COSLIGHT

COSLIGHT TECHNOLOGY INTERNATIONAL GROUP LIMITED

(incorporated in Bermuda with limited liability)

2005

Interim Report

CONTENTS

Corporate Information

DIRECTORS

Executive

Mr. SONG Dian Quan
Ms. LUO Ming Hua
Mr. LI Ke Xue
Mr. XING Kai
Mr. ZHANG Li Ming
Mr. LIU Xing Quan

Independent non-executive

Mr. LI Zeng Lin
Dr. JIANG Zhao Hua
Mr. XIAO Jian Min

COMPANY SECRETARY

Mr. CHOI Wai Lung Edward FCCA, FHKICPA

QUALIFIED ACCOUNTANT

Mr. CHOI Wai Lung Edward FCCA, FHKICPA

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AUDITORS

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
COSLIGHT TECHNOLOGY INTERNATIONAL GROUP LIMITED
(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 5 to 32.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th June, 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
15th September, 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	NOTES	Six months ended 30.6.2005 RMB'000 (Unaudited)	30.6.2004 RMB'000 (Unaudited)
Turnover	3	**536,531**	580,151
Cost of sales		**(348,399)**	(391,827)
Gross profit		**188,132**	188,324
Other operating income		**3,463**	3,078
Distribution costs		**(71,865)**	(78,038)
Administrative expenses		**(40,931)**	(30,110)
Profit from operations		**78,799**	83,254
Finance costs		**(18,311)**	(15,069)
Gain on disposal of an associate		**–**	25
Profit before taxation		**60,488**	68,210
Income tax expense	5	**(6,191)**	(5,016)
Profit for the period from continuing operations		**54,297**	63,194
Discontinued operation	6		
Loss for the period from discontinued operations		**(3,831)**	–
Profit for the period		**50,466**	63,194
Attributable to:			
Equity holders of the parent		**50,122**	59,829
Minority interest		**344**	3,365
		50,466	63,194
Dividends	7	**18,414**	22,975
Earnings per share			
From continuing and discontinued operations:	8		
– Basic		**11.57 cents**	13.81 cents
– Diluted		**N/A**	N/A
From continuing operation:	8		
– Basic		**12.46 cents**	13.81 cents
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2005

	NOTES	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited) (Restated)
Non-current assets			
Property, plant and equipment	9	**514,875**	524,447
Intangible assets		**14,318**	45,358
Goodwill		**4,193**	4,193
Negative goodwill		**–**	(16,502)
Prepaid lease payments		**76,875**	71,150
Interests in associates	10	**(18,800)**	–
Deferred taxation assets		**499**	499
		591,960	629,145
Current assets			
Loans receivable		**–**	8,489
Inventories		**247,177**	221,290
Trade and other receivables	11	**1,030,878**	976,888
Prepaid lease payments		**331**	331
Amounts due from directors	15	**567**	932
Amounts due from related companies	15	**10,134**	15,308
Amount due from an associate		**77,656**	–
Investments held for trading		**328**	–
Other investment		**–**	378
Pledged bank deposits		**53,728**	37,258
Bank balances and cash		**97,191**	249,173
		1,517,990	1,510,047
Current liabilities			
Trade and other payables	12	**539,799**	466,338
Amounts due to related companies	15	**17,957**	11,202
Amount due to an associate		**2,493**	–
Taxation payable		**8,661**	7,316
Other borrowings		**242**	279
Bank borrowings – due within one year	13	**399,782**	558,808
		968,934	1,043,943
Net current assets		**549,056**	466,104
		1,141,016	1,095,249

	NOTES	30.6.2005 RMB'000 (Unaudited)	31.12.2004 RMB'000 (Audited) (Restated)
Capital and reserves			
Share capital	14	**46,308**	46,308
Reserves		**963,346**	915,013
Equity attributable to equity holders of the parent		**1,009,654**	961,321
Minority interests		**74,476**	70,810
Total equity		**1,084,130**	1,032,131
Non-current liabilities			
Bank borrowings – due after one year	13	**44,011**	50,197
Deferred taxation liabilities		**12,875**	12,921
		56,886	63,118
		1,141,016	1,095,249

