and Sunny Instruments Overseas, pursuant to which Sunny Group agreed to transfer 63.36% equity interest in Ningbo Instruments to Sunny Instruments Overseas at a consideration of US$4,023,266;

(f) the equity transfer agreement dated 28 July 2006 entered into between Zhicheng and Sunny Instruments Overseas, pursuant to which Zhicheng agreed to transfer 7.21% equity interest in Ningbo Instruments to Sunny Instruments Overseas at a consideration of US$457,824;

(g) the equity transfer agreement dated 28 July 2006 entered into between Sanyuan and Sunny Instruments Overseas, pursuant to which Sanyuan agreed to transfer 0.93% equity interest in Ningbo Instruments to Sunny Instruments Overseas at a consideration of US$59,054;

(h) the equity transfer agreement dated 28 July 2006 entered into between Baoma and Sunny Instruments Overseas, pursuant to which Baoma agreed to transfer 0.63% equity interest in Ningbo Instruments to Sunny Instruments Overseas at a consideration of US$40,004;

(i) the equity transfer agreement dated 24 August 2006 entered into between Summit and Summit Technology (HK), pursuant to which Summit agreed to transfer 27.87% equity interest in Sunny Optics to Summit Technology (HK) at a consideration of RMB29,263,500;

(j) the equity transfer agreement dated 24 August 2006 entered into between Summit and Summit Technology (HK), pursuant to which Summit agreed to transfer 27.87% equity interest in Ningbo Instruments to Summit Technology (HK) at a consideration of RMB10,451,250;

(k) the equity transfer agreement dated 24 August 2006 entered into between Summit and Summit Investment (HK), pursuant to which Summit agreed to transfer 30% equity interest in Sunny Zhongshan to Summit Investment (HK) at a consideration of US$2,180,000;

(l) the equity transfer agreement dated 24 August 2006 entered into between Summit and Summit Investment (HK), pursuant to which Summit agreed to transfer 28% equity interest in Sunny Optotech to Summit Investment (HK) at a consideration of US$1,736,000;

(m) the sale and purchase agreement dated 13 September 2006 entered into between Summit and Sun Yu Optical, pursuant to which Summit agreed to transfer the entire issued share capital of Summit Technology (BVI) to Sun Yu Optical in consideration of the issue and allotment of 26,165 shares of US$1.00 each in the share capital of Sun Yu Optical to Summit;

(n) the sale and purchase agreement dated 14 September 2006 entered into between Summit and Sun Yu Optical, pursuant to which Summit agreed to transfer the entire issued share capital of Summit Investment (BVI) to Sun Yu Optical at a consideration of US$4,125,900;

(o) the share subscription agreement dated 15 September 2006 entered into between CWI and Sun Yu Optical, pursuant to which CWI agreed to subscribe for 6,120 shares of US$1.00 each in the share capital of Sun Yu Optical at a consideration of US$6,000,000;

(p) the deed of settlement dated 13 September 2006 signed by Summit in favour of Summit Technology (HK), pursuant to which Summit Technology (HK) was released and discharged from all or any obligations and liabilities to repay the indebtedness in the sum of RMB39,714,750 owed to Summit, being the aggregate of the unpaid considerations under the equity transfer agreements referred to in paragraphs (i) and (j) above;

(q) the deed of settlement dated 14 September 2006 signed by Summit in favour of Summit Investment (HK), pursuant to which Summit Investment (HK) was released and discharged from all or any obligations and liabilities to repay the indebtedness in the sum of US$3,916,000 owed to Summit, being the aggregate of the unpaid considerations under the equity transfer agreements referred to in paragraphs (k) and (l) above;

(r) the sale and purchase agreement dated 24 October 2006 entered into between the Company on the one part and Summit, CWI, Sun Xu and Sun Zhong on the other part, pursuant to which Summit, CWI, Sun Xu and Sun Zhong agreed to transfer the entire issued share capital of Sun Yu Optical to the Company in consideration of the issue and allotment of an aggregate of 99,999 shares of HK$1.00 each in the then share capital of the Company to them and the crediting as fully paid of 1 unpaid share of HK$1.00 each in the then share capital of the Company held by Sun Xu;

(s) the Property Sale and Purchase Agreement, pursuant to which Sunny Group agreed to transfer a piece of land together with properties erected thereon to Ningbo Instruments at a consideration of RMB28,000,000;

(t) 2 transfer agreements dated 20 December 2006 entered into between Sunny Group and Ningbo Instruments, pursuant to which Sunny Group agreed to transfer 2 trademarks registered in Hong Kong (with registration numbers 300554076 and 300554049 respectively) to Ningbo Instruments at nil consideration;

(u) 3 transfer agreements dated 20 December 2006 entered into between Sunny Group and Ningbo Instruments, pursuant to which Sunny Group agreed to transfer 3 trademarks registered in the PRC (with registration numbers 1096677, 1191614 and 1213171 respectively) to Ningbo Instruments at nil consideration;

(v) the transfer agreement dated 20 December 2006 entered into between Sunny Group and Ningbo Instruments, pursuant to which Sunny Group agreed to transfer 1 trademark registered in France (with registration number 063401518) to Ningbo Instruments at nil consideration;

(w) Cornerstone Placing Agreement;

(x) the deed of indemnity dated 25 May 2007 and given by the Indemnifiers in favour of the Company (for itself and as trustee of other members of the Group) containing the indemnities as referred to in the section headed "Other information — Indemnities" in this Appendix;

(y) the deed of non-competition undertaking dated 25 May 2007 and given by the Covenantors in favour of the Company containing the undertakings as referred to in the section headed "Substantial Shareholders — Deed of non-competition" in this prospectus; and

(z) the Public Offer Underwriting Agreement.

