



**COSLIGHT**

COSLIGHT TECHNOLOGY INTERNATIONAL GROUP LIMITED

*(incorporated in Bermuda with limited liability)*

*(Stock Code: 1043)*

Interim Report

**2006**

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## 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

### LEGAL ADVISER

Mallesons Stephen Jaques

37th Floor

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Hong Kong

### AUDITORS

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Certified Public Accountants

35/F One Pacific Place

88 Queensway

Hong Kong

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Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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181-183 Queen's Road Central

Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Corporate Services Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

## INDEPENDENT INTERIM REVIEW REPORT



### 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 27.

#### 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, 2006.

### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

20th September, 2006

**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	NOTES	Six months ended 30.6.2006 RMB'000 (Unaudited)	30.6.2005 RMB'000 (Unaudited)
<b>Continuing operations</b>			
Revenue	4	<b>743,381</b>	536,531
Cost of sales		<b>(527,635)</b>	(348,399)
Gross profit		<b>215,746</b>	188,132
Other income		<b>3,191</b>	3,463
Distribution costs		<b>(75,539)</b>	(71,865)
Administrative expenses		<b>(51,828)</b>	(40,931)
Finance costs		<b>(19,759)</b>	(18,311)
Profit before tax		<b>71,811</b>	60,488
Income tax expense	5	<b>(6,752)</b>	(6,191)
Profit for the period from continuing operations		<b>65,059</b>	54,297
<b>Discontinued operation</b>	6		
Loss for the period from discontinued operation		–	(3,831)
Profit for the period	7	<b>65,059</b>	50,466
Attributable to:			
Equity holders of the Company		<b>60,115</b>	50,122
Minority interests		<b>4,944</b>	344
		<b>65,059</b>	50,466
Dividends	8	<b>22,291</b>	18,414
Earnings per share			
From continuing and discontinued operations:			
– Basic	9	<b>13.88 cents</b>	11.57 cents
From continuing operations:			
– Basic	9	<b>13.88 cents</b>	12.46 cents

**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30TH JUNE, 2006

	NOTES	<b>30.6.2006</b> <b>RMB'000</b> <b>(Unaudited)</b>	31.12.2005 RMB'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>495,370</b>	506,383
Intangible assets		<b>19,791</b>	17,605
Goodwill		<b>4,193</b>	4,193
Prepaid lease payments		<b>33,767</b>	34,225
Deferred taxation assets		<b>2,326</b>	2,371
Deposits paid for acquisition of a subsidiary	11	<b>30,253</b>	–
		<b>585,700</b>	564,777
<b>Current assets</b>			
Inventories		<b>311,304</b>	267,701
Trade and other receivables	12	<b>1,357,936</b>	1,198,649
Prepaid lease payments		<b>917</b>	917
Amounts due from directors	16	<b>741</b>	825
Amounts due from related companies	16	<b>19,179</b>	23,610
Amount due from an associate	16	<b>40,722</b>	40,744
Investments held for trading		<b>400</b>	350
Pledged bank deposits		<b>157,944</b>	61,333
Bank balances and cash		<b>134,963</b>	197,299
		<b>2,024,106</b>	1,791,428
<b>Current liabilities</b>			
Trade and other payables	13	<b>713,081</b>	624,270
Amounts due to related companies	16	<b>18,185</b>	18,618
Amount due to an associate		–	1,586
Dividend payable		<b>22,293</b>	2
Taxation payable		<b>7,074</b>	9,604
Other borrowings	14	<b>8,841</b>	8,740
Bank borrowings – due within one year	14	<b>683,036</b>	578,537
		<b>1,452,510</b>	1,241,357
<b>Net current assets</b>		<b>571,596</b>	550,071
		<b>1,157,296</b>	1,114,848

