



COSLIGHT

COSLIGHT TECHNOLOGY INTERNATIONAL GROUP LIMITED

(incorporated in Bermuda with limited liability)

Stock Code : 1043

INTERIM REPORT

2007

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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

QUALIFIED ACCOUNTANTS AND COMPANY SECRETARY

Mr. CHOU Yung CPA

LEGAL ADVISER

Dibb Lupton Alsop

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AUDITOR

Mazars CPA Limited

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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

REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS



To the directors of

Coslight Technology International Group Limited

(incorporated in Bermuda with limited liability)

INTRODUCTION

We have reviewed the interim financial statements of Coslight Technology International Group Limited (“the Company”) and its subsidiaries (collectively referred to as “the Group”) set out on pages 5 to 21, comprising the condensed consolidated balance sheet as at 30th June, 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these interim financial statements in accordance with HKAS 34.

Our responsibility is to express a conclusion on these interim financial statements based on our review and 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Mazars CPA Limited

Certified Public Accountants

Hong Kong

24th September, 2007

Or Ming Chiu

Practising Certificate number: P04786

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2007

		(Unaudited)	
		Six months ended 30th June,	
	Note	2007 RMB'000	2006 RMB'000
Turnover	3	908,607	743,381
Cost of sales		(668,292)	(527,635)
Gross profit		240,315	215,746
Other income		3,570	3,191
Distribution costs		(94,933)	(75,539)
Administrative expenses		(70,429)	(51,828)
Gain on deemed disposal of interests in subsidiaries	4	63,847	—
Discount on acquisition of additional interest in a subsidiary	5	1,607	—
Finance costs	6	(20,776)	(19,759)
Profit before taxation	7	123,201	71,811
Income tax expense	8	(5,756)	(6,752)
Profit for the period		117,445	65,059
Attributable to:			
Equity holders of the Company		116,476	60,115
Minority interests		969	4,944
		117,445	65,059
Dividends	9	21,755	22,291
Earnings per share			
— Basic	10	26.89 cents	13.88 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2007

	Note	(Unaudited) At 30th June, 2007 RMB'000	(Audited) At 31st December, 2006 RMB'000
Non-current assets			
Property, plant and equipment	11	565,359	561,210
Mining rights		205,171	205,171
Other intangible assets		19,614	16,717
Goodwill		4,193	4,193
Prepaid lease payments		32,849	33,308
Deferred tax assets		2,371	4,619
		829,557	825,218
Current assets			
Inventories		357,706	336,334
Trade and other receivables	12	1,624,914	1,310,264
Prepaid lease payments		917	917
Amounts due from directors	16	830	655
Amounts due from related companies	16	20,174	23,282
Amount due from a minority shareholder	16	279	279
Amount due from an associate	16	12,253	24,725
Pledged bank deposits		139,218	54,817
Bank balances and cash		266,308	274,555
		2,422,599	2,025,828
Current liabilities			
Trade and other payables	13	763,006	664,632
Amounts due to related companies	16	7,867	10,031
Amounts due to minority shareholders	16	4,584	4,547
Tax payable		2,460	7,347
Bank borrowings — due within one year	14	1,013,956	743,968
Other borrowings — due within one year	14	2,634	7,681
		1,794,507	1,438,206
Net current assets		628,092	587,622
Total assets less current liabilities		1,457,649	1,412,840

CONDENSED CONSOLIDATED BALANCE SHEET *(Continued)*

As at 30th June, 2007

	Note	(Unaudited) At 30th June, 2007 RMB'000	(Audited) At 31st December, 2006 RMB'000
Capital and reserves			
Share capital	15	46,308	46,308
Reserves		1,207,711	1,112,990
Equity attributable to equity holders of the Company			
		1,254,019	1,159,298
Minority interests		157,160	113,374
Total equity			
		1,411,179	1,272,672
Non-current liabilities			
Bank borrowings — due after one year	14	37,000	130,000
Other borrowings — due after one year	14	—	1,000
Deferred tax liabilities		9,470	9,168
		46,470	140,168
		1,457,649	1,412,840