2. Intellectual property rights of the Group

(a) Trade marks

(i) As of the Latest Practicable Date, the Group is the registered owner of each of the following trademarks:

Trademark	Proprietor	Country of registration	Class	Registration Number	Duration of validity
SOSHO	Ningbo Instruments	France	9	063401518	3 January 2006 to 2 January 2016
SOSHO	Ningbo Instruments	Hong Kong	9	300554076	22 December 2005 to 21 December 2015
舜 宇	Ningbo Instruments	Hong Kong	9	300554049	22 December 2005 to 21 December 2015

(ii) As of the Latest Practicable Date, applications have been made for transfer of ownership of the following trademarks to the Group:

Trademark	Country of registration	Class	Registration Number	Duration of validity
舜 宇	PRC	9	1213171	7 October 1998 to 6 October 2008
SOSHO	PRC	9	1191614	14 July 1998 to 13 July 2008
	PRC	9	1096677	7 September 1997 to 6 September 2007

(iii) As of the Latest Practicable Date, applications have been made for registration of the following trademarks:

Trademark	Country of Application	Applicant	Class	Application Number	Application Date
SUNNY GROUP	Hong Kong	Ningbo Instruments	9	300792883	9 January 2007
SUNNY OPTICAL	Hong Kong	Ningbo Instruments	9	300792856	9 January 2007
	Hong Kong	Ningbo Instruments	9	300792874	9 January 2007
SUNNY	Hong Kong	Ningbo Instruments	9	300792865	9 January 2007

(b) Patents

(i) As of the Latest Practicable Date, the Group is the proprietor of the following registered designs in the PRC:

Title of design	Duration of validity	Patent number
Crossline laser	10 years from 20 February 2004	ZL 2004 3 0020279.7
Biological microscope (XY)	10 years from 20 February 2004	ZL 2004 3 0020278.2
Spectrophotometer (UV-7800)	10 years from 16 December 2006	ZL 200530149178.4

Title of invention	Duration of validity	Patent number
Biological microscope (XS)	10 years from 16 December 2005	ZL 200530149172.7
Metallurgical microscope (XJZ)	10 years from 16 December 2005	ZL 200530149174.6
Stereo microscope (SZM)	10 years from 16 December 2005	ZL 200530149176.5
Stereo microscope (ST60)	10 years from 16 December 2005	ZL 200530149177.X
Biological microscope (XD)	10 years from 16 December 2005	ZL 200530149171.2
Polarising microscope (XY-P)	10 years from 16 December 2005	ZL 200530149173.1
Stereo microscope (SZ)	10 years from 16 December 2005	ZL 200530149175.0
Stereo microscope (ST-70)	10 years from 22 February 2006	ZL 200630104787.2

(ii) As of the latest Practicable Date, the Group has applied for registrations of the following inventions in the PRC, the registrations of which have not yet been granted:

Title of invention	Application number	Application date
Lens colour combination optical projector	200410015839.9	13 January 2004
Off-axis optical projector	0315 0844.8	3 September 2003

Note: The above applications for registrations are under the substantive examination by the Intellectual Properties Bureau of the PRC.

(iii) As of the Latest Practicable Date, the Group has applied for registrations of the following registered designs in the PRC, the registrations of which have not yet been granted:

Title of design	Application number	Application date
Metallurgical microscope (XJG)	200630107291.0	14 April 2006
Stereo microscope carrier (ST70ST1)	200630114647.3	9 August 2006

(iv) As of the Latest Practicable Date, the Group has applied for registrations of the following utility model patents in the PRC, the registrations of which have not yet been granted:

Title of utility model	**Application number**	**Application date**
Lens set	200620104752.3	16 June 2006
Camera module testing machine	200620105540.7	11 July 2006
Liquid lens set	200620108411.3	30 September 2006
A new type of Optical Lens set	200620107411.1	5 September 2006

(c) Domain name:

As of the Latest Practicable Date, the Group is the owner of the following domain name:

Domain name	**Owner**	**Registration date**
sunnyoptical.com	Sunny Optics	25 September 2006

Save as aforesaid, there are no other trade or service marks registered, nor are there any other trade or service marks, patents or other intellectual or industrial property rights which are material in relation to the Group's business.

The Group has not applied for patent registration in respect of most of its technological know-how because patent registration in the PRC requires disclosure and publication of design details imposing risk of plagiarism or imitation of such technological know-how, which in the Directors' opinion, may not be in the best interest of the Group. Patent registration only provides a certain degree of protection depending on the geographical coverage of the registration rather than absolute protection for such technological know-how. The Directors consider that such degree of protection afforded by patent registration to such technological know-how cannot outweigh the risk of plagiarism or imitation imposed by patent registration of such technological know-how.

III. FURTHER INFORMATION ABOUT SUBSTANTIAL SHAREHOLDERS, DIRECTORS, MANAGEMENT AND STAFF

1. Disclosure of interests

(a) Interests and short positions of Directors and chief executive in the Shares, underlying shares and debentures of the Company and its associated corporation

Immediately following completion of the Global Offering (assuming that the Over-allotment Option is not exercised), the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the SFO) which, once the Shares are listed, will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules, or will be required pursuant to section 352 of the SFO to be entered in the register of interests referred to therein, will be as follows:

Interests and short positions in the shares of the Company and its associated corporations as of the Latest Practicable Date

Name of Director	Name of Corporation	Long/short position	Capacity/Nature of interest	Number of Shares (immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option)	Approximately percentage of shareholding (immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option)
Mr Wang	The Company	Long position	Trustee *(Notes 1 and 5)*	58,433,232	5.84%
	The Company	Long position	Trustee and Beneficiary of a trust *(Notes 2 and 6)*	422,286,768	42.23%
Mr Ye	The Company	Long position	Beneficiary of a trust *(Notes 3 and 6)*	24,190,280	2.42%
Mr Wu	The Company	Long position	Beneficiary of a trust *(Notes 4 and 6)*	10,939,055	1.09%

Notes:

(1) Mr Wang 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 5.84% of the issued share capital of the Company. Accordingly, Mr Wang is deemed to be interested in 58,433,232 Shares under the SFO.

(2) Mr Wang 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 42.23% of the issued share capital of the Company. Accordingly, Mr Wang is deemed to be interested in 422,286,768 Shares under the SFO.

(3) Mr Ye is a beneficiary under the Sunny Employee Trust, under which he is entitled to 6.20% of the beneficial interest. Sun Ji owns 92.32% equity interest in Sun Xu, which in turns own 422,286,768 Shares. Accordingly, Mr Ye is interested in 24,190,280 Shares.