	NOTES	<b>30.6.2006</b> <b>RMB'000</b> <b>(Unaudited)</b>	31.12.2005 RMB'000 (Audited)
Capital and reserves			
Share capital	15	<b>46,308</b>	46,308
Reserves		<b>1,008,827</b>	971,454
<hr/>			
Equity attributable to equity holders of the Company		<b>1,055,135</b>	1,017,762
Minority interests		<b>99,146</b>	94,007
<hr/>			
Total equity		<b>1,154,281</b>	1,111,769
<hr/>			
Non-current liability			
Deferred tax liabilities		<b>3,015</b>	3,079
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		<b>1,157,296</b>	1,114,848
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**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	Attributable to equity holders of the Company							Total	Minority interests	Total
	Share capital	Share premium	Special reserve	Statutory reserves	Revaluation reserve	Exchange reserve	Accumulated profits			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January, 2005	46,308	245,111	34,583	135,912	28,660	(509)	435,050	925,115	70,810	995,925
Exchange difference arising from translation of financial statements of operations outside the People's Republic of China ("PRC") recognised directly in equity	-	-	-	-	-	123	-	123	-	123
Profit for the period	-	-	-	-	-	-	50,122	50,122	344	50,466
Total recognised income for the period	-	-	-	-	-	123	50,122	50,245	344	50,589
Transfers	-	-	-	858	-	-	(858)	-	-	-
Dividends	-	-	-	-	-	-	(18,414)	(18,414)	-	(18,414)
Capital contributions by minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	3,322	3,322
At 30th June, 2005	46,308	245,111	34,583	136,770	28,660	(386)	465,900	956,946	74,476	1,031,422
Surplus on revaluation of property, plant and equipment	-	-	-	-	5,043	-	-	5,043	575	5,618
Deferred tax liability arising on revaluation of property, plant and equipment	-	-	-	-	(613)	-	-	(613)	-	(613)
Exchange difference arising from translation of financial statements of operations outside the PRC recognised directly in equity	-	-	-	-	-	51	-	51	-	51
Net income recognised directly in equity	-	-	-	-	4,430	51	-	4,481	575	5,056
Profit for the period	-	-	-	-	-	-	60,805	60,805	4,825	65,630
Total recognised income for the period	-	-	-	-	4,430	51	60,805	65,286	5,400	70,686
Transfer	-	-	-	23,378	-	-	(23,378)	-	-	-
Dividends	-	-	-	-	-	-	(4,470)	(4,470)	-	(4,470)
Capital contributions by minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	4,436	4,436
Acquisition of a subsidiary	-	-	-	-	-	-	-	-	9,695	9,695
At 31st December, 2005	46,308	245,111	34,583	160,148	33,090	(335)	498,857	1,017,762	94,007	1,111,769
Exchange difference arising from translation of financial statements of operations outside the PRC recognised directly in equity	-	-	-	-	-	(451)	-	(451)	-	(451)
Profit for the period	-	-	-	-	-	-	60,115	60,115	4,944	65,059
Total recognised income and expense for the period	-	-	-	-	-	(451)	60,115	59,664	4,944	64,608
Transfers	-	-	-	2,548	-	-	(2,548)	-	-	-
Dividends	-	-	-	-	-	-	(22,291)	(22,291)	-	(22,291)
Capital contributions by minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	195	195
At 30th June, 2006	46,308	245,111	34,583	162,696	33,090	(786)	534,133	1,055,135	99,146	1,154,281

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

	<b>Six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
	<b>(Unaudited)</b>	(Unaudited)
Net cash (used in) generated from operating activities	<b>(1,314)</b>	134,705
Net cash used in investing activities:		
Increase in pledged bank deposits	<b>(96,611)</b>	(16,470)
Deposits paid for acquisition of a subsidiary	<b>(30,253)</b>	–
Other investing cash flows	<b>(18,743)</b>	(18,492)
Acquisition of intangible assets	–	(49,884)
	<b>(145,607)</b>	(84,846)
Net cash from (used in) financing activities:		
New bank borrowings raised	<b>166,740</b>	124,285
Repayment of bank borrowings	<b>(62,140)</b>	(289,534)
Other financing cash flows	<b>(19,564)</b>	(36,715)
	<b>85,036</b>	(201,964)
Decrease in cash and cash equivalents	<b>(61,885)</b>	(152,105)
Cash and cash equivalents at beginning of the period	<b>197,299</b>	249,173
Effect of foreign exchange rate changes	<b>(451)</b>	123
Cash and cash equivalents at end of the period, represented by bank balances and cash	<b>134,963</b>	97,191

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2006

### **1. BASIS OF PREPARATION**

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

### **2. PRINCIPAL ACCOUNTING POLICIES**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain property, plant and equipment and financial instruments, which are measured at fair values.