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2007

	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			
At 1st January, 2007 (Audited)	46,308	245,111	34,583	190,579	44,508	(1,674)	599,883	1,159,298	113,374	1,272,672
Profit for the period	—	—	—	—	—	—	116,476	116,476	969	117,445
Transfer	—	—	—	(2,939)	—	—	2,939	—	—	—
Realised on depreciation of property, plant and equipment	—	—	—	—	(2,102)	—	2,102	—	—	—
Dividends	—	—	—	—	—	—	(21,755)	(21,755)	—	(21,755)
Capital contribution by a minority shareholder of a subsidiary	—	—	—	—	—	—	—	—	250	250
Deemed disposal of interests in subsidiaries	—	—	—	—	—	—	—	—	91,734	91,734
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(49,167)	(49,167)
At 30th June, 2007 (Unaudited)	46,308	245,111	34,583	187,640	42,406	(1,674)	699,645	1,254,019	157,160	1,411,179
At 1st January, 2006 (Audited)	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	—	—	—	—	—	(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
Transfer	—	—	—	2,548	—	—	(2,548)	—	—	—
Dividends	—	—	—	—	—	—	(22,291)	(22,291)	—	(22,291)
Capital contributions by minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	195	195
At 30th June, 2006 (Unaudited)	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, 2007

	(Unaudited)	
	Six months ended 30th June,	
	2007	2006
	RMB'000	RMB'000
Net cash used in operating activities	(180,089)	(1,314)
Net cash used in investing activities	(107,733)	(145,607)
Net cash generated from financing activities	279,575	85,036
Decrease in cash and cash equivalents	(8,247)	(61,885)
Cash and cash equivalents at beginning of the period	274,555	197,299
Effect of foreign exchange rate changes	—	(451)
Cash and cash equivalents at end of the period, represented by bank balances and cash	266,308	134,963

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2007

1. BASIS OF PREPARATION

The unaudited interim financial statements for the six months ended 30 June 2007 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These interim financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2006. They have been prepared on the historical cost basis, except for certain property, plant and equipment and financial instruments, which are measured at fair value.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in preparing these interim financial statements are consistent with those applied in preparing the Group’s financial statements for the year ended 31 December 2006. The adoption of the new/revised Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual HKFRS, HKAS and Interpretations issued by the HKICPA, that are relevant to the Group and effective from the current period did not have any significant effect on the financial position or performance of the Group.

The Group has not early adopted the new/revised HKFRS issued by the HKICPA that are not yet effective for the current period. The Group has already commenced an assessment of impact of these new/revised HKFRS but is not yet in a position to state whether they would have any significant impact on its results of operations and financial position.

3. TURNOVER AND 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 nickel batteries with substantially all of the activities conducted in the People's Republic of China (the "PRC"). These divisions are the basis on which the Group reports its primary segment information.

For the six months ended 30th June, 2007 (Unaudited)

	Sealed lead acid batteries and related accessories	Lithium-ion batteries	Nickel batteries	Others	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue						
External sales	638,332	174,721	71,272	24,282	—	908,607
Inter-segment sales	—	4,947	3,234	23,454	(31,635)	—
Total	638,332	179,668	74,506	47,736	(31,635)	908,607
Result						
Segment result	83,770	18,541	(3,957)	(14,927)	—	83,427
Unallocated corporate income						258
Unallocated corporate expenses						(5,162)
Gain on deemed disposal of interests in subsidiaries						63,847
Discount on acquisition of additional interest in a subsidiary						1,607
Finance costs						(20,776)
Profit before taxation						123,201
Income tax expense						(5,756)
Profit for the period						117,445

3. TURNOVER AND SEGMENT INFORMATION *(Continued)*

Business segments *(Continued)*

For the six months ended 30th June, 2006 *(Unaudited)*

	Sealed lead acid batteries and related accessories	Lithium-ion batteries	Nickel batteries	Others (Note)	Elimination	Consolidated
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
				(Restated)		
Revenue						
External sales	466,978	157,403	90,709	28,291	—	743,381
Inter-segment sales	1,625	10,178	38	11,463	(23,304)	—
Total	468,603	167,581	90,747	39,754	(23,304)	743,381
Result						
Segment result	80,737	22,629	427	(9,510)	—	94,283
Unallocated corporate income						165
Unallocated corporate expenses						(2,878)
Finance costs						(19,759)
Profit before taxation						71,811
Income tax expense						(6,752)
Profit for the period						65,059

Note:

Electricity control devices division is no longer a reportable segment and thus, related segment revenue and segment result for the six months ended 30th June, 2006 have been grouped as "Others" to conform to the current period's presentation.