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Attributable to equity holders of the parent									
	Share capital	Share premium	Special reserve	Statutory reserves	Revaluation reserve	Exchange reserve	Accumulated profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2004	46,308	245,111	34,583	115,297	66,220	(535)	349,304	856,288	60,774	917,062
Exchange difference arising on translation of financial statements of operations outside the People's Republic of China recognised directly in equity	–	–	–	–	–	225	–	225	–	225
Profit for the period	–	–	–	–	–	–	59,829	59,829	3,365	63,194
Total recognised income and expense for the period	–	–	–	–	–	225	59,829	60,054	3,365	63,419
Capital contributions by a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	500	500
Transfers	–	–	–	746	–	–	(746)	–	–	–
Dividends	–	–	–	–	–	–	(22,975)	(22,975)	–	(22,975)
At 30th June, 2004	46,308	245,111	34,583	116,043	66,220	(310)	385,412	893,367	64,639	958,006
Surplus on revaluation of property, plant and equipment	–	–	–	–	18,379	–	–	18,379	1,197	19,576
Deferred tax liability arising on revaluation of property, plant and equipment	–	–	–	–	(3,231)	–	–	(3,231)	–	(3,231)
Exchange difference arising on translation of financial statements of operations outside the People's Republic of China	–	–	–	–	–	(199)	–	(199)	–	(199)
Net income (expense) recognised directly in equity	–	–	–	–	15,148	(199)	–	14,949	1,197	16,146
Profit for the period	–	–	–	–	–	–	62,195	62,195	1,269	63,464
Total recognised income and expense for the period	–	–	–	–	15,148	(199)	62,195	77,144	2,466	79,610

	Attributable to equity holders of the parent									
	Share capital	Share premium	Special reserve	Statutory reserves	Revaluation reserve	Exchange reserve	Accumulated profits	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital contributions by a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	4,200	4,200
Acquired on acquisition of a subsidiary	–	–	–	–	–	–	–	–	5	5
Disposal of a subsidiary	–	–	–	–	–	–	–	–	(500)	(500)
Transfers	–	–	–	19,869	–	–	(19,869)	–	–	–
Dividends	–	–	–	–	–	–	(9,190)	(9,190)	–	(9,190)
At 31st December, 2004										
– as originally stated	46,308	245,111	34,583	135,912	81,368	(509)	418,548	961,321	70,810	1,032,131
– Effects of changes in accounting policies	–	–	–	–	–	–	16,502	16,502	–	16,502
– as restated	46,308	245,111	34,583	135,912	81,368	(509)	435,050	977,823	70,810	1,048,633
Exchange difference arising from translation of financial statements of operations outside the People's Republic of China recognised directly in equity	–	–	–	–	–	123	–	123	–	123
Profit for the period	–	–	–	–	–	–	50,122	50,122	344	50,466
Total recognised income and expense for the period	–	–	–	–	–	123	50,122	50,245	344	50,589
Capital contributions by minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	3,322	3,322
Transfers	–	–	–	858	–	–	(858)	–	–	–
Dividends	–	–	–	–	–	–	(18,414)	(18,414)	–	(18,414)
At 30th June, 2005	46,308	245,111	34,583	136,770	81,368	(386)	465,900	1,009,654	74,476	1,084,130

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	**134,705**	(110,891)
Net cash used in investing activities	**(84,846)**	(77,010)
Net cash (used in) from financing activities	**(201,964)**	53,305
Decrease in cash and cash equivalents	**(152,105)**	(134,596)
Cash and cash equivalents at beginning of the period	**249,173**	259,212
Effect of foreign exchange rate changes	**123**	225
Cash and cash equivalents at end of the period, represented by bank balances and cash	**97,191**	124,841

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2005

1. BASIS OF PREPARATION

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain property, plant and equipment and financial instruments, which are measured at fair value or revalued amounts, as appropriate.

The accounting policies adopted are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31st December, 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

A. Business Combinations

In the current period, the Group has applied HKFRS 3, "Business combinations", which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous periods, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current period. Comparative figures for 2004 have not been restated.

In the current period, the Group has also applied HKAS 21 "The effects of changes in foreign exchange rates" which requires goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, goodwill arising on acquisitions of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, goodwill arising on acquisitions prior to 1st January, 2005 is treated as a non-monetary foreign currency item. Therefore, no prior period adjustment has been made.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

A. Business Combinations (continued)

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous periods, negative goodwill arising on acquisitions prior to 1st January, 2001 was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognised all negative goodwill of RMB16,502,000 at 1st January, 2005, which was previously presented as a deduction from assets, with a corresponding increase to accumulated profits.

Contingent liabilities of acquirees

In accordance with HKFRS 3, contingent liabilities of an acquiree are recognised at the date of the acquisition if the fair value of the contingent liabilities can be measured reliably. Previously, contingent liabilities of acquirees were not recognised separately from goodwill. The revised accounting policy has been applied prospectively to acquisitions for which the agreement date is on or after 1st January, 2005, comparative figures for 2004 have not been restated.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

B. Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

C. Financial instrument

HKAS 32 "Financial instruments: Disclosure and presentation" requires retrospective application whereas HKAS 39 "Financial instruments: Recognition and measurement", which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the Group's financial statements. The principal effects on the Group as a result of implementation of HKAS 39 are related to the measurements of financial assets and financial liabilities.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

C. Financial instrument (continued)

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any).