(4) Mr Wu is a beneficiary under the Sunny Employee Trust, under which he is entitled to 2.81% of the beneficial interest. Sun Ji owns 92.32% equity interest in Sun Xu, which in turns own 422,286,768 Shares. Accordingly, Mr Wu is interested in 10,939,055 Shares.

(5) Sun Zhong will have a short position of 492,292 Shares upon granting of the Over-allotment Option. When the Over-allotment Option expires or is fully exercised, such short position will lapse. When the Over-allotment Option is fully exercised, its long position of Shares will be reduced to 57,940,940 Shares.

(6) Sun Xu will have a short position of 3,557,708 Shares upon granting of the Over-allotment Option. When the Over-allotment Option expires or is fully exercised, such short position will lapse. When the Over-allotment Option is fully exercised, its long position of Shares will be reduced to 418,729,060 Shares.

(b) Interests and short positions of Substantial Shareholders in the Shares, underlying shares and debentures of the Company and its associated corporation

Immediately following completion of the Global Offering and taking no account of any Shares which may be taken up under the Global Offering or which may be sold pursuant to the exercise of the Over-allotment Option, the following persons will 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 SFO, or who is directly and/or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name	Long/short position	Capacity/Nature of interest	Number of Shares (immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option)	Approximate percentage of shareholding (immediately after completion of the Global Offering but without taking into account the exercise of the Over-allotment Option)
Sun Xu *(Notes 1 and 7)*	Long position	Beneficial owner	422,286,768	42.23%
Sun Ji *(Note 2)*	Long position	Interest in a controlled corporation	422,286,768	42.23%
Mr Wang *(Note 3)*	Long position	Interest in a controlled corporation, trustee of a trust and trustee and beneficiary of a trust	480,720,000	48.07%
Summit *(Notes 4 and 7)*	Long position	Beneficial owner	207,624,508	20.76%
Chengwei Ventures Evergreen Fund, L.P. *(Note 5)*	Long position	Interest in a controlled corporation	207,624,508	20.76%
Sun Zhong *(Notes 6 and 7)*	Long position	Beneficial owner	58,433,232	5.84%

Notes:

(1) Sun Xu is a company incorporated in the BVI, which is owned as to 7.68% and 92.32% by Sun Guang and Sun Ji, respectively. The shareholding of Sun Xu in the Company represents the aggregate interest of Sunny Staff Shareholders in the Company.

(2) As Sun Ji controls more than one-third of the voting power of general meetings of Sun Xu, Sun Ji is deemed to be interested in the 422,286,768 Shares held by Sun Xu under the provisions of SFO.

(3) As Mr Wang is the sole shareholder of Sun Guang and the trustee and one of the beneficiaries of the Sunny Employee Trust, Mr Wang is deemed to be interested in the 422,286,768 Shares held by Sun Xu under the provisions of SFO. As Mr Wang is the trustee of the PRC Investor Trust, Mr Wang is deemed to be interested in the 58,433,232 Shares held by Sun Zhong under the provisions of SFO.

(4) Summit is a company incorporated in the BVI, which is owned as to 73.79%, 25.40% and 0.81% by Chengwei Funds, Investor AB Funds and certain Independent Investors.

(5) Chengwei Ventures Evergreen Fund, L.P. is a limited partnership established in the Cayman Islands. As Chengwei Ventures Evergreen Fund, L.P. owns more than one-third of the voting power of general meetings of Summit, Chengwei Ventures Evergreen Fund, L.P. is deemed to be interested in the 207,624,508 Shares held by Summit under the SFO.

(6) Sun Zhong is a company incorporated in the BVI. Its shareholding in the Company represents the aggregate interest of the PRC Investors in the Company.

(7) Sun Xu, Sun Zhong and Summit, as the Over-allotment Option Grantors, will have short positions of 3,557,708, 492,292 and 36,450,000 Shares, respectively, upon granting of the Over-allotment Option. If the Over-allotment Option expires or is fully exercised, such short positions will lapse. When the Over-allotment Option is fully exercised, their long positions of Shares will be reduced to 418,729,060, 57,940,940 and 171,174,508 Shares, respectively.

(c) Particulars of Directors' service contracts

Each of the executive Directors has entered into a service contract with the Company for an initial term of three years commencing from the Listing Date. Each of these service contracts may be terminated by either party thereto giving to the other not less than 3 months' prior notice in writing.

Each of Mr Shao Yang Dong and Mr Li Tyson Sandy Ying Lun, the non-executive Directors, is appointed for an initial term of three years commencing from 18 May 2007.

Each of Dr Chang Mei Dick (or Dr Dick Mei Chang), Mr Koji Suzuki, Dr Liu Xu and Mr Zhang Yuqing, the independent non-executive Directors, is appointed for an initial term of three years commencing from 18 May 2007.

The aggregate remuneration and benefits in kinds for Directors are approximately RMB2,300,000 per annum, excluding any discretionary bonuses which may be paid to the Directors.

Save as disclosed above, none of the Directors has entered into any service agreements with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation other than statutory compensation).

(d) Directors' remuneration

During the year ended 31 December 2006, the aggregate of the remuneration paid and benefits in kind granted to the Directors by the Group were approximately RMB931,000.

Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the Directors for the year ending 31 December 2007 will be approximately RMB1,967,000.

2. Disclaimers

Save as disclosed in this prospectus:

(a) so far as the Directors are aware, none of the Directors or chief executive of the Company has any interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations, within the meaning of Part XV of the SFO, which will have to be notified to the Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he will be taken or deemed to have under the SFO) once the Shares are listed, or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein once the Shares are listed, or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules once the Shares are listed;

(b) so far as the Directors are aware, none of the Directors and experts referred to in the section headed "Other information — Consent of experts" in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors and experts referred to in the section headed "Other information — Consent of experts" in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any member of the Group, excluding contracts which are determinable by the employer within one year without payment of compensation other than statutory compensation;

(e) the Directors are not aware of any person, not being a Director or chief executive of the Company, who will, immediately following completion of the Global Offering (irrespective of the exercise of the Over-allotment Option), be interested in or has short positions in the Shares or underlying shares of the Company which have to be notified to the Company and the Stock Exchange under Divisions 2 and 3 of Part XV of the SFO once the Shares are listed, or, who is, directly 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; and

(f) none of the experts referred to in the section headed "Other information — Consent of experts" in this Appendix has any shareholding in any member of the Group or the right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(g) none of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) has any interest in the Group's five largest suppliers and five largest customers.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special items were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

4. Related party transactions

Save as disclosed in the accountants' report set out in Appendix I to this prospectus and the section headed "Connected transactions" in this prospectus, the Group has not engaged in any dealings with the Directors and their Associates during the two years immediately preceding the date of this prospectus.

