



Coslight Technology International Group Limited

(incorporated in Bermuda with limited liability)

Interim Report
2008

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CORPORATE INFORMATION

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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

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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 27, comprising the condensed consolidated balance sheet as at 30th June, 2008 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

16th September, 2008

Or Ming Chiu

Practising Certificate number: P04786

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June, 2008

		(Unaudited) Six months ended 30th June,	
	Note	2008 RMB'000	2007 RMB'000
Turnover	3	1,291,864	908,607
Cost of sales		(990,514)	(668,292)
Gross profit		301,350	240,315
Other income		9,294	3,570
Distribution costs		(86,418)	(94,933)
Administrative expenses		(80,003)	(70,429)
Gain on deemed disposal of interests in subsidiaries		—	63,847
Gain on disposal of property, plant and equipment and prepaid lease payments	10	28,378	—
Discount on acquisition of additional interest in an associate	4	1,836	—
Discount on acquisition of additional interest in a subsidiary		—	1,607
Finance costs	5	(41,522)	(20,776)
Share of results of an associate		28,628	—
Profit before taxation	6	161,543	123,201
Income tax expense	7	(31,218)	(5,756)
Profit for the period		130,325	117,445
Attributable to:			
Equity holders of the Company		118,649	116,476
Minority interests		11,676	969
		130,325	117,445
Dividends	8	19,076	21,755
Earnings per share			
— Basic	9	28.24 cents	26.89 cents

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June, 2008

	Note	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
Non-current assets			
Property, plant and equipment	10	726,250	699,939
Mining rights		205,171	205,171
Other intangible assets		23,254	18,813
Goodwill		6,495	6,495
Prepaid lease payments	10	66,578	59,365
Interest in an associate		50,914	16,616
Deferred tax assets		6,351	2,181
		1,085,013	1,008,580
Current assets			
Inventories		416,549	384,587
Trade and other receivables	11	1,948,044	1,706,868
Prepaid lease payments	10	1,456	8,922
Amounts due from directors	15	476	701
Amounts due from related companies	15	17,159	20,556
Amounts due from minority shareholders	15	1,409	1,000
Pledged bank deposits		89,565	108,257
Bank balances and cash		285,455	362,243
		2,760,113	2,593,134
Current liabilities			
Trade and other payables	12	706,396	733,728
Amounts due to related companies	15	20,344	14,671
Amounts due to minority shareholders	15	4,513	27,468
Amount due to an associate	15	125,157	7,157
Current tax liabilities		14,435	9,695
Dividend payable		7,673	—
Bank borrowings — due within one year	13	1,126,671	1,009,188
Other borrowings	13	114	1,120
		2,005,303	1,803,027
Net current assets		754,810	790,107
Total assets less current liabilities		1,839,823	1,798,687

CONDENSED CONSOLIDATED BALANCE SHEET

(CONTINUED)

As at 30th June, 2008

	Note	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
Capital and reserves			
Share capital	14	44,001	46,308
Reserves		1,288,308	1,257,586
Equity attributable to equity holders of the Company		1,332,309	1,303,894
Minority interests		158,304	153,611
Total equity		1,490,613	1,457,505
Non-current liabilities			
Bank borrowings — due after one year	13	299,000	302,000
Deferred tax liabilities		23,210	12,182
Deferred government grants		27,000	27,000
		349,210	341,182
		1,839,823	1,798,687