From 1st January, 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities in accordance with the requirements of HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS-Int 4	Determining whether an Arrangement Contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results for the current and prior period are as follows:

		Six months ended	
		30.6.2005	30.6.2004
	Effect of adopting	**RMB'000**	RMB'000
Decrease in amortisation of goodwill	*HKFRS 3*	**340**	–
Decrease in release of negative goodwill	*HKFRS 3*	**(1,040)**	–
Decrease in profit for the period		**(700)**	–

2. PRINCIPAL ACCOUNTING POLICIES (continued)

Summary of the effects of the changes in accounting policies (continued)

Analysis of decrease in profit for the period by line items presented according to their function:

	Effect of adopting	Six months ended 30.6.2005 RMB'000	Six months ended 30.6.2004 RMB'000
Decrease in administrative expenses	*HKFRS 3*	**340**	–
Decrease in other operating income	*HKFRS 3*	**(1,040)**	–
Decrease in profit for the period		**(700)**	–

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	Effect of adopting	As at 31.12.2004 (originally stated) RMB'000	Adjustment RMB'000	As at 31.12.2004 (restated) RMB'000	Adjustment RMB'000	As at 1.1.2005 (restated) RMB'000
Balance sheet items						
Property, plant and equipment	*HKAS 17*	595,928	(71,481)	524,447	–	524,447
Prepaid lease payments	*HKAS 17*	–	71,481	71,481	–	71,481
Negative goodwill	HKFRS 3	(16,502)	–	(16,502)	16,502	–
Investments held for trading	*HKAS 39*	–	–	–	378	378
Other investment	*HKAS 39*	378	–	378	(378)	–
Net effects on assets and liabilities		579,804	–	579,804	16,502	596,306
Accumulated profits	*HKFRS 3*	(418,548)	–	(418,548)	(16,502)	(435,050)

3. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three major operating divisions – sealed lead acid batteries and related accessories, lithium ion batteries and electricity control devices. These divisions are the basis on which the Group reports its primary segment information.

For the six months ended 30th June, 2005

	Continuing operations					Discontinued operation		
	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Sub-total RMB'000	Online games RMB'000	Elimination RMB'000	Consolidated RMB'000
TURNOVER								
External sales	374,083	122,498	22,095	17,855	536,531	3,518	–	540,049
Inter-segment sales	–	880	–	7,945	8,825	–	(8,825)	–
Total	374,083	123,378	22,095	25,800	545,356	3,518	(8,825)	540,049
RESULT								
Segment result	62,655	11,998	5,783	788	81,224	(26,146)	–	55,078
Unallocated corporate income					311			311
Unallocated corporate expenses					(2,736)			(2,736)
Profit from operations					78,799			52,653
Finance costs					(18,311)			(18,311)
Gain on deemed disposal of a subsidiary					–	22,315	–	22,315
Profit before taxation					60,488			56,657
Income tax expense					(6,191)			(6,191)
Profit for the period from continuing operations					54,297			
Profit for the period								50,466

Inter-segment sales transactions are charged at cost plus a percentage of profit mark-up.

3. SEGMENT INFORMATION (continued)

Business segments (continued)

For the six months ended 30th June, 2004

	Continuing operations					Discontinued operation	
	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Sub-total RMB'000	Online games RMB'000	Consolidated RMB'000
TURNOVER							
External sales	345,249	177,332	13,761	43,809	580,151	–	580,151
RESULT							
Segment result	65,350	20,689	(246)	1,010	86,803	–	86,803
Unallocated corporate income					808		808
Unallocated corporate expenses					(4,357)		(4,357)
Profit from operations					83,254		83,254
Finance costs					(15,069)		(15,069)
Gain on disposal of an associate					25		25
Profit before taxation					68,210		68,210
Income tax expense					(5,016)		(5,016)
Profit for the period					63,194		63,194

4. DEPRECIATION AND AMORTISATION

During the period, depreciation of RMB22,554,000 (six months ended 30th June, 2004: RMB17,411,000) was charged in respect of the Group's property, plant and equipment. Amortisation of RMB9,563,000 (six months ended 30th June, 2004: RMB333,000) was charged in respect of the Group's patents and trademarks.

During the period, no negative goodwill was released to income (six months ended 30th June, 2004: RMB1,072,000) upon adoption of the new HKFRSs.

5. INCOME TAX EXPENSE

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
The charge comprises:		
PRC enterprise income tax	**6,237**	4,814
Deferred tax	**(46)**	202
	6,191	5,016

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making years of operation and thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years ("Tax Holidays").

5. INCOME TAX EXPENSE (continued)

Seven (six months ended 30th June, 2004: Four) of the major operating subsidiaries of the Company are subject to enterprise income tax in the PRC in the current period. The charge for PRC enterprise income tax for the period ended 30th June, 2005 was subject to rates ranging from 7.5% to 12%. The PRC subsidiaries which are subject to PRC enterprise income tax have been established as wholly foreign-owned enterprises under the laws of the PRC and have obtained the approval from the PRC tax bureau for Tax Holidays.