5. General

In September 2004, Mr Li Tyson Sandy Ying Lun was nominated by Investor AB to act as its board representative in MTI. Mr Li's directorship in MTI was non-executive in nature and Mr Li has never been involved in the day-to-day operation of MTI. Mr Li himself has never had any personal interest in MTI.

Venture capital investment inherently has a higher degree of risk than other forms of private equity investment, and MTI, unfortunately, did not perform satisfactorily as planned. As a result, MTI got itself in a situation where it was not able to repay its debts amounted to KRW 43.73 billion when coming into maturity which subsequently led to MTI's application for court receivership.

The court order was granted on 25 October 2006 by the Suwon District Court (Bankruptcy Division), pursuant to which MTI's affairs have been managing by its existing chief executive officer in place of its board of directors as appointed by the court under the receivership. The first meeting between MTI and its creditors and shareholders was held on 31 January 2007, where the creditors and shareholders were provided with an update of the current business and the outstanding payables of MTI together with a due diligence report as required by the court receivership application process.

As stated in the due diligence report, the going concern value of MTI was more than the liquidation value; therefore, MTI was recommended to be kept as a going concern instead of putting it into liquidation.

The second meeting was held on 14 March 2007, where a restructuring plan was discussed at the meeting. As no conclusion has been made, the second meeting was further adjourned to May 2007, at which time, the creditors of MTI will have to decide whether they want to agree to the restructuring plan. As Mr Li has resigned from the directorship of MTI on 30 April 2007, he is not in a position to obtain the updates of the proceeding and it is difficult for him to predict the possible outcome.

IV. SUMMARY OF THE SHARE OPTION SCHEME

The following is a summary of the principal terms of the Share Option Scheme approved and adopted pursuant to the written resolutions of all the Shareholders passed on 25 May 2007. The following summary does not form, nor is intended to be, part of the Share Option Scheme nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

1. Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive or rewards to the Participants (as defined in paragraph 2 below) for their contributions to the Group.

2. Who may join

The Board may, at its discretion, invites:

2.1 any employee or proposed employee (whether full-time or part-time) of any member of the Group or any entity in which any member of the Group holds an equity interest (“Invested Entity”);

2.2 any executive or non-executive director including independent non-executive director of any member of the Group or any Invested Entity;

2.3 any supplier of goods or services to any member of the Group or any Invested Entity;

2.4 any customer of the Group or any Invested Entity;

2.5 any shareholder of any member of the Group or any Invested Entity; or

2.6 any other group or class of participants from time to time as determined by the Directors as having contributed or may contribute to the development and growth of the Group (together, the “Participants” and each a “Participant”) to take up options (“Options”) to subscribe for Shares at a price determined in accordance with paragraph 6 below. In determining the basis of eligibility of each Participant, the Board would take into account such factors as the Board may at its discretion consider appropriate.

3. Conditions

The Share Option Scheme shall take effect subject to the following conditions:—

3.1 the passing of necessary resolution(s) approving the adoption of the Share Option Scheme by the Shareholders and authorising the Directors to grant Options to subscribe for Shares thereunder and to allot and issue Shares pursuant to the exercise of any Options granted under the Share Option Scheme;

3.2 the Listing Committee of the Stock Exchange granting approval of the listing of, and permission to deal in, (i) the Shares in issue and to be issued as mentioned in this prospectus and (ii) any Shares to be issued pursuant to the exercise of Options under the Share Option Scheme;

3.3 the commencement of dealings in the Shares on the Stock Exchange; and

3.4 the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms of any of the Underwriting Agreements or otherwise.

If the above conditions are not satisfied on or before the date which is 30 days after the date of this prospectus, the Share Option Scheme shall forthwith determine and no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme.

4. Duration and Administration

4.1 Subject to the fulfilment of the conditions in paragraph 3 above and the termination provisions in paragraph 16, the Share Option Scheme shall be valid and effective for a period of 10 years commencing from the date on which the conditions in paragraph 3 are fulfilled (“Effective Date”), after which period no further Options will be issued but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect, and Options which are granted during the life of the Share Option Scheme may continue to be exercisable in accordance with their terms of issue.

4.2 The Share Option Scheme shall be subject to the administration of the Board whose decision (save as otherwise provided herein) shall be final and binding on all parties.

4.3 Subject to compliance with the requirements of the Listing Rules and the provisions of the Share Option Scheme, the Board shall have the right (i) to interpret and construe the provisions of the Share Option Scheme; (ii) to determine the persons who will be awarded Options under the Share Option Scheme and the number of Shares to be issued under the Option; (iii) to determine the price per Share at which a Grantee (as defined below) may subscribe for Shares on the exercise of an Option (the “Subscription Price”); (iv) to make such appropriate and equitable adjustments to the terms of Options granted under the Share Option Scheme as it deems necessary; and (v) to make such other decisions, determinations or regulations as it shall deem appropriate in the administration of the Share Option Scheme.

5. Grant of Option

5.1 On and subject to the terms of the Share Option Scheme, the Board shall be entitled at any time, within 10 years after the Effective Date to make an offer of the grant of an Option by the Board (the "Offer") to any Participant as the Board may in its absolute discretion select to subscribe for such number of Shares as the Board may (subject to paragraph 9) determine at the Subscription Price.

5.2 No Offer shall be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision, until such price sensitive information has been published pursuant to the requirements of the Listing Rules. In particular, during the period commencing one month immediately preceding the earlier of (i) the date of the meeting of the Board (as such date is first notified by the Company to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Listing Rules); and (ii) the deadline for the Company to publish an announcement of its results for any year or half-year under the Listing Rules, or quarterly or any other interim period (whether or not required under the Listing Rules), and ending on the date of the results announcement, no Option may be granted. The period during which no Option may be granted will cover any period of delay in the publication of results announcement.