4. GAIN ON DEEMED DISPOSAL OF INTERESTS IN SUBSIDIARIES

During the period, the Group recognised a gain of RMB1,895,000 on deemed disposal of a subsidiary following the dilution of the Group's interest in a subsidiary, Harbin Coslight Power Company Limited ("HCP") from 91.45% to 87.49%.

In May 2007, the Group's interest in a subsidiary, Harbin Coslight Storage Battery Company Limited ("HSB"), was diluted from 100% to 89.48% as a result of capital injection into HSB by independent third parties of approximately RMB155.6 million. As a result, a gain on deemed disposal of RMB61,952,000 was recognised in the income statement.

5. DISCOUNT ON ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

In April 2007, the Group acquired further equity interest in HCP at a cash consideration of RMB47,560,000, resulting in an increase of the Group's shareholding in HCP from 87.49% to 98.52% and a discount on acquisition amounting to RMB1,607,000 as recognised in the income statement. The consideration of RMB47,560,000 had not been paid and was recorded in other payables as at the balance sheet date.

6. FINANCE COSTS

	(Unaudited)	
	Six months ended 30th June,	
	2007	2006
	RMB'000	RMB'000
Interest on discounted bank notes, bank loans and other borrowings wholly repayable within five years	27,137	19,759
Less: Interest expenses capitalised at a rate of 8.48% per annum	(6,361)	—
	20,776	19,759

7. PROFIT BEFORE TAXATION

This is stated after charging:

	(Unaudited)	
	Six months ended 30th June,	
	2007	2006
	RMB'000	RMB'000
Amortisation of intangible assets (included in administrative expenses and cost of sales)	725	1,113
Amortisation of prepaid lease payments (included in administrative expenses)	459	458
Depreciation of property, plant and equipment	27,707	25,291

8. INCOME TAX EXPENSE

	(Unaudited)	
	Six months ended 30th June,	
	2007	2006
	RMB'000	RMB'000
The charge comprises:		
PRC Enterprise Income Tax	3,206	6,771
Deferred tax charge (credit)	2,550	(19)
	5,756	6,752

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 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, a 50% reduction for the following three years. In addition, one of the Company's PRC subsidiary is entitled to exemption from PRC Enterprise Income Tax for the three years commencing from 2005.

Major operating subsidiaries of the Company are subject to PRC Enterprise Income Tax in the PRC in the current period. These subsidiaries received official designation by the local tax authority as a "New and Technologically-Advanced Enterprise" and a foreign-invested enterprise engaged in manufacturing activities. As a result, the effective tax rate for these major operating subsidiaries was 10% for the period (*six months ended 30th June, 2006: 10%*).

9. DIVIDENDS

On 31st May, 2007, a dividend of HK5 cents (*2006: HK5 cents*) per share, shown in the condensed financial statements as RMB0.05024 (*2006: RMB0.05147*) per share, amounting to approximately RMB21,755,000 (*six months ended 30th June, 2006: RMB22,291,000*) was paid to shareholders as the final dividend for 2006.

The directors do not recommend the payment of a dividend for the six months ended 30th June, 2007 (*six months ended 30th June, 2006: Nil*).

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the period of RMB116,476,000 (*six months ended 30th June, 2006: RMB60,115,000*) and the weighted average number of shares in issue of 433,080,000 (*six months ended 30th June, 2006: 433,080,000*) during the period.

Diluted earnings per share has not been presented because there were no dilutive potential shares in issue during the six months ended 30th June, 2007 and 2006.

11. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB32,007,000 (*six months ended 30th June, 2006: approximately RMB15,565,000*) on additions to manufacturing plant in order to expand its production capability.

In the opinion of the directors, the fair value of the Group's buildings, plant and machinery, furniture, fixtures and equipment and motor vehicles as at 30 June 2007 was not materially different from that as at 31 December 2006. Consequently, no revaluation surplus or deficit has been recognised in the current period.

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 ageing analysis of trade receivables at the balance sheet date:

	(Unaudited) At 30th June, 2007 RMB'000	(Audited) At 31st December, 2006 RMB'000
Within 90 days	595,073	625,108
More than 90 days, but not exceeding 180 days	382,222	300,233
More than 180 days, but not exceeding 270 days	257,919	154,748
More than 270 days, but not exceeding 360 days	70,479	60,400
More than 360 days, but not exceeding 540 days	81,003	54,015
More than 540 days, but not exceeding 720 days	42,214	28,102
Trade receivables	1,428,910	1,222,606
Other receivables	196,004	87,658
	1,624,914	1,310,264

13. TRADE AND OTHER PAYABLES

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

	(Unaudited) At 30th June, 2007 RMB'000	(Audited) At 31st December, 2006 RMB'000
Within 30 days	265,906	129,966
More than 30 days, but not exceeding 60 days	53,551	38,811
More than 60 days, but not exceeding 90 days	50,411	94,530
More than 90 days, but not exceeding 180 days	31,937	99,316
Over 180 days	36,300	32,902
Trade payables	438,105	395,525
Other payables	324,901	269,107
	763,006	664,632

14. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank borrowings of RMB308,376,000 and repaid bank and other borrowings of RMB137,435,000. At the balance sheet date, the bank and other borrowings of the Group are interest-bearing at rates ranging from 3% to 10% per annum and have maturity periods ranging from 3 months to 4 years. Approximately RMB305 million of the Group's bank and other borrowings are secured.

15. SHARE CAPITAL

	Number of shares '000	Amount in original currency HK\$'000	Shown in the financial statements as RMB'000
Ordinary shares of HK\$0.10 each			
Authorised:			
At 30th June, 2007 and 31st December, 2006	1,000,000	100,000	107,000
Issued and fully paid:			
At 30th June, 2007 and 31st December, 2006	433,080	43,308	46,308

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

Name of related parties	Nature of transactions	(Unaudited)	
		Six months ended 30th June,	
		2007 RMB'000	2006 RMB'000
光宇延邊蓄電池有限公司			
Guangyu Yanbian Storage	Sale of finished goods	—	769
Battery Manufacturing	Rental expense	—	135
Co. Ltd ("GYSB")			
哈爾濱光宇電纜電纜有限公司			
Harbin Guangyu Electric Wire and Cable Co. Ltd.			
("HGEWC")	Purchase of raw materials	3,394	—
哈爾濱開關有限責任公司			
Harbin Switch Company Limited ("HBS")	Sale of finished goods	182	159

(b) Balances

(1) Amounts due from directors

Name of directors	(Unaudited)	(Audited)
	At 30th June, 2007 RMB'000	At 31st December, 2006 RMB'000
Song Dian Quan	443	248
Li Ke Xue	204	222
Xing Kai	—	3
Zhang Li Ming	—	12
Liu Xing Quan	183	170
	830	655

The amounts due 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*

Name of related companies	(Unaudited) At 30th June, 2007 RMB'000	(Audited) At 31st December, 2006 RMB'000
HBS	14,797	18,832
GYSB	—	751
石家莊光宇高能電池材料有限公司 Shijia Zhuang Guangyu Battery Material Co. Ltd. ("SZGBM")	553	553
哈爾濱光宇電源廠 Harbin Guangyu Power Supply Factory	432	432
哈爾濱亞光新型隔板有限公司 Harbin Ya Guang Modern Separators Company Limited ("HYGMS")	938	368
哈爾濱光宇(集團)股份有限公司 Harbin Guangyu Group Company Ltd. ("HGGC")	1,172	1,334
HGEWC	2,282	1,012
	20,174	23,282