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June, 2008

	Attributable to equity holders of the Company									
	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Statutory reserves RMB'000	Revaluation reserve RMB'000	Exchange reserve RMB'000	Accumulated profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1st January, 2008 (Audited)	46,308	245,111	34,583	207,435	37,003	4,707	728,747	1,303,894	153,611	1,457,505
Exchange difference arising from translation of financial statements of operations outside the People's Republic of China (the "PRC")	–	–	–	–	–	3,715	–	3,715	–	3,715
Reversal of deferred tax liability in respect of disposal of revalued property, plant and equipment	–	–	–	–	2,051	–	–	2,051	–	2,051
Net income and expense recognised directly in equity	–	–	–	–	2,051	3,715	–	5,766	–	5,766
Profit for the period	–	–	–	–	–	–	118,649	118,649	11,676	130,325
Total recognised income and expense for the period	–	–	–	–	2,051	3,715	118,649	124,415	11,676	136,091
Transfer	–	–	–	666	–	–	(666)	–	–	–
Dividends	–	–	–	–	–	–	(19,076)	(19,076)	–	(19,076)
Capital contributions by minority shareholders of subsidiaries	–	–	–	–	–	–	–	–	1,048	1,048
Repurchase of share capital	(2,307)	(76,948)	–	–	–	–	–	(79,255)	–	(79,255)
Realised on depreciation of property, plant and equipment	–	–	–	–	(2,663)	–	2,663	–	–	–
Realised on disposal of property, plant and equipment	–	–	–	–	(6,992)	–	9,323	2,331	(2,331)	–
Dividends to minority shareholders	–	–	–	–	–	–	–	–	(5,700)	(5,700)
At 30th June, 2008 (Unaudited)	44,001	168,163	34,583	208,101	29,399	8,422	839,640	1,332,309	158,304	1,490,613
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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June, 2008

	(Unaudited)	
	Six months ended	
	30th June,	
	2008	2007
	RMB'000	RMB'000
Net cash used in operating activities	(64,366)	(180,089)
Net cash used in investing activities	(87,827)	(107,733)
Net cash generated from financing activities	75,771	279,575
Decrease in cash and cash equivalents	(76,422)	(8,247)
Cash and cash equivalents at beginning of the period	362,243	274,555
Effect of foreign exchange rate changes	(366)	—
Cash and cash equivalents at end of the period, represented by bank balances and cash	285,455	266,308

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th June, 2008

1. BASIS OF PREPARATION

The unaudited interim financial statements for the six months ended 30th June, 2008 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 (the “Stock Exchange”).

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 31st December, 2007.

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 31st December, 2007. The new/revised Hong Kong Financial Reporting Standards (“HKFRS”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the HKICPA, that are 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 what the impact of these new/revised HKFRS is expected to be in the period of initial application 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. These divisions are the basis on which the Group reports its primary segment information.

Turnover in the income statement represents revenue from external sales as included in the segment information.

For the six months ended 30th June, 2008 (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	945,740	211,468	98,323	36,333	—	1,291,864
Inter-segment sales	—	1,411	—	17,598	(19,009)	—
Total	945,740	212,879	98,323	53,931	(19,009)	1,291,864
Result						
Segment result	172,129	8,328	1,434	(5,342)	—	176,549
Unallocated corporate income						237
Unallocated corporate expenses						(4,185)
Discount on acquisition of additional interest in an associate						1,836
Finance costs						(41,522)
Share of results of an associate						28,628
Profit before taxation						161,543
Income tax expense						(31,218)
Profit for the period						130,325

3. TURNOVER AND SEGMENT INFORMATION (CONTINUED)

Business segments (Continued)

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

4. DISCOUNT ON ACQUISITION OF ADDITIONAL INTEREST IN AN ASSOCIATE

In January 2008, the Group acquired and then paid 6.97% unpaid equity in 北京光宇華夏科技有限責任公司 (“光宇華夏”) of RMB3,834,000, resulting in an increase of the Group's equity interest in 光宇華夏 from 35.86% to 42.83% and a discount on acquisition amounting to RMB1,836,000.

5. FINANCE COSTS

	(Unaudited) Six months ended 30th June,	
	2008 RMB'000	2007 RMB'000
Interest on discounted bank notes, bank loans and other borrowings wholly repayable within five years	50,658	27,137
Less: Interest expenses capitalised at a rate of 6.62% (2007: 8.48%) per annum	(9,136)	(6,361)
	41,522	20,776

6. PROFIT BEFORE TAXATION

This is stated after charging:

	(Unaudited) Six months ended 30th June,	
	2008 RMB'000	2007 RMB'000
Amortisation of intangible assets (included in administrative expenses and cost of sales)	240	725
Amortisation of prepaid lease payments (included in administrative expenses)	722	459
Depreciation of property, plant and equipment	30,040	27,707