5.3 An Offer shall be made to a Participant by letter in such form as the Board may from time to time determine (the "Offer Letter") requiring the Participant to undertake to hold the Option on the terms on which it is to be granted and to be bound by the provisions of the Share Option Scheme and shall remain open for acceptance by the Participant concerned for a period of 21 days from the date upon which the Offer is made, provided that no such Offer shall be open for acceptance after the 10th anniversary from the Effective Date or after the Share Option Scheme has been terminated in accordance with the provisions hereof, whichever is earlier.

5.4 An Option shall be deemed to have been accepted by any Participant who accepts an Offer in accordance with the terms of the Share Option Scheme or (where the context so permits) the legal personal representative(s) entitled to any such Option in consequence of the death of such Participant (the "Grantee") and the Option to which the Offer relates shall be deemed to have been granted and to have taken effect when the duplicate of the Offer Letter (as defined in sub-paragraph 5.3 above) comprising acceptance of the Option duly signed by the Grantee together with a remittance in favour of the Company of HK$1.00 by way of consideration for the granting thereof is received by the Company within the period as stipulated in sub-paragraph 5.3 above. Such remittance shall in no circumstances be refundable.

5.5 Any Offer may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof. To the extent that the Offer is not accepted within the period and in the manner stipulated in sub-paragraph 5.4 above, it will be deemed to have been irrevocably declined.

5.6 Subject to the provisions of the Share Option Scheme and the Listing Rules, the Board may when making the Offer impose any conditions, restrictions or limitations in relation to the Option as it may at its absolute discretion think fit.

6. Subscription Price

Subject to any adjustments made pursuant to paragraph 14 below, the Subscription Price in respect of each Share issued pursuant to the exercise of Options granted hereunder shall be a price solely determined by the Board and notified to a Participant and shall be at least the highest of:

6.1 the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date on which an Offer is accepted by the Grantee or, if such date is not a business day, the next following business day (the "Grant Date");

6.2 a price being the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the Grant Date (provided that the new issue price shall be used as the closing price for any business day falling within the period before listing of the Shares where the Company has been listed for less than 5 business days as of the Grant Date); and

6.3 the nominal value of a Share.

7. Exercise of Options

7.1 An Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interests in favour of any third party over or in relation to any Option (where the Grantee is a company, any change of its major shareholder or any substantial change in its management (to be determined by the Board at its absolute discretion) will be deemed to be a sale or transfer of interest aforesaid). Any breach of the foregoing of a Grantee shall render all outstanding Option of such Grantee be automatically cancelled in accordance with sub paragraph 8.6 below.

7.2 Unless otherwise determined by the Board and specified in the Offer Letter (as defined in sub-paragraph 5.3 above) at the time of the Offer, there are neither any performance targets that need to be achieved by the Grantee before an Option can be exercised nor any minimum period for which an Option must be held before the Option can be exercised. An Option may be exercised in whole or in part in the manner as set out in the Offer Letter and sub-paragraph 7.3 below by the Grantee (or his personal representative(s)) giving notice in writing to the Company stating that the Option is thereby exercised and the number of Shares in respect of which it is exercised which, if less than the total number of Shares subject to all Options which may be exercised by the Grantee then, must be in an interval multiple of the board lot for dealing in Shares on the Stock Exchange. Each such notice must be accompanied by a remittance for the full amount of the total Subscription Price for the Shares in respect of which the notice is given. Within 7 business days after receipt of the notice and where appropriate, receipt of the auditors for the time being of the Company' certificate pursuant to paragraph

11 below, the Company shall allot the relevant Shares to the Grantee (or his personal representative(s)) credited as fully paid and issue to the Grantee (or his personal representative(s)) a share certificate in respect of the Shares so allotted.

7.3 Subject to as hereinafter provided and subject to the terms and conditions upon which such Option was granted, the Option may be exercised by the Grantee at any time during the a period to be determined by the Board at its absolute discretion and notified by the Board to each Grantee as being the period during which an Option may be exercised and in any event, such period shall not be longer than 10 years from the date upon which any particular Option is granted in accordance with the Share Option Scheme ("Option Period") provided that:

(a) in the event of the Grantee ceases to be a Participant for any reason other than on the Grantee's death or the termination of the Grantee's employment, directorship, office or appointment on one or more of the grounds specified in sub-paragraph 8.4 below, the Grantee may exercise the Option up to the Grantee's entitlement at the date of cessation (to the extent which has become exercisable and not already exercised) within the period of 3 months following the date of such cessation, which date shall be the last actual working day with the relevant company whether salary is paid in lieu of notice or not, or the last date of office or appointment as director of, as consultant, professional or other advisers to the relevant company, as the case may be, in the event of which, the date of cessation as determined by a resolution of the board of directors or governing body of the relevant company shall be conclusive;

(b) in the event the Grantee, if an individual, dies before exercising the Option in full and none of the events which would be a ground for termination of the Grantee's employment, directorship, office or appointment under sub paragraph 8.4 below arises, the personal representative(s) of the Grantee shall be entitled within a period of 12 months from the date of death, to exercise the Option up to the entitlement of such Grantee at the date of death (to the extent not already exercised);

(c) if a general offer by way of take-over is made to all the holders of Shares (other than by way of scheme of arrangement pursuant to sub-paragraph 7.3 (d) below) (or all such holders other than the offeror and/or any person controlled by the offeror and/or any person acting in association or concert with the offeror) and if such offer becomes or is declared unconditional prior to the expiry of the relevant Option Period, the Grantee (or his personal representative(s)) shall be entitled to exercise the Option in full (to the extent not already exercised) at any time within one month after the date on which the offer becomes or is declared unconditional;

(d) if a general offer by way of scheme of arrangement is made to all the holders of Shares and has been approved by the necessary number of holders of Shares at the requisite meetings, the Grantee (or his personal representative(s)) may exercise the Option (to the extent not already exercised) in full not later than 2 business days prior to the proposed meeting;

(e) if a compromise or arrangement between the Company and its shareholders or creditors is proposed for the purposes of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company or companies (other than a general offer or a scheme of arrangement contemplated in sub-paragraphs 7.3(c) and 7.3(d) above), the Company shall give notice thereof to the Grantee on the same date as it dispatches the notice which is sent to each shareholder or creditor of the Company summoning the meeting to consider such a compromise or arrangement, and thereupon the Grantee (or his personal representative(s)) may exercise the Option (to the extent not already exercised) in full not later than 2 business days prior to the proposed meeting; and

(f) in the event a notice is given by the Company to its shareholders to convene a shareholders' meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, other than for the purposes of a reconstruction, amalgamation or scheme of arrangement, the Company shall forthwith give notice thereof to all Grantees. Each Grantee (or his legal personal representative(s)) may exercise the Option (to the extent not already exercised) in full not later than 4 business days prior to the proposed general meeting.