6. DISCONTINUED OPERATION

On 9th June, 2005, the Group entered into an agreement which the 27.69% equity interest in a subsidiary was deemed to be disposed by way of capital injection by a third party. The Group's interest in this subsidiary was then decreased from 77% to 49.31% and this subsidiary became an associate of the Group at 30th June, 2005. The subsidiary disposed of was engaged in the business of operation of online games. The transaction was completed on 28th June, 2005 and a gain of RMB22,315,000 was resulted for the period ended 30th June, 2005.

7. DIVIDENDS

On 2nd June, 2005, a dividend of HK4 cents (2004: HK5 cents) per share, shown in the financial statements as RMB0.04252 (2004: RMB0.05305) per share, amounting to approximately RMB18,414,000 (2004: RMB22,975,000) was paid to shareholders as the final dividend for 2004.

The directors have determined that an interim dividend of HK1 cent (2004: HK2 cents) per share, shown in the financial statements as RMB0.01040 (2004: RMB0.02122) per share, amounting to approximately RMB4,504,000 (2004: RMB9,190,000) should be paid to the shareholders of the Company whose names appear in the register of members on 14th October, 2005.

8. EARNINGS PER SHARE

From continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the parent for the period is based on the following data:

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
Earnings:		
Net profit for the period and earnings for the purposes of basic and diluted earnings per share	**50,122**	59,829
Number of shares:		
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**433,080**	433,080

8. EARNINGS PER SHARE (continued)

From continuing operations

The calculation of the basic and diluted earnings per share from continuing operations attributable to the ordinary equity holders of the parent for the period is based on the following data:

	Six months ended	
	30.6.2005	30.6.2004
	RMB'000	RMB'000
Earnings:		
Earnings for the period attributable to equity holders of the parent	**50,122**	59,829
Add: Loss for the period from discontinued operations	**3,831**	–
Earnings for the purpose of basic and diluted earnings per share from continuing operations	**53,953**	59,829
Number of shares:		
	'000	'000
Number of ordinary shares for the purposes of basic earnings per share	**433,080**	433,080

No diluted earnings per share has been presented for the periods as there were no potential dilutive ordinary shares in issue.

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB27,520,000 (six months ended 30th June, 2004: approximately RMB57,927,000) on addition to manufacturing plant in order to expand its manufacturing capabilities.

At 30th June, 2005, the directors have considered the carrying amount of the Group's buildings, plant and machinery and motor vehicles and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

10. INTERESTS IN ASSOCIATES

The amount represents the legal obligation of the Group for further capital contribution to the associate as at 30th June, 2005.

11. TRADE AND OTHER RECEIVABLES

The credit terms given to the customers vary from 3 months to 9 months from the final inspection acceptance and are generally based on the financial strength of individual customers. The following is an aged analysis of trade receivable at the balance sheet date:

	30.6.2005	31.12.2004
	RMB'000	RMB'000
Within 90 days	**417,822**	415,614
More than 90 days, but not exceeding 180 days	**223,207**	213,203
More than 180 days, but not exceeding 270 days	**134,406**	140,833
More than 270 days, but not exceeding 360 days	**71,173**	45,955
More than 360 days, but not exceeding 540 days	**62,418**	59,274
More than 540 days, but not exceeding 720 days	**37,915**	21,559
Trade receivables	**946,941**	896,438
Other receivables	**83,937**	80,450
	1,030,878	976,888

12. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payable at the balance sheet date:

	30.6.2005 RMB'000	31.12.2004 RMB'000
Within 30 days	**176,224**	111,940
More than 30 days, but not exceeding 60 days	**38,393**	32,015
More than 60 days, but not exceeding 90 days	**9,176**	5,344
More than 90 days, but not exceeding 180 days	**23,095**	24,690
Over 180 days	**41,861**	43,060
Trade payables	**288,749**	217,049
Other payables	**251,050**	249,289
	539,799	466,338

13. BORROWINGS

During the period, the Group obtained new bank loans in the amount of RMB124,285,000 and repaid bank loans of RMB289,497,000. The new bank loans bear interest at market rates and are repayable in one to five years. The proceeds were used to finance the working capital of the Group.

	30.6.2005 RMB'000	31.12.2004 RMB'000
The bank borrowings are repayable as follows:		
Within one year or on demand	**399,782**	558,808
More than one year, but not exceeding two years	**22,220**	24,194
More than two years, but not exceeding five years	**21,791**	26,003
	443,793	609,005
Less: Amounts due within one year shown under current liabilities	**(399,782)**	(558,808)
Amounts due after one year	**44,011**	50,197
Analysed as:		
secured	**137,349**	214,550
unsecured	**306,444**	394,455
	443,793	609,005

14. SHARE CAPITAL

	Number of shares	Amount in original currency	Shown in the financial statements as
	'000	HK$'000	RMB'000
Ordinary shares of HK$0.10 each			
Authorised:			
At 31st December, 2004 and 30th June, 2005	1,000,000	100,000	107,000
Issued and fully paid:			
At 31st December, 2004 and 30th June, 2005	433,080	43,308	46,308

None of the Company's subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the period.