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, 2005 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December, 2005 or 1st January, 2006. The adoption of the new HKFRSs has no material effect on how the results for the current or prior accounting periods have been prepared and presented.

### 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

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

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies <sup>2</sup>
HK(IFRIC)-Int 8	Scope of HKFRS 2 <sup>3</sup>
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January, 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st March, 2006

<sup>3</sup> Effective for annual periods beginning on or after 1st May, 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st June, 2006

#### 4. SEGMENT INFORMATION

##### Business segments

For management purposes, the Group is currently organised into four major operating divisions – sealed lead acid batteries and related accessories, lithium ion batteries, nickel 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, 2006

	Sealed lead acid batteries and related accessories RMB'000	Lithium ion batteries RMB'000	Nickel batteries RMB'000	Electricity control devices RMB'000	Others RMB'000	Elimination RMB'000	Consolidated RMB'000
<b>REVENUE</b>							
External sales	466,978	157,403	90,709	8,283	20,008	-	743,381
Inter-segment sales	1,625	10,178	38	-	11,463	(23,304)	-
<b>Total</b>	<b>468,603</b>	<b>167,581</b>	<b>90,747</b>	<b>8,283</b>	<b>31,471</b>	<b>(23,304)</b>	<b>743,381</b>
<b>RESULT</b>							
Segment result	80,737	22,629	427	1,023	(10,533)	-	94,283
Unallocated corporate income							165
Unallocated corporate expenses							(2,878)
Finance costs							(19,759)
Profit before tax							71,811
Income tax expense							(6,752)
Profit for the period							65,059

Inter-segment sales are charged at prevailing market rates.

#### 4. SEGMENT INFORMATION (continued)

##### Business segments (continued)

##### For the six months ended 30th June, 2005

	Continuing operations					Discontinued operation		
	Sealed lead acid batteries and related accessories	Lithium ion batteries	Electricity control devices	Others	Elimination	Sub-total	Online games	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>REVENUE</b>								
External sales	374,083	122,498	22,095	17,855	-	536,531	3,518	540,049
Inter-segment sales	-	880	-	7,945	(8,825)	-	-	-
<b>Total</b>	<b>374,083</b>	<b>123,378</b>	<b>22,095</b>	<b>25,800</b>	<b>(8,825)</b>	<b>536,531</b>	<b>3,518</b>	<b>540,049</b>
<b>RESULT</b>								
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)
Gain on deemed disposal of a subsidiary						-	22,315	22,315
Finance costs						(18,311)	-	(18,311)
Profit before tax						60,488	(3,831)	56,657
Income tax expense						(6,191)	-	(6,191)
<b>Profit for the period</b>						<b>54,297</b>	<b>(3,831)</b>	<b>50,466</b>

Inter-segment sales are charged at prevailing market rates.

## 5. INCOME TAX EXPENSE

	<b>Continuing operations</b>	
	<b>Six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
The charge comprises:		
PRC enterprise income tax	<b>6,771</b>	6,237
Deferred taxation credit	<b>(19)</b>	(46)
	<b>6,752</b>	6,191

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").

In accordance with the regulations of the PRC, the major subsidiaries of the Company are qualified as production-oriented entities and they are entitled to PRC enterprise income tax rate of 15%.

Twelve (six months ended 30th June, 2005: seven) of the major operating subsidiaries of the Company are subject to enterprise income tax in the PRC in the current period. These subsidiaries 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

During the period ended 30th June, 2005, the Group entered into an agreement under which the Company's 35.57% equity interest in a subsidiary, 北京光宇華夏科技有限責任公司 Beijing Guangyu Huaxia Technology Corporation Limited, was deemed to be disposed by way of capital injection by the Group and an independent third party. As the capital injected by the independent third party was more than the Group's capital contribution, the Group's interest in this subsidiary was then decreased from 77% to 41.43% and this subsidiary became an associate of the Group. The subsidiary disposed of was engaged in the business of sales and distribution of online games.