7. INCOME TAX EXPENSE

	(Unaudited) Six months ended 30th June,	
	2008	2007
	RMB'000	RMB'000
The charge comprises:		
PRC Enterprise Income Tax	22,308	3,206
Deferred tax charge	8,910	2,550
	31,218	5,756

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

On 16th March, 2007, the National People's Congress approved the Enterprise Income Tax Law of the PRC (the "new EIT Law"), which is effective from 1st January, 2008. In December 2007, the State Council promulgated the Implementation Regulations to the new EIT Law, or the EIT Implementation, which is also effective from 1st January, 2008. Pursuant to the new EIT Law, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25%, unless they qualify for special tax benefits under certain limited exceptions, but certain of the Company's PRC subsidiaries continues to enjoy the 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.

Major operating subsidiaries of the Company are subject to PRC Enterprise Income Tax at the rate of 25% (six months ended 30th June, 2007: 10%).

8. DIVIDENDS

Dividends recognised as distribution during the period represent the Company's final dividends proposed for the previous financial year, which was approved during the period:

	(Unaudited) Six months ended 30th June,	
	2008	2007
	RMB'000	RMB'000
2006 final — HK\$0.05 (shown as RMB0.05023)	—	21,755
2007 final — HK\$0.05 (shown as RMB0.04405)	19,076	—
	19,076	21,755

The directors do not recommend the payment of a dividend for the six months ended 30th June, 2008 (six months ended 30th June, 2007: Nil).

9. 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 RMB118,649,000 (six months ended 30th June, 2007: RMB116,476,000) and the weighted average number of shares in issue of 420,187,714 (six months ended 30th June, 2007: 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, 2008 and 2007.

10. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the period, the Group relocated one of its factory premises situated in the PRC and effectively disposed of certain property, plant and equipment and prepaid lease payments with total carrying value of RMB33,248,000 at a consideration of RMB61,626,000, resulting in a net gain on disposal amounting to RMB28,378,000. In connection with this relocation, the Group has spent approximately RMB80,556,000 (including an amount of RMB78,117,000 transferred from construction-in-progress as at 31st December, 2007) on additions of new manufacturing plant, machinery, buildings and prepaid lease payments for land.

The Group also spent approximately RMB95,309,000 (six months ended 30th June, 2007: approximately RMB32,007,000) 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 30th June, 2008 was not materially different from that as at 31st December, 2007 or the cost of those assets acquired during the period. Consequently, no revaluation surplus or deficit has been recognised in the current period.

11. TRADE AND OTHER RECEIVABLES

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

	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
Within 90 days	916,252	879,930
More than 90 days, but not exceeding 180 days	383,692	326,915
More than 180 days, but not exceeding 270 days	238,130	152,497
More than 270 days, but not exceeding 360 days	85,593	79,930
More than 360 days, but not exceeding 540 days	98,278	80,900
More than 540 days, but not exceeding 720 days	28,933	5,660
Trade and bills receivables	1,750,878	1,525,832
Other receivables	197,166	181,036
	1,948,044	1,706,868

12. TRADE AND OTHER PAYABLES

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

	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
Within 30 days	148,616	204,526
More than 30 days, but not exceeding 60 days	107,793	95,412
More than 60 days, but not exceeding 90 days	39,996	37,211
More than 90 days, but not exceeding 180 days	67,918	59,738
Over 180 days	36,650	26,524
Trade and bills payables	400,973	423,411
Other payables	305,423	310,317
	706,396	733,728

13. BANK AND OTHER BORROWINGS

During the period, the Group obtained new bank borrowings of RMB439,938,000 and repaid bank and other borrowings of RMB326,461,000. 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 1 month to 4 years. Approximately RMB315 million of the Group's bank and other borrowings are secured.