The amounts due 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

Name of related companies	(Unaudited)	(Audited)
	At 30th June, 2007	At 31st December, 2006
	RMB'000	RMB'000
HBS	40	910
GYSB	3,284	3,759
北京兆唐科技有限公司 Beijing Zhaotong Science and Technology Company Limited	647	54
HYGMS	1,701	1,951
HGEWC	389	1,551
HGGC	1,806	1,806
	7,867	10,031

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

(4) Amount due from a minority shareholder

Name of minority shareholder	(Unaudited)	(Audited)
	At 30th June, 2007	At 31st December, 2006
	RMB'000	RMB'000
深圳柏仁塑膠製品有限公司 Shenzhen Boren Plastic Ware Co. Ltd.	279	279

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

16. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES (Continued)

(b) Balances (Continued)

(5) Amounts due to minority shareholders

Name of minority shareholders	(Unaudited) At 30th June, 2007 RMB'000	(Audited) At 31st December, 2006 RMB'000
昌都邦達工貿有限公司 Tibet Bangda Industrial & Trade Co. Ltd.	3,947	3,947
瀋陽東北蓄電池股份有限公司	637	—
高學峰 Gao Xue Feng	—	600
	4,584	4,547

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

(6) Amount due from an associate

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

(c) Other arrangements

As at 30th June, 2007, RMB244,395,000 (At 31st December, 2006: RMB242,000,000) and RMB11,500,000 (At 31st December, 2006: RMB12,500,000) of the Group's bank borrowings were guaranteed by Mr. Song Dian Quan, a director of the Company and Mr. Gao Xue Feng, a minority shareholder of a subsidiary, respectively.

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

(d) Compensation of key management personnel

The remuneration of directors and other members of key management is as follows:

	(Unaudited) Six months ended 30th June,	
	2007	2006
	RMB'000	RMB'000
Short-term benefits	1,215	675
Post-employment benefits	15	9
	1,230	684

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

	(Unaudited) At 30th June, 2007	(Audited) At 31st December, 2006
	RMB'000	RMB'000
Authorised but not contracted for in respect of purchase of property, plant and equipment	230,224	242,900
Contracted but not provided for, net of deposit paid, in respect of purchase of property, plant and equipment	108,279	54,677

18. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities not provided for in the financial statements in respect of guarantees of RMB100,000,000 *(At 31st December, 2006: Nil)* for banking facilities granted to independent third parties. The directors have assessed the overall exposure of the corporate guarantees granted by the Group and considered that the fair value of such corporate guarantees is immaterial to the interim financial statements.

REPORT OF THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the period ended 30th June, 2007 (the "Period"), turnover of the Group amounted to RMB908,607,000 (2006: RMB743,381,000), representing an increase of approximately 22% as compared with the corresponding period last year. The profit attributable to equity holders of the Company for the Period amounted to RMB116,476,000 (2006: RMB60,115,000) which represents an increase of approximately 94% over the corresponding period last year. By adopting vertical method of production and stringent control on production cost, even though raw material price reached historical high during the Period, the gross profit margin of the Group has been maintained at 26.4% as compared with 29.0% in the corresponding period last year. Earnings per share for the Period amounted to RMB0.2689 (2006: RMB0.1388).

BUSINESS REVIEW

Sealed lead-acid ("SLA") products

During the period under review, the SLA battery business of the Group continued to show outstanding performance, with an increase of 26% of delivery volume as compared with the corresponding period last year, and an increase of approximately 8% of average selling price. The SLA battery business again scaled a new height during the Period with a turnover of approximately RMB638,332,000 (2006: RMB466,978,000), representing an increase of approximately 37% over last year. The increase was attributable to the constant growth of business of telecommunication operators in PRC and the strong demand from customers such as Huawei Technologies Company Limited. During the period under review, the raw material price remained historical high, which brought pressure on gross profit margin of the Group, and the Group continued to implement stringent cost control measures and adopt vertical method of production to reduce production cost and enhance production efficiency. In addition, the Group actively reviewed pricing plan on a regular basis with its customers, and expected to shift the cost burden to customers. The mild decrease in gross profit margin is mainly due to the surge of raw material price and the increase of sales to OEM customers which have lower gross profit margin but shorter credit period.