## 7. PROFIT FOR THE PERIOD

	Continuing operations		Discontinued operation		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30.6.2006	30.6.2005	30.6.2006	30.6.2005	30.6.2006	30.6.2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amortisation of intangible assets (included in administrative expenses and cost of sales)	<b>1,113</b>	5,393	-	4,170	<b>1,113</b>	9,563
Depreciation of property, plant and equipment	<b>25,291</b>	21,676	-	878	<b>25,291</b>	22,554



## 8. DIVIDENDS

On 31st July, 2006, a dividend of HK5 cents (2005: HK4 cents) per share, shown in the condensed financial statements as RMB0.05147 (2005: RMB0.04252) per share, amounting to approximately RMB22,291,000 (2005: RMB18,414,000) was paid to shareholders as the final dividend for 2005.

The directors do not recommend the payment of interim dividend for the six months ended 30th June, 2006 (2005: HK1 cent, shown in the condensed financial statements as RMB0.01040 per share).

## 9. EARNINGS PER SHARE

### From continuing and discontinued operations

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

	<b>Six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
Earnings:		
Profit for the period attributable to equity holders of the Company and earning for the purposes of basic earnings per share	<b>60,115</b>	50,122
	<b>'000</b>	'000
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>433,080</b>	433,080

Diluted earnings per share has not been presented for the six months ended 30th June, 2006 and 2005 because there were no potential ordinary shares in issue.

## 9. EARNINGS PER SHARE (continued)

### From continuing operations

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

	<b>Six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
Earnings:		
Profit for the period attributable to equity holders of the Company	<b>60,115</b>	50,122
Add: Loss for the period from discontinued operation	–	3,831
	<hr/>	<hr/>
Earnings for the purposes of basic earnings per share from continuing operations	<b>60,115</b>	53,953
	<hr/> <hr/>	<hr/> <hr/>

The denominators used are the same as those detailed above for basic earnings per share.

### From discontinued operation

For the period ended 30th June, 2005, basic loss per share for the discontinued operation was RMB0.0088 per share based on the loss for the period from the discontinued operation of RMB3,831,000 and the denominators used are the same as those detailed above for basic earnings per share.

## **10. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent approximately RMB15,565,000 (six months ended 30th June, 2005: approximately RMB27,520,000) on addition to manufacturing plant in order to expand its manufacturing capabilities.

At 30th June, 2006, 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.

## **11. DEPOSITS PAID FOR ACQUISITION OF A SUBSIDIARY**

On 27th March, 2006, a subsidiary of the Company signed an agreement to acquire 70% equity interest in Russia (Golden Stone) Limited Liability Company 俄羅斯(金石)有限責任公司 ("Russia (Golden Stone)") at a consideration of RMB28,000,000 from Heilongjiang Longxing International Resource Development Group Company Limited 黑龍江龍興國際資源開發集團有限公司. Russia (Golden Stone) will then become a subsidiary of the Company. On 12th May, 2006, two subsidiaries of the Company signed another agreements to further acquire the remaining 30% equity interest in Russia (Golden Stone). Up to the balance sheet date, deposits of RMB30,253,000 have been paid to the vendors.

Russia (Golden Stone) was incorporated in Russia on 27th May, 2005 with a registered capital of RUR100,000. It has a permit with a duration which will expire on 30th June, 2030 to mine the lead, zinc and other metal deposits in certain mineral mines located in the Faso Lane, Primorsky Territory of Russia.

The details of the acquisition were disclosed in the Company's announcement dated 28th March, 2006.

The Group is in the process of assessing the fair values of the identifiable assets and liabilities and contingent liabilities of Russia (Golden Stone), therefore the financial effects of the acquisition is not presented.

## 12. 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 receivables at the balance sheet date:

	<b>30.6.2006</b>	31.12.2005
	<b>RMB'000</b>	RMB'000
Within 90 days	<b>528,818</b>	504,468
More than 90 days, but not exceeding 180 days	<b>335,081</b>	354,725
More than 180 days, but not exceeding 270 days	<b>285,710</b>	144,985
More than 270 days, but not exceeding 360 days	<b>40,177</b>	42,030
More than 360 days, but not exceeding 540 days	<b>50,285</b>	43,268
More than 540 days, but not exceeding 720 days	<b>28,594</b>	31,935
Trade receivables	<b>1,268,665</b>	1,121,411
Other receivables	<b>89,271</b>	77,238
	<b>1,357,936</b>	1,198,649