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the period, the Group had certain transactions and balances with related parties. Certain directors of the Company have beneficial interests in these related parties. Details of transactions and balances with these related parties are as follows:

(a) Transactions

(1) Transactions with related parties

Names of related parties	Nature of transactions	Six months ended 30.6.2005 RMB'000	Six months ended 30.6.2004 RMB'000
光宇延邊蓄電池有限公司 Guangyu Yanbian Storage Battery Manufacturing Co. Ltd ("GYSB")	Sales of finished goods	**3,352**	1,514
	Rental expense	**90**	–
	Assignment of trade receivables, transferred of inventories and property, plant and equipment for settlement of loan balance	**9,487**	–
哈爾濱光宇電綫電纜有限公司 Harbin Guangyu Electric Wire and Cable Co. Ltd. ("HGEWC")	Purchase of raw materials	**716**	130
哈爾濱開關有限責任公司 Harbin Switch Company Limited ("HBS")	Sales of finished goods	**168**	2,027
	Purchase of finished goods	**–**	118
深圳力可興電池有限公司 Shenzhen Li Ke Xing Battery Co. Ltd. ("SZ Li Ke Xing")	Purchase of raw materials	**6,000**	2,750
石家莊光宇高能電池材料有限公司 Shijiazhuang Guangyu Battery Material Co. Ltd. ("SJZ")	Purchase of raw materials	**–**	2,525

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Balances

(1) Amounts due from directors

Particulars of the amounts due from directors are as follows:

	Balance at 30.6.2005 RMB'000	Balance at 31.12.2004 RMB'000
Song Dian Quan	**231**	583
Li Ke Xue	**244**	253
Xing Kai	**–**	5
Zhang Li Ming	**7**	6
Liu Xing Quan	**85**	85
	567	932

The amounts are unsecured, interest free and repayable on demand.

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Balances (continued)

(2) Amounts due from related companies

	Balance at 30.6.2005 RMB'000	Balance at 31.12.2004 RMB'000
Names of related companies		
HBS	**9,659**	12,556
GYSB	**196**	2,137
北京兆唐科技有限公司 Beijing Zhaotang Science and Technology Company Limited ("BJ Zhaotang")	**–**	336
深圳柏仁塑膠製品有限公司 Shenzhen Boren Plastic Ware Co. Ltd., a minority shareholder of the Group	**279**	279
	10,134	15,308

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (CONTINUED)

(b) Balances (continued)

(3) Amounts due to related companies

	Balance at 30.6.2005 RMB'000	Balance at 31.12.2004 RMB'000
Harbin Guangyu Group Company Ltd.	**1,573**	1,316
Harbin Ya Guang Modern Separators Company Limited	**1,733**	1,835
BJ Zhaotang	**144**	–
SZ Li Ke Xing	**7,801**	2,183
SJZ	**500**	750
Tibet Bangda Industrial & Trade Co. Ltd.	**3,947**	3,947
HGEWC	**2,259**	1,171
	17,957	11,202

The amounts due from and to related companies are unsecured, non-interest bearing and repayable on demand.

(c) Others

RMB47,615,000 (31.12.2004: RMB51,123,000) of the Group's bank borrowings was guaranteed by Mr. Song Dian Quan, a director of the Company.

16. CAPITAL COMMITMENTS

	30.6.2005 RMB'000	31.12.2004 RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**70,754**	70,754
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**2,872**	10,589

17. POST BALANCE SHEET EVENT

Pursuant to a special resolution passed at a special general meeting held on 19th August, 2005, the Group acquired 70% equity interest in SZ Li Ke Xing at a consideration of RMB17,560,000. SZ Li Ke Xing then became a subsidiary of the Company. The Group is in the midst of assessing the fair values of the identifiable assets and liabilities and contingent liabilities of SZ Li Ke Xing, therefore the financial effects of the acquisition is not presented.

Mr. Song Yang, who is an associate of Mr. Song Dian Quan and holds 82.5% effective interest of SZ Li Ke Xing, has represented to the Group the audited profit after taxation and extraordinary items ("Audited Figures") of SZ Li Ke Xing for the year ending 31st December, 2005 will not be less than RMB4,300,000. In the event that the amount of such Audited Figures is less than RMB4,300,000, Mr. Song Yang will indemnify the Group of an amount equal to 5.8 times of the shortfall multiplied by 70%.

REPORT OF THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

For the period ended 30th June 2005, turnover of the Group amounted to approximately RMB536,531,000 (2004: RMB580,151,000), representing a decrease of 8% as compared with the corresponding period last year. The profit attributable to equity holders of the Company for the period amounted to approximately RMB50,122,000 (2004: RMB59,829,000) which represents a decrease of 16% over the same period last year. By adopting vertical method of production and stringent control on production cost during the period, the gross profit margin of the Group has been maintained at 35% as compared with 32% in the corresponding period last year.