7.4 The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the memorandum and articles of association of the Company for the time being in force and will rank pan passu in all respects with the fully paid Shares in issue on the date of their allotment and issue, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the date of allotment and issue other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefor shall be before the date of allotment and issue.

8. Lapse of Option

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

8.1 the expiry of the Option Period;

8.2 the expiry of the periods referred to in the above sub-paragraphs 7.3(a), (b), (c) or (e);

8.3 subject to the scheme of arrangement becoming effective, the expiry of the period referred to in the above sub-paragraph 7.3(d);

8.4 the date of the commencement of the winding-up of the Company;

8.5 the date on which the Grantee ceases to be an employee of the Group or the Invested Entity (as the case may be) on the grounds that he has been guilty of misconduct, or appears either to be unable to pay or have no reasonable prospect to pay debts, or has become insolvent, or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty;

8.6 the date on which the Grantee commits a breach of sub-paragraph 7.1 above; or

8.7 the date on which the Grantee ceases to be an eligible Participant.

The Company shall owe no liability to any Grantee for the lapse of any Option under this paragraph 8.

9. Maximum number of Shares available for subscription

9.1 Subject to sub-paragraph 9.2 below:

(a) The total number of Shares, which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Company shall not in aggregate exceed 10% of the total number of Shares in issue on the date of adoption of the Share Option Scheme, unless the Company obtains an approval from its shareholders pursuant to sub-paragraph 9.1(b) below. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating such 10% limit.

(b) The Company may seek approval of its shareholders in general meeting for refreshing the 10% limit set out in sub-paragraph 9.1(a) above such that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company under the limit as refreshed shall not exceed 10% of the total number of Shares in issue as of the date of approval to refresh such limit. Options previously granted under the Share Option Scheme and any other share option schemes (including those outstanding, cancelled, lapsed in accordance with the Share Option Scheme or any other share option schemes or exercised options) will not be counted for the purpose of calculating such limit as refreshed. In such a case, the Company shall send a circular to its shareholders containing the information required under the Listing Rules.

(c) The Company may seek separate approval by its shareholders in general meeting for granting Options beyond the 10% limit provided the Options in excess of such limit are granted only to Participants specifically identified by the Company before such approval is sought. In such a case, the Company shall send a circular to its shareholders containing, amongst other terms, a generic description of the specified Participant(s) who may be granted such Options, the number of Shares subject to the Options to be granted, the terms of the Options to be granted, the purpose of granting Options to the specified Participant(s), an explanation as to how these Options serve such purpose and such other information as required under the Listing Rules.

9.2 Notwithstanding any provision in paragraph 9.1 above and subject to paragraph 11 below, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

10. Maximum entitlement of Shares of each Participant

10.1 (a) Subject to sub-paragraphs 10.1(b) below, the total number of Shares issued and to be issued upon exercise of the Options granted to each Participant (including both exercised and outstanding Options) in any 12-month period shall not exceed 1% of the total number of Shares in issue.

(b) Notwithstanding sub-paragraph 10.1(a) below, where any further grant of Options to a Participant would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Participant under the Share Option Scheme and any other share option schemes of the Company (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by the Shareholders in general meeting with such Participant and his associates abstaining from voting. The number and terms (including the exercise price) of the Options to be granted to such Participant shall be fixed before the shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of grant for the purpose of calculating the Subscription Price. In such a case, the Company shall send a circular to its shareholders containing, amongst other terms, the identity of such Participant, the number and the terms of the Options to be granted (and Options previously granted to such Participant) and such other information as required under the Listing Rules.

(c) In addition to the above paragraph 9 and sub-paragraphs 10.1(a) and 10.1(b), any grant of Options to a Participant who is a Director, chief executive or Substantial Shareholder of the Company or their respective associates must be approved by the independent non-executive Directors (excluding independent non-executive Director who is the Grantee).

(d) In addition to the above paragraph 9 and sub-paragraphs 10.1(a) and 10.1(b), where the Board proposes to grant any Option to a Participant who is a Substantial Shareholder or an independent non-executive Director, or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted under the Share Option Scheme and any other share option schemes of the Company (including options exercised, cancelled and outstanding) to him in the 12-month period up to and including the date of such grant:

(i) representing in aggregate more than 0.1% of the total number of Shares in issue; and

(ii) having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK$5,000,000,

such proposed grant of Options must be approved by the Shareholders in general meeting. In such a case, the Company shall send a circular to its shareholders containing all those terms as required under the Listing Rules. All connected persons of the Company must abstain from voting in favour at such general meeting. Any vote taken at the meeting to approve the grant of such Options must be taken on a poll and the applicable requirements of the Listing Rules must be complied with.

10.2 Subject to the above sub-paragraphs 9.1, 9.2 and 10.1, in the event of any alteration in the capital structure of the Company whether by way of capitalisation issue, rights issue, consolidation, subdivision or reduction of the share capital of the Company or otherwise howsoever (other than as a result of an issue of Shares as consideration in a transaction), the maximum number of Shares referred to in the above sub-paragraphs 9.1, 9.2 and 10.1 will be adjusted in such manner as an independent financial adviser or the auditors for the time being of the Company (acting as experts and not as arbitrators) shall confirm to the Directors in writing to be fair and reasonable.