Lithium-ion batteries

Lithium-ion battery is the second major product of the Group which accounts for 19% of the Group's turnover during the period under review. The operating environment for domestic handset manufacturers continued to show improvement. During the Period, the Group produced and sold approximately 16 million pieces of cells, representing an increase of 14% as compared with last year, with a turnover of approximately RMB174,721,000 (2006: RMB157,403,000), representing an increase of approximately 11% as compared with last year. The increase was attributable to the increase in the number of purchase order of lithium-ion batteries as a result of the restructuring of domestic handset manufacturers for the purpose of acquiring a larger market share in both the domestic and overseas markets. Notwithstanding the highly competitive operating environment and the upsurge of raw material costs, the gross profit margin of lithium-ion batteries improved slightly during the Period as compared to the corresponding period of last year. The increase of gross profit margin was attributable to the decrease of unit production cost as a result of the substantial increase of production volume and the improvement in quality control during the period.

Mineral products

The group has a permit to mine for lead, zinc and other metal deposits in certain mineral mines located in Faso Lane, Primorsky Territory of Russia ("Faso Lane Mines") with approximately 300,000 tonnes of metal deposits. In addition, the Group also has a permit to mine for lead, zinc, copper and metal deposits in certain mineral mines located in Altai Krai, Siberia of Russia ("Altai Krai Mines") with approximately 545,000 tonnes of metal deposits. The Group expects that approximately 50,000 to 60,000 tonnes of metal can be mined each year and amongst which, the lead extracted will be consumed internally for the Group's core business. This upstream integration will be one of the major growth drivers in the future years, both as a new income source bringing significant profit contribution as well as helping the Group to secure a steady supply of raw materials. During the period under review, all pre-work of Faso Lane Mines was completed and the relevant approval was granted by Russian Government, and it is under pre-construction phase now. The pre-design plan of Altai Krai Mines was completed and is subject to the relevant approval from Russian Government.

FINANCIAL REVIEW

Assets and liabilities

As at 30th June, 2007, the Group has total assets of RMB3,252,156,000 (31.12.2006: RMB2,851,046,000) which were financed by current liabilities of RMB1,794,507,000 (31.12.2006: RMB1,438,206,000), non-current liabilities of RMB46,470,000 (31.12.2006: RMB140,168,000), shareholders' equity of RMB1,254,019,000 (31.12.2006: RMB1,159,298,000) and minority interests of RMB157,160,000 (31.12.2006: RMB113,374,000).

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, 2007, the Group has bank and cash balances amounted to RMB266,308,000 (31.12.2006: RMB274,555,000). The total bank and other borrowings of the Group as at 30th June, 2007 were approximately RMB1,053,590,000 (31.12.2006: RMB882,649,000), of which RMB1,016,590,000 (31.12.2006: RMB751,649,000) will be due to repay within 12 months and the remaining RMB37,000,000 (31.12.2006: RMB131,000,000) will be due to repay after 12 months. These borrowings carry interest ranging from 3.00% to 10.00% (31.12.2006: from 2.34% to 10.00%) per annum. As at 30th June, 2007, approximately 82% (31.12.2006: 79%) of the Group's bank and other borrowings were denominated in Renminbi and 18% (31.12.2006: 21%) 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 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 0.84 (31.12.2006: 0.75). The current ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.35 (31.12.2006: 1.41), reflecting the abundance of financial resources.

Charges on group assets

As at 30th June, 2007, certain property, plant and equipment, trade receivables and bank deposit of the Group with carrying value of RMB229,851,000 (31.12.2006: RMB237,608,000), and RMB76,866,000 (31.12.2006: RMB94,966,000) and RMB50,000,000 (31.12.2006: Nil), respectively, were pledged to secure bank borrowings of approximately RMB304,601,000 (31.12.2006: RMB731,679,000). In addition, certain bank deposits of RMB89,218,000 (31.12.2006: RMB54,817,000) were pledged to secure trade financing facilities granted to the Group.