14. 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, 2008 and 31st December, 2007	1,000,000	100,000	107,000
Issued and fully paid:			
At 31st December, 2007	433,080	43,308	46,308
Shares repurchased during the period	(21,576)	(2,158)	(2,307)
At 30th June, 2008	411,504	41,150	44,001

During the period, the Company repurchased its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased '000	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$'000
January 2008	5,836	4.47	4.28	25,461
March 2008	10,990	4.15	3.92	44,296
May 2008	4,750	4.00	3.94	18,868

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

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

(a) Transactions

(1) Transactions with related parties

Name of related parties	Nature of transactions	(Unaudited) Six months ended 30th June,	
		2008 RMB'000	2007 RMB'000
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	1,852	3,394
哈爾濱開關有限責任公司 Harbin Switch Co. Ltd. ("HBS")	Purchase of raw materials	325	—
	Sale of finished goods	—	182

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(Continued)

(b) Balances

(1) Amounts due from directors

Name of directors	(Unaudited)	(Audited)
	At 30th June, 2008 RMB'000	At 31st December, 2007 RMB'000
Song Dian Quan	116	334
Li Ke Xue	187	197
Zhang Li Ming	2	—
Liu Xing Quan	171	170
	476	701

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

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(Continued)

(b) Balances (Continued)

(2) Amounts due from related companies

Name of related companies	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
HBS	10,657	14,027
石家莊光宇高能電池材料 有限公司 Shijia Zhuang Guangyu Battery Material Co. Ltd. ("SZGBM")	553	583
哈爾濱光宇電源廠 Harbin Guangyu Power Supply Factory	452	452
哈爾濱亞光新型隔板 有限公司 Harbin Ya Guang Modern Separators Co. Ltd. ("HYGMS")	938	938
HGEWC	3,713	3,259
北京兆唐科技有限公司 Beijing Zhaotong Science and Technology Co. Ltd. ("BZSTC")	846	1,297
	17,159	20,556

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

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(Continued)

(b) Balances (Continued)

(3) Amounts due from minority shareholders

Name of minority shareholders	(Unaudited)	(Audited)
	At 30th June, 2008 RMB'000	At 31st December, 2007 RMB'000
哈爾濱格曼電氣自動化設備 有限責任公司	308	—
瀋陽東北蓄電池股份有限公司	822	721
深圳柏仁塑膠製品有限公司 Shenzhen Boren Plastic Ware Co. Ltd.	279	279
	1,409	1,000

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

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(Continued)

(b) Balances (Continued)

(4) Amounts due to related companies

Name of related companies	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
HBS	396	—
光宇延邊蓄電池有限公司 Guangyu Yanbian Storage Battery Manufacturing Co. Ltd.	3,492	3,302
BZSTC	54	40
HYGMS	1,701	1,701
HGEWC	1,810	3,573
哈爾濱光宇(集團) 股份有限公司 Harbin Coslight Group Co. Ltd. ("HCG")	1,806	1,806
北京光宇在綫科技 有限責任公司 Beijing Guangyu Online Technology Co. Ltd.	10,620	4,070
哈爾濱長興冶煉廠 Harbin Changxing Smelting Factory	1	1
光宇廢陽物資分公司 Guangyu Feiyeung Resources Co.	15	15
佳運科技有限公司 Easywin Technologies Ltd.	449	163
	20,344	14,671

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

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(Continued)

(b) Balances (Continued)

(5) Amounts due to minority shareholders

Name of minority shareholders	(Unaudited)	(Audited)
	At 30th June, 2008 RMB'000	At 31st December, 2007 RMB'000
昌都邦達工貿有限公司 Tibet Bangda Industrial & Trade Co. Ltd.	3,947	3,947
天津自行車三廠技術開發中心 Tianjin Bike Third Factory Technology Development Centre	566	390
黑龍江辰能哈工大高科技風險 投資有限公司	—	23,100
哈爾濱格曼電氣自動化設備 有限責任公司	—	31
	4,513	27,468

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

(6) Amount due to an associate

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

15. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

(Continued)

(c) Other arrangements

As at 30th June, 2008, RMB370,889,000 (At 31st December, 2007: RMB397,905,000) and RMBNil (At 31st December, 2007: RMB6,500,000) 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.