BUSINESS REVIEW

Sealed Lead Acid ("SLA") products

The SLA products manufactured by the Group is mainly used for standby power for telephone and telecommunications exchange stations and power control stations. Our major customers included China Telecom, China Netcom, China Mobile and China Unicom in the telecommunication sector. In addition, we also provide SLA batteries to Emerson Power Network, Inc., Huawei Technologies Company Limited and ZTE Corporation.

During the first half of 2005, the turnover of SLA products, excluding the turnover of car batteries of RMB15.3 million, amounted to RMB358.8 million (2004: RMB284.7 million), representing an increase of 26% over the corresponding period last year. Although the uncertainty aroused from the possible reorganization of the telecommunication operators in the PRC has slowed down the capital investment of some of the telecommunication operators, this unfavorable impact has been overall offset by the increase in sales to OEM customers such as Emerson Power Network, Inc. and Huawei Technologies Company Limited. The major raw material of SLA products are lead and plastic ABS. Despite the fact that the prices of raw material remained high in the first half of 2005, the Group has implemented stringent cost saving measures and adopted vertical method of production to reduce production cost and enhance production efficiency. As a result, the gross profit margin of SLA products during the period only dropped mildly as compared with the same period last year but maintained at the similar level as compared with that of the full year of 2004.

Lithium ion batteries

Due to the keen competition of the PRC handset market, the market condition for domestic handset manufacturers remained difficult in the first half of 2005. The demand of lithium ion batteries of the Group depends very much on the performance of the domestic handset manufacturers. During the period under review, the Group produced about 9.8 million cells with a turnover of RMB122.5 million (2004: RMB177.3 million), representing a decrease of 31% as compared with the same period last year. As the production cost of lithium ion batteries also increased during the period due to the surge of raw material price, the gross profit margin of lithium ion batteries has been dropped as compared with the corresponding period last year but maintained at the similar level as compared with that of the full year of 2004.

Car batteries

Turnover of car batteries for the period ended 30th June, 2005 amounted to RMB15.3 million (2004: RMB 60.6 million) which has dropped significantly as compared with the same period last year. The decrease was mainly attributable to the keen competition of car battery market, poor performance of car manufacturers which resulted in decrease demand of car batteries and upsurge of raw material price which resulted in low profit margin. During the period, the Group has adopted appropriate business strategies by decreasing the production of car batteries and shifting part of the resources of a subsidiary of the Company, Shenyang Dongbei Batteries Company Limited, to produce more SLA batteries which was still under strong market demand instead of car batteries.

Electric Automation

During the period under review, the Group's electric automation business achieved a turnover of RMB22.1 million (2004: RMB13.8 million), representing a growth of 60% over the same period last year. This was mainly attributable to the increase in the sales of power generator integrated automation systems, power transformer automation systems and power network automation systems, etc. to power network sectors and industrial enterprises in the PRC.

Online games

During the period, the Group has disposed 27.69% equity interest in a subsidiary engaged in the business of operation of online games by way of capital injection by a third party.

PROSPECT

SLA battery business will remain as the focus of the Group's future development. The Group will continue to strengthen its position as a leading industry player in the PRC market of SLA batteries by capitalizing on the strong client relationship and high product quality. One of the telecommunication operators has adopted new policy to centralize the purchase of SLA batteries. It is expected that the Group will be benefited under this policy in the way that the market share of the Group in telecommunication sector will be increased as some weaker and small players will be eliminated. OEM business will be another major growth driver of the Group due to the increase orders from Emerson Power Network, Inc. and Huawei Technologies Company Limited. Furthermore, the Group will also continue to expand its overseas markets in Russia, Southeast Asia, India, Germany and USA. In light of the above, SLA battery business will continue to be the major profit contributor of the Group.

The Group is well-prepared for the launch of 3G in the PRC. Provided that both 2G and 3G telecommunication technologies are in parallel run, which means that additional SLA batteries will be required on top of the existing 2G network to be used as standby power of telecommunication systems. The upcoming 3G implementation in the PRC will definitely boost the demand of SLA products.

The Group anticipates that the operating environment of lithium ion battery business will continue to be difficult in the second half of 2005. It is expected that the domestic handset market will be recovered in 2006 in the way that the local handset manufacturers will restructure their marketing strategy and rollout new models which will in turn increase the demand of lithium ion batteries.

The Group will continue to adopt measures to further enhance production efficiency and lower production cost in order to improve the gross profit margin of the major products.