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.

Capital Commitments

	30.6.2007	31.12.2006
	RMB'000	RMB'000
Authorised but not contracted for in respect of purchase of property, plant and equipment	230,224	242,900
Contracted but not provided for, net of deposit paid, in respect of purchase of property, plant and equipment	108,279	54,677

PROSPECTS

SLA battery business will remain the focus of the Group's future development. The Group will keep the growth momentum of SLA battery business, and continue to maintain its leading position among the peers. As it is increasingly mature to issue the third generation mobile telecommunication services ("3G") license in the PRC, some telecommunication operators have commenced construction of 3G networks. Given simultaneous operation of both the second generation mobile telecommunication services ("2G") and 3G, in addition to meet the demand of existing 2G networks, additional SLA batteries will be required to build new 3G networks as back-up power supply. As a result, the demand for SLA batteries will be significantly increased by the launch of 3G in the PRC in the future as well as the continuing investment in the existing 2G networks by telecommunication operators. With increasing demand of OEM customers, OEM business will become another growth driver of the Group. In January 2007, the Group entered into a global framework agreement with Vodafone Group ("Vodafone") in relation to provision of SLA batteries produced by the Group to Vodafone. In light of increased demand for SLA batteries of both telecommunication operator customers and OEM customers, the Group is confident that the SLA battery business will continue to grow and make more contributions to the turnover and profit of the Group.

Due to the high utilization rate of the existing SLA battery production lines, the Group has started the construction of a new SLA battery production base in Xinqing Science and Technology Park of Doumen District, Zhuhai City. The civil infrastructure will be completed by the end of the year. Upon commencement of operation of the new SLA battery production base in 2008, the overall production capacity of the Group will be increased by 1,200,000 kVAH. It is anticipated that the SLA batteries produced in the new production base will mostly be sold to OEM customers located in Southern China which can result in a saving in transportation cost and the profitability enhanced. Before the completion of the new

production base in Zhuhai, the Group will continue to utilize the remaining resources of Dongbei Storage Battery Company Limited to satisfy the existing orders. In view of the raw material price continued to rise, the Group negotiated with major customers to transfer part of the impact of raw material cost increase to them. Therefore the Group expects that the gross profit margin of SLA batteries can be maintained with improvements in light of the high raw material price in the second half of 2007.

The Group expects that the lithium-ion battery business will continue to expand in the market. As the operation of domestic handset manufacturers is increasingly stable, the Group will continue to gain both the domestic and overseas handset manufacturers as customers to enhance its profitability. In order to increase gross profit margin of its major products, the Group will continue to take measures to enhance production efficiency and reduce production cost. The Group will make investments to develop special lithium-ion battery for fueling electric bicycles. At present, the sales volume of electric bicycles in the PRC exceeds 10 million per annum, with rapid growth and encouraging prospects. The batteries for fueling electric bicycles currently are traditional lead-acid batteries, which are bigger, heavier and not environmental with shorter life. Lithium-ion batteries are smaller, lighter and environmental with longer life, enjoying the edge of replacing the traditional lead-acid batteries.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2007, the Group has employed 8,860 (31.12.2006: 8,840) 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, 2007 (2006: Nil).

DISCLOSURE OF INTERESTS

(1) *Directors*

As at 30th June, 2007, 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	253,623,300	58.56%
LUO Ming Hua	Personal	Beneficial owner	3,186,027	0.74%
LIU Xing Quan	Personal	Beneficial owner	1,342,793	0.31%
LI Ke Xue	Personal	Beneficial owner	880,793	0.20%
XING Kai	Personal	Beneficial owner	826,793	0.19%

Save as disclosed above, as at 30th June, 2007, 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, 2007, there were no other 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.

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 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 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, 2007 have been reviewed by the Audit Committee and external auditors, Mazars CPA Limited.

APPROVAL OF THE INTERIM FINANCIAL REPORT

These condensed interim financial statements were approved and authorised for issue by the Board on 24th September, 2007.

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, 24th September, 2007