Mr. Song Dian Quan, a director of the Company, also undertakes to indemnify the Group from and against all claims, liabilities, losses, costs and expenses which the Group may suffer or incur in connection with any underpayment, non-payment or late payment of social insurance contributions by the Company's PRC subsidiaries.

(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,	
	2008	2007
	RMB'000	RMB'000
Short-term benefits	1,205	1,215
Post-employment benefits	17	15
	1,222	1,230

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

16. CAPITAL COMMITMENTS

	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
Authorised but not contracted for in respect of purchase of property, plant and equipment	167,019	205,742
Contracted but not provided for, net of deposit paid, in respect of purchase of property, plant and equipment	84,633	98,661

17. CONTINGENT LIABILITIES

At the balance sheet date, the Group had contingent liabilities not provided for in the financial statements in respect of guarantees of banking facilities granted to an independent third party to the extent of RMB131,000,000 (At 31st December, 2007: RMB131,000,000). On the other hand, the independent third party also provided counter-guarantees of banking facilities granted to the Group to the extent of RMB110,000,000 (At 31st December, 2007: RMB105,000,000). The Group has not recognised any deferred income for the financial guarantees issued as their fair values are not significant.

18. POST BALANCE SHEET EVENTS

On 14th July, 2008, the Group had entered into a transaction to acquire an additional 7% equity interest in 光宇華夏 at a cash consideration of RMB7,700,000. Upon the completion of the transaction, the Group held 49.83% effective interest in 光宇華夏.

On the same date, the Group had entered into another transaction with HCG to conduct a share swap pursuant to which HCG agreed to transfer 50.17% equity interest in 光宇華夏 to the Group plus cash consideration of RMB8,700,000 in consideration of which a subsidiary, Coslight Interactive Co. Limited ("Coslight Interactive") agreed to issue 50.17% of its share capital to Global Universe Development Ltd., a nominee of HCG. Upon completion of the transaction, the Group was deemed to have disposed of 50.17% of Coslight Interactive which became an associate and no longer be a subsidiary of the Group and held 46.16% effective interest in 光宇華夏. The expected gain from this transaction before expenses amounted to approximately RMB9,900,000 representing the sum of cash consideration of RMB8,700,000 and the increase in the amount of the Group's share of net assets of Coslight Interactive.

REPORT OF THE BOARD

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the period ended 30th June, 2008 (the "Period"), turnover from the Group's ongoing operations amounted to approximately RMB1,291,864,000 (2007: RMB908,607,000), representing an increase of 42% as compared with the corresponding period last year. The profit attributable to equity holders of the Company for the Period amounted to approximately RMB118,649,000 (2007: RMB116,476,000) which represents an increase of 2% over the corresponding period last year. For the Period, earnings per share amounted to RMB0.2824 (2007: RMB0.2689).

BUSINESS REVIEW

Sealed lead-acid ("SLA") products

The Group's core business of SLA batteries maintained a satisfactory growth for the Period, with the turnover achieved another record high of approximately RMB945,740,000, representing an increase of approximately 48% as compared with the corresponding period last year. The increase was mainly attributable to the constant growth of business of telecommunication operators in the PRC and the strong demand for SLA batteries from overseas customers. Lead is the major raw materials for producing SLA batteries and its market prices reached historical high for 2007 and fell significantly during the period under review, which decreased the pressure on the production cost of SLA batteries. The Group continued to adopt vertical method of production to actively reduce production cost and enhance production efficiency. Meanwhile, the Group established a pricing/cost linked system with individual customers to adjust the selling price of products based on the cost movements and successfully agreed with major customers to increase the selling price to shift the cost burden to customers to stabilise the gross profit margin of SLA products.

Lithium-ion batteries

Production and sales quantity of lithium-ion batteries for the Period was approximately 15 million pieces of cell, representing a decrease of 6% as compared with the corresponding period last year. Its sales grew by approximately 21% over the corresponding period last year to approximately RMB211,468,000 as the Group has increased the average selling price by approximately 17%. As the lithium-ion batteries exposed to the sustained upward price pressure of raw materials, the gross profit margin for the Period decreased as compared to the corresponding period of last year.