### 13. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30.6.2006</b>	31.12.2005
	<b>RMB'000</b>	RMB'000
Within 30 days	<b>181,019</b>	142,569
More than 30 days, but not exceeding 60 days	<b>49,525</b>	31,696
More than 60 days, but not exceeding 90 days	<b>144,437</b>	38,519
More than 90 days, but not exceeding 180 days	<b>65,504</b>	160,298
Over 180 days	<b>34,568</b>	28,128
	<hr/>	
Trade payables	<b>475,053</b>	401,210
Other payables	<b>238,028</b>	223,060
	<hr/>	
	<b>713,081</b>	624,270
	<hr/> <hr/>	

#### 14. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank and other borrowings in the amount of RMB166,740,000 and repaid bank and other borrowings of RMB62,140,000. The new bank borrowings bear interest at market rates and are repayable within one year.

#### 15. 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, 2005			
and 30th June, 2006	1,000,000	100,000	107,000
<hr/>			
Issued and fully paid:			
At 31st December, 2005			
and 30th June, 2006	433,080	43,308	46,308
<hr/>			

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

## 16. 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	
		30.6.2006 RMB'000	30.6.2005 RMB'000
光宇延邊蓄電池有限公司	Sales of finished goods	769	3,352
Guangyu Yanbian Storage Battery Manufacturing Co. Ltd ("GYSB")	Rental expense	135	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
哈爾濱開關有限責任公司 Harbin Switch Company Limited ("HBS")	Sales of finished goods	159	168
深圳力可興電池有限公司 Shenzhen Li Ke Xing Battery Co. Ltd. (note)	Purchase of raw materials	-	6,000

Note: The company became a subsidiary of the Group since 19th August, 2005.

## 16. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (b) Balances

#### (1) Amounts due from directors

<b>Name of directors</b>	<b>Balance at 30.6.2006 RMB'000</b>	Balance at 31.12.2005 RMB'000
Song Dian Quan	<b>285</b>	393
Li Ke Xue	<b>272</b>	244
Zhang Li Ming	<b>15</b>	18
Liu Xing Quan	<b>169</b>	170
	<b>741</b>	825

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



**16. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES  
(continued)**

(b) Balances (continued)

(2) Amounts due from related companies

<b>Names of related companies</b>	<b>Balance at 30.6.2006 RMB'000</b>	Balance at 31.12.2005 RMB'000
HBS	<b>15,335</b>	19,468
GYSB	<b>295</b>	1,425
石家莊光宇高能電池材料有限公司 Shijiazhang Guangyu Battery Material Co. Ltd. ("SZGBM")	<b>553</b>	1,200
哈爾濱光宇電源廠 Harbin Guangyu Power Supply Factory	<b>433</b>	432
哈爾濱亞光新型隔板有限公司 Harbin Ya Guang Modern Separators Company Limited ("HYGMS")	<b>368</b>	268
哈爾濱光宇(集團)股份有限公司 Harbin Guangyu Group Company Ltd. ("HGGC")	<b>632</b>	161
HGEWC	<b>1,284</b>	–
沈陽東北蓄電池股份有限公司	–	377
深圳柏仁塑膠製品有限公司 Shenzhen Boren Plastic Ware Co. Ltd.	<b>279</b>	279
	<b>19,179</b>	23,610

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

## 16. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (b) Balances (continued)

#### (3) Amounts due to related companies

Names of related companies	Balance at 30.6.2006 RMB'000	Balance at 31.12.2005 RMB'000
HBS	40	40
GYSB	4,158	4,544
SZGBM	–	1,700
北京兆唐科技有限公司 Beijing Zhaotong Science and Technology Company Limited	54	54
HYGMS	1,951	2,001
HGEWC	2,281	2,472
HGGC	1,806	2,849
昌都邦達工貿有限公司 Tibet Bangda Industrial & Trade Co. Ltd.	3,947	3,947
韓國維思股份有限公司 Wisonline Company Limited	3,788	1,011
沈陽東北蓄電池股份有限公司	160	–
	<b>18,185</b>	18,618

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

#### (4) Amount due from an associate

The amount due from an associate is unsecured, interest-free and repayable on demand.