11. Reorganisation of capital structure

In the event of any alteration in the capital structure of the Company whilst any Option remains exercisable, whether by way of capitalisation issue, rights issue, subdivision, consolidation, or reduction of the share capital of the Company or otherwise howsoever in accordance with legal requirements and requirements of the Stock Exchange excluding any alteration in the capital structure of the Company as a result of an issue of Shares as consideration in respect of a transaction to which the Company is a party, such corresponding alterations (if any) shall be made to:

(i) the number or nominal amount of Shares subject to the Option so far as unexercised; and/or

(ii) the Subscription Price; and/or

(iii) the method of exercise of the Option (if applicable),

as an independent financial adviser or the auditors for the time being of the Company shall at the request of the Board certify in writing to the Directors, either generally or as regards any particular Grantee, to be in their opinion fair and reasonable and that any such alterations shall satisfy the requirements set out in the note to Rule 17.03(13) of the Listing Rules and shall give a Grantee the same proportion of the issued share capital of the Company as that to which the Grantee was previously entitled (as interpreted in accordance with the Supplementary Guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issuers relating to share option schemes and/or any future guidance or interpretation of the Listing Rules issued by the Stock Exchange from time to time), provided that no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value. The capacity of the independent financial adviser or the auditors for the time being of the Company in this paragraph is that of experts and not of arbitrators and their certification shall, in the absence of manifest error, be final and binding on the Company and the Grantees. The costs of the independent financial adviser or the auditors for the time being of the Company shall be borne by the Company.

12. Share Capital

The exercise of any Option shall be subject to the Shareholders in a general meeting approving any necessary increase in the authorised share capital of the Company. Subject thereto, the Board shall make available sufficient authorised but unissued share capital of the Company to meet subsisting requirements on the exercise of Options.

13. Disputes

Any dispute arising in connection with the Share Option Scheme (whether as to the number of Shares the subject of an Option, the amount of the Subscription Price or otherwise) shall be referred to the decision of the auditors for the time being of the Company or an independent financial adviser appointed by the Company who shall act as experts and not as arbitrators and whose decision shall be final and binding.

14. Alteration of the Share Option Scheme

14.1 Subject to the Listing Rules and sub-paragraphs 14.2 to 14.5 below, the provisions of the Share Option Scheme may be altered in any respect by resolution of the Board without the approval by Shareholders in general meeting.

14.2 The provisions of the Share Option Scheme relating to matters set out in Rule 17.03 of the Listing Rules, shall not be altered to the advantage of the Participants except with the prior approval of the Shareholders in general meeting.

14.3 Any alterations to the terms and conditions of the Share Option Scheme which are of a material nature or any change to the terms of the Options granted must be approved by the Shareholders in general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.

14.4 Any change to the authority of the Directors or scheme administrators in relation to any alteration to the terms of the Share Option Scheme must be approved by the Shareholders in general meeting.

14.5 The amended terms of the Share Option Scheme or the Options must still comply with the relevant requirements of Chapter 17 of the Listing Rules.

15. Cancellation of the Options granted

The Board may, with the consent of the relevant Grantee, at any time at its absolute discretion cancel any Option granted but not exercised. Where the Company cancels Options and makes an Offer of the grant of new Options to the same Option holder, the Offer of the grant of such new Options may only be made, under the Share Option Scheme with available Options (to the extent not yet granted and excluding the cancelled Options) within the limit approved by the Shareholders as mentioned in the above paragraph 9.

16. Termination of the Share Option Scheme

The Company by resolution in general meeting or the Board may at any time terminate the operation of the Share Option Scheme and in such event no further Options will be offered but in all other respects the provisions of the Share Option Scheme shall remain in full force and effect.

Application has been made to the Listing Committee for listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the Options.

As of the date of this prospectus, no Option has been granted or agreed to be granted by the Company under the Share Option Scheme.

V. OTHER INFORMATION

1. Indemnities

Mr Wang, Sun Xu, Sun Ji and Sun Guang, being the Indemnifiers, entered into a deed of indemnity with the Company on 25 May 2007 (being a material contract referred to in the section headed "Further information about the business of the Group — Summary of material contracts" in this Appendix) to provide indemnities in favour of the Group in respect of, among other matters, (1) any taxation which has been made or may be made against any member of the Group in respect of or in consequence of any event occurring or any income, profits or gains earned, accrued or received or deemed to be so earned, accrued or received on or before the Listing Date or any transaction, matter, thing, event, act or omission occurring on or deemed to occur on or before such date, whether alone or in conjunction with any other transaction, matter, thing, event, act, omission or circumstances whenever occurring, whether or not such taxation is chargeable against or attributable to any other person, firm or company, save for the amount of any surtaxes and penalties imposed on any member of the Group relating to any enterprise income tax liability for any period up to and including the year ended 31 December 2006 as a result of the relevant tax authorities in the PRC having determined that the relevant member(s) of the Group is or are not entitled to certain preferential tax treatment; (2) any damages arising from or in connection with any property claims or third party claims or claims by the government of Hong Kong and the PRC or mortgagee of the property owned or leased by the Group arising out of (i) any breach or non-compliance of any applicable Hong Kong law and PRC law, rules and/or regulations affecting any such property; and/or (ii) of the occupier or user of any such property; and/or (iii) any breach or non-compliance of other terms, conditions, covenants, restrictions of the relevant agreement (including but not limited to mortgage, legal charge and tenancy agreement) or of any (if any) land use right sale and purchase agreement or holding of any defective real estate title certificate or any other title documents in respect of any such property.

The Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its subsidiaries in the BVI or the PRC.

2. Litigation

As of the Latest Practicable Date, no member of the Group is engaged in any litigation, arbitration, claim, regulatory inquiries or investigations of material importance and no litigation, arbitration, claim, regulatory inquiries or investigations of material importance is known to the Directors to be pending or threatened by or against any member of the Group. The Group from may time to time be subject to various legal or administrative proceedings arising in the ordinary course of its business.

3. Application for listing

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus.

4. Preliminary expenses

The preliminary expenses of the Company are approximately HK$84,000 and are paid by the Company.

5. Promoters

The Company does not have promoters.

Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefits has been paid, allotted or given or proposed to be paid, allotted or given to the promoters in connection with the Global Offering or the related transaction described in this prospectus.