In August 2005, the Group has acquired 70% equity interest in SZ Li Ke Xing at a consideration of RMB17.56 million. SZ Li Ke Xing is principally engaged in the business of manufacturing of small-sized rechargeable nickel batteries which the Group does not currently manufacture. The acquisition will further enhance the revenue base and widen the product range of the Group whilst better enable the Group to gain access to overseas markets as 70% of the products of SZ Li Ke Xing are for export.

Furthermore, the Group will continue to further reduce its equity interest in an associate which was engaged in the business of operation of online games.

LIQUIDITY AND FINANCIAL RESOURCES

During the period, the Group's operation was partly financed by bank loans and internal resources. As at 30th June, 2005, the Group has bank balances and cash amounted to RMB97 million (31.12.2004: RMB249 million). The total bank and other borrowings of the Group as at 30th June, 2005 were approximately RMB444 million (31.12.2004: RMB609 million), of which RMB400 million (31.12.2004: RMB559 million) will be due to repay within 12 months and the rest of RMB44 million (31.12.2004: RMB50 million) will be due in the next 3 years. These borrowings carry interest ranging from 4.14% to 6.69% (31.12.2004: from 1.69% to 7.91%) per annum. All bank and other borrowings were used to finance the Group's capital expenditures and working capital requirement.

According to the Group's current level of cash balances, working capital resources and banking facilities, the board of directors (the "Board") is confident that the Group has sufficient resources to meet its future business expansion and repay bank borrowings on schedule.

GEARING AND LIQUIDITY RATIO

The Group's gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0.44 (31.12.2004: 0.63). The current ratio of the Group, represented by the ratio between current assets over current liabilities, was 1.57 (31.12.2004: 1.45).

CHARGES ON GROUP ASSETS

As at 30th June, 2005, certain property, plant and equipment of the Group with carrying value of RMB157 million (31.12.2004: RMB229 million) were pledged to secure bank borrowings of approximately RMB137 million (31.12.2004: RMB215 million).

FOREIGN CURRENCY RISK

The Group did not have any significant exposure to foreign currency risk as most of the Group's operations are in the PRC and the transactions are denominated in Renminbi.

TRADE RECEIVABLES

For the period ended 30th June, 2005, almost all of the Group's sales were made on credit. Most of these credit sales were made to regular customers who have more than three years of well-established business relationship and payment records with the Group. The Group has maintained a tight credit control policy and had not experienced any significant bad debts. The Group's customers to which the Group normally grants a longer credit terms mainly comprise the governmental post and telecommunications bureaux at provincial, municipal and county levels with strong financial background and strong bargaining power. The aged analysis of trade receivables as at the balance sheet date is as follows:

	30.6.2005	31.12.2004
	RMB'000	RMB'000
< 90 days	**417,822**	415,614
90–180 days	**223,207**	213,203
180–360 days	**205,579**	186,788
> 360 days	**100,333**	80,833
	946,941	896,438

The trade receivables turnover day for the SLA batteries was quite long if compared to other industries. The long receivable period is common in the telecom equipment providers sector, as this sector is faced with a long infrastructure period of building the telecom service network. Our major customers are China Telecom, China Mobile, China Unicom, China Netcom and power companies all over PRC who have creditability and strong financial position.

DISPOSAL OF A SUBSIDIARY

During the period under review, the Group has disposed 27.69% equity interest in a subsidiary which was engaged in the business of operation of online games, namely Beijing Guangyu Huaxia Technology Corporation Limited, by way of capital injection by a third party.

CAPITAL COMMITMENTS

	30.6.2005	31.12.2004
	RMB'000	RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	**70,754**	70,754
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	**2,872**	10,589

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2005, the Group had employed 7,880 (31.12.2004: 7,440) staff in the PRC. The Group has adopted continuous human resources development and training programs to maintain high level of product quality and customer services. Remuneration package is generally structured by reference to market conditions and individual performance.

INTERIM DIVIDENDS

The Board has resolved the distribution of interim dividends of HK$0.01 per share for the period ended 30th June, 2005 (2004: HK$0.02) for shareholders whose names appear in the register of member on 14th October, 2005. Interim dividends are expected to be distributed on or before 30th November, 2005.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 10th October, 2005 to Friday, 14th October, 2005 (both dates inclusive) during which period no transfer of shares can be registered. All transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong share registrar, Secretaries Limited, at 28/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration not later than 4:00 p.m. Friday, 7th October, 2005.