## 16. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (continued)

### (c) Other arrangements

As at 30th June, 2006, RMB109,780,000 (31.12.2005: RMB82,301,000) of the Group's bank borrowings were guaranteed by Mr. Song Dian Quan, a director of the Company.

In addition, at 30th June, 2006, RMB7,500,000 (31.12.2005: RMB12,163,000) of the Group's bank borrowing was guaranteed by Mr. Gao Xue Feng, who is a minority shareholder of a subsidiary.

### (d) Compensation of key management personnel

The remuneration of directors and other members of key management during the period was follows:

	<b>Six months ended</b>	
	<b>30.6.2006</b>	30.6.2005
	<b>RMB'000</b>	RMB'000
Short-term benefits	<b>675</b>	621
Post-employment benefits	<b>9</b>	9
	<b>684</b>	630

The remuneration of directors and key executive is determined by the remuneration committee having regard to the performance of individuals and market trends.

**17. CAPITAL COMMITMENTS**

	<b>30.6.2006</b>	31.12.2005
	<b>RMB'000</b>	RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	–	70,754
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>2,527</b>	3,652

**18. POST BALANCE SHEET EVENT**

On 14th September, 2006, a subsidiary of the Company won an auction for the acquisition of a mining permit held in Russia at a consideration of RUR580,000,000 (approximately RMB172,090,000). A deposit of RUR80,000,000 (approximately RMB237,736,000) has been paid at the date of report. The remaining consideration will be paid upon the signing of the mining permit agreement on or about 30th October, 2006.

## REPORT OF THE BOARD

### MANAGEMENT DISCUSSION AND ANALYSIS

#### RESULTS

For the period ended 30th June, 2006 (the "Period"), turnover of the Group amounted to RMB743,381,000 (2005: RMB536,531,000), representing an increase of approximately 39% as compared with the corresponding period last year. The profit attributable to equity holders of the Company for the Period amounted to RMB60,115,000 (2005: RMB50,122,000) which represents an increase of approximately 20% over the corresponding period last year. Due to the addition of Nickel battery business with lower gross profit margin during the Period, the gross profit margin of the Group has been decreased to 29% as compared with 35% in the corresponding period last year. Earnings per share for the Period amounted to RMB0.1388 (2005: RMB0.1157).

#### BUSINESS REVIEW

##### Sealed lead-acid ("SLA") products

During the period under review, the Group continued to focus on its core business in the manufacturing of SLA batteries and the turnover for SLA battery business has reached a record high of RMB466,978,000 (2005: RMB374,083,000), representing an increase of approximately 25% as compared with the corresponding period last year. The growth was mainly attributable to the constant growth of business of telecommunication operators in the PRC and the strong demand from indirect export customers such as Huawei Technologies Company Limited ("Huawei") and Emerson Power Network, Inc. ("Emerson"). Besides, the Group has also actively expanded the overseas market of SLA batteries. In the first half of 2006, the direct export sales increased by 61% from RMB18 million for the corresponding period last year to RMB29 million. The mild decrease in gross profit margin is mainly due to the surge of raw material price which cannot be completely offset by the increase in average selling price and also increase of sales to indirect export customers which have lower gross profit margin but shorter credit period.

### Lithium ion batteries

Lithium-ion (Li-ion) battery is the second major product of the Group which accounts for 21% of the Group's turnover in the Period. In the first half of 2006, the Group produced and sold approximately 14 million pieces of Li-ion battery with a turnover of RMB157,403,000 (2005: RMB122,498,000), representing an increase of approximately 28% as compared with the corresponding period last year. The increase was attributable to the recovery in demand for Li-ion batteries from domestic handset manufacturers in the first half of 2006. Despite the competitive environment of the industry and the increase of raw material price, the gross profit margin for the Period does not differ significantly as compared with that for the corresponding period last year due to the increase of production volume which lowered the unit cost.

### Nickel batteries

Upon the acquisition of 70% equity interest in Shenzhen Li Ke Xing Battery Co. Ltd. which is principally engaged in the manufacturing of small-sized rechargeable Nickel batteries in August 2005, the product range of the Group has been widened with the revenue base further enhanced. During the Period, the Group recorded a turnover of RMB90,709,000 for Nickel battery business.