6. Qualification of experts

The following are the qualifications of the experts which have given their opinion or advice which is contained in, or referred to in, this prospectus:

Name	Qualification
BNP Paribas Capital	A corporation licensed to conduct type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
DTZ Debenham Tie Leung Limited	Professional surveyors and valuers
Troutman Sanders	Legal advisers as to Hong Kong law
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
High Mark Law Firm	Legal advisers as to PRC law
Jingtian & Gongcheng, Attorneys at Law	Legal advisers as to PRC law

7. Consent of experts

Each of BNP Paribas Capital, Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited, Troutman Sanders, Conyers Dill & Pearman, High Mark Law Firm and Jingtian & Gongcheng, Attorneys at Law has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion (as the case may be) and the references to its name included herein in the form and context in which they are respectively included.

8. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

9. Particulars of the Selling Shareholders

The particulars of each of the Selling Shareholders are set out as below:

Name	:	Sun Xu Limited
Place of incorporation	:	BVI
Date of incorporation	:	6 July 2006
Registered office	:	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Sale Shares	:	53,585,232 Shares if the Over-allotment Option is not exercised or 57,142,940 Shares if the Over-allotment Option is fully exercised

Name	:	Sun Zhong Limited
Place of incorporation	:	BVI
Date of incorporation	:	6 July 2006
Registered office	:	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands
Sale Shares	:	7,414,768 Shares if the Over-allotment Option is not exercised or 7,907,060 Shares if the Over-allotment Option is fully exercised

Name	:	Summit Optical Holdings, Inc.
Place of incorporation	:	BVI
Date of incorporation	:	31 January 2005
Registered office	:	P.O. Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands
Sale Shares	:	1,695,492 Shares if the Over-allotment Option is not exercised or 38,145,492 Shares if the Over-allotment Option is fully exercised

Name	:	CWI Optical Holdings, Inc.
Place of incorporation	:	BVI
Date of incorporation	:	6 July 2006

Registered office	:	P.O. Box 173, Kingston Chambers, Road Town, Tortola, British Virgin Islands
Sale Shares	:	7,304,508 Shares irrespective of the exercise of the Over-allotment Option

Sun Xu is owned as to 7.68% and 92.32% by Sun Guang and Sun Ji, respectively. Mr Wang, the chairman of the Company and an executive Director, is the sole director of each of Sun Xu, Sun Guang and Sun Ji. He is the sole shareholder of Sun Guang and the trustee and one of the beneficiaries of the Sunny Employee Trust and the sole shareholder and the trustee of the PRC Investor Trust.

As of the Latest Practicable Date, Summit was beneficially owned as to 73.79% by Chengwei Funds, 25.40% by Investor AB Funds and 0.81% by Independent Investors. Chengwei Funds are managed by Chengwei Ventures Evergreen Management, LLC.

As of the Latest Practicable Date, CWI was beneficially owned as to 40.44% by Chengwei Funds, 40.44% by Investor AB Funds and 19.12% by Independent Investors.

Mr Shao Yang Dong, a non-executive Director, owned 30.19% interest in Chengwei Ventures Evergreen Management, LLC and Mr Li Tyson Sandy Ying Lun, a non-executive Director, is one of the limited partners of Investor Group Asia L.P. and has approximately 3.23% equity interest therein.

Please refer to the section headed "History, Reorganisation and Group structure — Corporate structure" in this prospectus for further details.

Save as disclosed herein, none of the Directors is interested in the Sale Shares.

10. Miscellaneous

(a) Save as disclosed in this prospectus:

(i) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;

(ii) within the two years immediately preceding the date of this prospectus, no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no founder, management or deferred shares of the Company or any of its subsidiaries have been issued or agreed to be issued;

(iv) the Directors confirm that since 31 December 2006, there has been no material adverse change in the financial or trading position or prospects of the Group; and

(v) none of BNP Paribas Capital, Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited, Troutman Sanders, Conyers Dill & Pearman, High Mark Law Firm and Jingtian & Gongcheng, Attorneys at Law:

(a) is interested beneficially or non-beneficially in any shares in any member of the Group; or

(b) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any shares in any member of the Group.

(b) No company within the Group is presently listed on any stock exchange or traded on any trading system.

(c) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the 12 months immediately preceding the date of this prospectus.

(d) All necessary arrangements have been made to enable the Shares to be admitted into CCASS for clearing and settlement.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **WHITE** and **YELLOW** Application Forms, the list containing the particulars of the Selling Shareholders as set out in the section headed “Other information — Particulars of the Selling Shareholders” in Appendix V to this prospectus, the written consents referred to under the section headed “Other information — Consent of experts” in Appendix V to this prospectus and copies of the material contracts referred to the section headed “Further information about the business of the Group — Summary of material contracts” in Appendix V to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Troutman Sanders at Suite 3403, 34th Floor, Two Exchange Square, 8 Connaught Place, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

(a) the Memorandum and the Articles;

(b) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;

(c) the audited financial statements prepared by Deloitte Touche Tohmatsu CPA Ltd. for each of Sunny Optics, Ningbo Instruments, Sunny Opotech, Sunny Zhongshan, Sunny Infrared and Nanjing Instruments for each of the two years ended 31 December 2006 (or since the date of their respective establishment, where necessary);

(d) the letter dated 4 June 2007 prepared by Deloitte Touche Tohmatsu relating to the unaudited proforma financial information of the Group, the text of which is set out in Appendix II to this prospectus;

(e) the PRC legal opinion dated 4 June 2007 issued by High Mark Law Firm;

(f) the letter dated 4 June 2007, summary of valuation and valuation certificate relating to the property interest of the Group prepared by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix III to this prospectus;

(g) the letter of advice dated 4 June 2007 prepared by Conyers Dill & Pearman summarising certain aspects of Cayman Islands company law referred to in Appendix IV to this prospectus;

(h) the Companies Law;

(i) the material contracts referred to in the section headed “Further information about the business of the Group — Summary of material contracts” in Appendix V to this prospectus;

(j) the list containing the particulars of the Selling Shareholders as set out in the section headed "Other information — Particulars of the Selling Shareholders" in Appendix V to this prospectus;

(k) the written consents referred to in the section headed "Other information — Consent of experts" in Appendix V to this prospectus;

(l) the service contracts referred to in the section headed under "Further information about Substantial Shareholders, Directors, management and staff — Particulars of Directors' service contracts" in Appendix V to this prospectus; and

(m) the rules of the Share Option Scheme.