DISCLOSURE OF INTERESTS

(1) Directors

As at 30th June, 2005, the interests of each director in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director was taken or deemed to have under such provisions of the SFO) or as recorded in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long Position
Ordinary shares of HK$0.10 each of the Company

Name of director	Type of interests	Capacity	No. of shares held	Percentage of interest
SONG Dian Quan	Personal	Beneficial owner	251,527,300	58.08%
LUO Ming Hua	Personal	Beneficial owner	3,186,027	0.74%
LIU Xing Quan	Personal	Beneficial owner	2,434,793	0.56%
LI Ke Xue	Personal	Beneficial owner	1,640,793	0.38%
XING Kai	Personal	Beneficial owner	1,222,793	0.28%

Save as disclosed above, as at 30th June, 2005, there were no other interests or short positions of the directors and chief executive of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which have been notified to the Company pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which any such director was taken or deemed to have under such provisions of the SFO) or recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(2) Substantial Shareholders and Others

As at 30th June, 2005, the interests and short positions of every person, other than the directors and chief executive of the Company, in the shares and underlying shares of the Company which have been notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept under section 336 of the SFO were as follows:

Name of Company	Capacity	No. of shares held	Percentage of interest
Nordea I SICAV – Far Eastern Value Fund	Beneficial owner	23,134,000	5.34%

Save as disclosed above, as at 30th June, 2005, there were no other interests or short positions in shares and underlying shares of the Company which have been notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept by the Company pursuant to section 336 of the SFO.

SHARE OPTIONS

Pursuant to the resolution passed on the annual general meeting held on 27th May, 2004, the Company has adopted a new share options scheme (the "New Scheme") and the Old Scheme be terminated on 27th May, 2004. According to the New Scheme, the Company may grant to its employee (including directors of the Company and any of its subsidiaries) share options to subscribe shares of the Company.

An option may be accepted by a participant within 28 business days from the date of the offer of grant of the option and by payment of HK$1.00 as consideration for the grant of an option. An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the directors of the Company to each grantee, which period may commence from the date of acceptance of the offer for the grant of the options but shall end in any event not later than 10 years from the date of adoption of the New Scheme.

The subscription price for the share option under the New Scheme shall be at least the highest of:

(a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant of an option, which must a trading day;

(b) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the 5 trading days immediately preceding the date of the offer of grant of an option; and

(c) the nominal value of the shares.

The total number of shares subject to the New Scheme and any other share option schemes must not exceed 30% of the issued share capital of the Company from time to time. The total number of share available for issue under option granted under the New Scheme must not exceed 10% of the share capital of the Company from time to time. The Company may seek approval from shareholders in general meeting for renewing the 10% limit or for granting further options beyond the 10% limit.

The total number of shares issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) under the New Scheme in any 12-month period must not exceed 1% of the relevant class of securities in issue. 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 (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 share capital of the Company in issue, such further grant must be separately approved by the shareholders in general meeting.

No option was granted under the New Scheme by the Company since its adoption.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share options" above, at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire benefits by means of shares in, or debenture of, the Company or any other body corporate and none of the directors, their spouse or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of listed securities of the Company by the Company or any of its subsidiaries during the period.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied throughout the six months ended 30th June, 2005 with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from Code provision A.4.1 in respect of the service term of directors.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. None of the existing independent non-executive directors of the Company is appointed for specific term and this constitutes a deviation from Code provision A.4.1. However, in accordance with the bye-laws of the Company, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiply of three, the number nearest to but not less than one-third) shall retire from office by rotation such that each director (including those appointed for a specific term) will be subject to retirement by rotation at least every three years at the annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are similar to those in the Code.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with required standard set out in the Model Code throughout the period.

REMUNERATION COMMITTEE

The Company has established a remuneration committee on 1st June, 2005 in accordance with the requirements of the Code of Corporate Governance Practice as contained in Appendix 14 to the Listing Rules with written terms of reference. Its primary responsibility is to make proposals to the Board with respect to the overall remuneration policy and framework for directors and senior management of the Company and the establishment of formal and transparent procedures for formulating the remuneration policy. The remuneration committee comprises two independent non-executive directors, namely Mr. Li Zeng Lin and Mr. Jiang Zhao Hua and one executive director, namely Mr. Zhang Li Ming. Mr. Li Zeng Lin is the chairman of the remuneration committee.

AUDIT COMMITTEE

The audit committee of the Company comprises three independent non-executive directors, namely Mr. Li Zeng Lin, Mr. Jiang Zhao Hua and Mr. Xiao Jian Min. The primary duties of the audit committee are to review and monitor the Group's financial reporting process and internal control system, as well as to provide relevant recommendations and advices to the Board. The unaudited interim consolidated results of the Group for the six months ended 30th June, 2005 have been reviewed by the audit committee and external auditors, Messrs. Deloitte Touche Tohmatsu.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results for the period ended 30th June, 2005 containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

LIST OF DIRECTORS OF THE COMPANY

As at the date of this report, the Board comprises 9 directors, of which 6 are executive directors, namely Mr. Song Dian Quan, Ms. Luo Ming Hua, Mr. Li Ke Xue, Mr. Xing Kai, Mr. Liu Xing Quan and Mr. Zhang Li Ming and 3 are independent non-executive directors, namely Mr. Li Zeng Lin, Mr. Jiang Zhao Hua and Mr. Xiao Jian Min.

By Order of the Board
SONG Dian Quan
Chairman

Harbin, the PRC, 15th September, 2005