## FINANCIAL REVIEW

### Assets and liabilities

As at 30th June, 2006, the Group has total assets of RMB2,609,806,000 (31.12.2005: RMB2,356,205,000) which were financed by current liabilities of RMB1,452,510,000 (31.12.2005: RMB1,241,357,000), non-current liabilities of RMB3,015,000 (31.12.2005: RMB3,079,000), shareholders' equity of RMB1,055,135,000 (31.12.2005: RMB1,017,762,000) and minority interests of RMB99,146,000 (31.12.2005: RMB94,007,000).

### Liquidity, financial resources and capital structure

During the Period, the Group adopted prudent treasury policies in managing cash resources and bank borrowings. As at 30th June, 2006, the Group has bank and cash balances amounted to RMB134,963,000 (31.12.2005: RMB197,299,000). The total bank and other borrowings of the Group as at 30th June, 2006 were RMB691,877,000 (31.12.2005: RMB587,277,000), amongst which all will be due to repay within 12 months. These borrowings carry interest ranging from 3.84% to 7.89% (31.12.2005: from 2.34% to 7.91%) per annum. As at 30th June, 2006, approximately 80% (31.12.2005: 72%) of the Group's bank and other borrowings were denominated in Renminbi and 20% (31.12.2005: 28%) were denominated in Hong Kong dollars. All bank and other borrowings were used to finance the Group's capital expenditures and working capital requirements.

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 0.65 (31.12.2005: 0.57). The current ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.39 (31.12.2005: 1.44), reflecting the abundance of financial resources.

### Charges on group assets

As at 30th June, 2006, certain property, plant and equipment of the Group with carrying value of RMB144,290,000 (31.12.2005: RMB166,173,000) were pledged to secured bank borrowings of approximately RMB173,600,000 (31.12.2005: RMB265,314,000).

### 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 transactions are denominated in Renminbi.

### Acquisition of a subsidiary

In March 2006, the Group signed an agreement to acquire 70% equity interest in a Russian joint venture company namely Russia (Golden Stone) Limited Liability Company ("Russia (Golden Stone)") at a consideration of RMB28 million. Russia (Golden Stone) has a permit to mine for lead, zinc and other metal deposits in certain mineral mines located in Faso Lane, Primorsky Territory of Russia which will expire on 30th June, 2030. The acquisition enables the Group to further its vertical integration and secure a steady supply of raw materials. The Group signed another agreement to further acquire the remaining 30% equity interest of Russia (Golden Stone) in May 2006 at a consideration of RMB12 million in which Russia (Golden Stone) will become a wholly-owned subsidiary after the completion of the registration process with the relevant Industry and Commercial Bureau and Tax Bureau of Russia.

### Capital Commitments

	<b>30.6.2006</b>	31.12.2005
	<b>RMB'000</b>	RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	–	70,754
Capital expenditure contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment	<b>2,527</b>	3,652



## PROSPECTS

SLA battery business will continue to be the focus of the Group in terms of contribution in turnover and operating profits to the Group in the coming years. The Group will capitalize its brand recognition and reputation in the SLA battery industry to further consolidate its leading position as the largest SLA battery supplier in China. The upcoming issuance of the 3G licenses in the PRC will definitely boost up the demand of SLA batteries of the Group. Additional batteries will be required by the telecommunication operators in the construction of the 3G network. On the other hand, as both 2G and 3G network will coexist and in parallel run, further demand of SLA batteries will also be required for the replacement of the SLA batteries used in the existing 2G network and catering the continuous growth and expansion of the 2G network in rural areas. Besides, the growth of indirect export sales due to the persistent strong demand from Huawei and Emerson will be the second growth driver of the Group. The expansion of direct export sales of SLA products to overseas markets will be the third growth driver. The Group will further strengthen its overseas sales network and sales force to solicit more overseas customers. The Group has recently passed the certification of a leading telecommunication operator in Europe which further consolidates the foundation of our SLA products to enter overseas markets.

To cope with the robust market demand for SLA batteries mentioned above, the Group has executed further expansion plan for its production capacity by constructing a new SLA battery production plant in Xinqing Science and Technology Park of Doumen District, Zhuhai City. The Zhuhai production plant is now under the design stage and the overall production capacity of the Group will be increased by 1.2 million kVAH upon its completion. It is anticipated that the Zhuhai production plant will be used to satisfy the demands from customers located in Southern China which can result in a saving in transportation cost and the profitability enhanced. Before the completion of the Zhuhai production plant, the Group will continue to expand its SLA battery production facilities in Harbin and utilize the resources of Shenyang production plant to satisfy the growing demand.

In view of the fluctuating raw material prices and to further the vertical integration of the Group, the Group has signed an agreement to acquire 70% equity interest of a Russian joint venture company namely Russia (Golden Stone) Limited Liability Company ("Russia (Golden Stone)") in March 2006 with another agreement signed in May 2006 to acquire the remaining 30%. Russia (Golden Stone) has a permit to mine for lead, zinc and other metal deposits in mineral mines located in Faso Lane, Primorsky Territory of Russia which will expire on 30th June, 2030. Such mineral mines have abundant mineral resources with approximately 300,000 tonnes of metal deposits and the Group expects that approximately 150,000 tonnes of metal can be extracted from the mineral mines. The mineral mines will commence production in mid 2007 and the Group expects that approximately 20,000 tonnes of metal can be mined each year and amongst which the lead extracted will be consumed internally for the Group's SLA battery business.

Besides, the Group has also successfully bid at an auction held on 14th September, 2006 for the mining permit of the Zakharovskoe polymetallic mines located in Altai Krai of the Russian Federation. The auction was arranged by the mineral section of the Russian National Natural Resources Department. The metal deposits of this mine include 186,000 tonnes of lead, 290,000 tonnes of zinc, 64,000 tonnes of copper, 280 tonnes of silver and 1.4 tonnes of gold, amongst which above 80% of the total metal deposits are C<sub>1</sub> grade deposits. This mineral mine is a typical capsule mine in which 80% of the mineral rocks are in small size which leads this mine to be an outstanding polymetallic mine in the way that the output is high while the extraction cost is low. This mineral mine will commence production in 2008 and 45,000 tonnes of metal will be mined each year by which the respective turnover will achieve RMB800 million according to the current market price.

Due to the vertical integration strategy for the SLA products of the Group, the Group can basically mitigate the negative impact of raw material price fluctuation. At the same time, it also brings significant effect on the operating profit of the Group as the operating profit margin of mineral products is generally over 50%. The quantity of lead extracted from the above two mines can only satisfy 50% of the Group's demand. Therefore, the Group will continue to seek for other investment or acquisition opportunities of lead mines with a target to satisfy all the demand of lead for the Group internally.

For the Li-ion battery business, the Group expects that the demand for Li-ion batteries will continue to pick up in the second half of 2006. The Group will strive to further increase the production volume to enhance its economies of scale so that the fixed production cost per unit will be driven down and thereby the gross profit margin can be improved. In light of this, the Group will adopt the following strategies:

- Continue to expand its customer base to include new domestic and overseas handset manufacturers;
- Expand the market of the lithium polymer products of the Group; and
- Enter into the low-end replacement Li-ion battery market by utilizing 100% domestic-made raw materials.

Finally, 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.

## **OTHER INFORMATION**

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 30th June, 2006, the Group has employed 8,648 (31.12.2005: 8,611) 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 does not recommend the distribution of interim dividend for the six months ended 30th June, 2006 (2005: HK\$0.01).

## DISCLOSURE OF INTERESTS

### (1) Directors

As at 30th June, 2006, 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	2,210,793	0.51%
LI Ke Xue	Personal	Beneficial owner	1,260,793	0.29%
XING Kai	Personal	Beneficial owner	1,038,793	0.24%

Save as disclosed above, as at 30th June, 2006, 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, 2006, 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:

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

Save as disclosed above, as at 30th June, 2006, 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 be 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 shares available for issue under options 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 Period 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.

#### **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 with Mr. Li Zeng Lin as the chairman. 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 results of the Group for the six months ended 30th June, 2006 have been reviewed by the Audit Committee.



### **APPROVAL OF THE INTERIM FINANCIAL REPORT**

These condensed interim financial statements were approved and authorised for issue by the Board on 20th September, 2006.

### **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, 20th September, 2006