Lithium-ion Batteries for Electric Bicycles (Bicycles Batteries)

The Group began the construction of production base for lithium-ion batteries for electric bicycles in Harbin Economic-Tech & High-Tech Development Zone during the Period. The part on civil construction was completed during the Period. The entire project is expected to commence production in 2009. The batteries for fueling electric bicycles currently are traditional lead-acid batteries, which are bigger, heavier and not environmental with shorter life. The lithium-ion batteries for electric bicycles produced by the Group possess strong competitive edges as they have a useful life of 5 years and represent approximately 30% of the weight of lead-acid batteries.

Online Games

The Group effectively owns 39.68% shares of Beijing Guangyu Huaxia Technology Corporation Limited (“Guangyu Huaxia”), which is a company that specializes in online games operations. In April 2006, Guangyu Huaxia commenced the operation of domestic online games “問道” developed by “廈門吉比特公司”. The peak concurrent users increases drastically and reached 700,000 and ranking in top position among major online games in China in terms of number of online players. In addition, the number of online players has been increasing and the upward trend is expected to sustain.

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”) and Altai Krai, Siberia of Russia (“Altai Krai Mines”). 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 lead. 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. All pre-work was completed. Mining construction is expected to commence in the second half of 2008.

FINANCIAL REVIEW

Assets and liabilities

As at 30th June, 2008, the Group has total assets of RMB3,845,126,000 (31.12.2007: RMB3,601,714,000) which were financed by current liabilities of RMB2,005,303,000 (31.12.2007: RMB1,803,027,000), non-current liabilities of RMB349,210,000 (31.12.2007: RMB341,182,000), shareholders’ equity of RMB1,332,309,000 (31.12.2007: RMB1,303,894,000) and minority interests of RMB158,304,000 (31.12.2007: RMB153,611,000).

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, 2008, the Group has bank and cash balances amounted to RMB285,455,000 (31.12.2007: RMB362,243,000). The total bank and other borrowings of the Group as at 30th June, 2008 were approximately RMB1,425,785,000 (31.12.2007: RMB1,312,308,000), of which RMB1,126,785,000 (31.12.2007: RMB1,010,308,000) will be due to repay within 12 months and the remaining RMB299,000,000 (31.12.2007: RMB302,000,000) will be due to repay after 12 months. These borrowings carry interest ranging from 3% to 10% (31.12.2007: from 4% to 10%) per annum. As at 30th June, 2008, approximately 86% (31.12.2007: 83%) of the Group's bank and other borrowings were denominated in Renminbi and 14% (31.12.2007: 17%) were denominated in Hong Kong dollars or United States 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 1.07 (31.12.2007: 1.01). The current ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.38 (31.12.2007: 1.44), reflecting the abundance of financial resources.

Charges on group assets

As at 30th June, 2008, certain property, plant and equipment and trade receivables of the Group with carrying value of RMB121,375,000 (31.12.2007: RMB140,752,000), RMB39,787,000 (31.12.2007: RMB83,128,000), respectively, were pledged to secure bank borrowings of approximately RMB315,462,000 (31.12.2007: RMB399,495,000). In addition, pledged bank deposits were pledged to secure trade and loan 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

	(Unaudited) At 30th June, 2008 RMB'000	(Audited) At 31st December, 2007 RMB'000
Authorised but not contracted for in respect of purchase of property, plant and equipment	167,019	205,742
Contracted but not provided for, net of deposit paid, in respect of purchase of property, plant and equipment	84,633	98,661

PROSPECTS

SLA batteries business will maintain strong growth in the coming years. One of the reasons is the growth in demand of PRC market, i.e. the demand from the PRC operators following restructuring and the fast growing demand for the new base stations in respect of the grant of 3G license. Another reason is the strong growth of the Group's direct export business with a year on year growth of 400% for the first half of 2008, which is attributable to the strong demand in foreign countries such as Russia, Turkey, India and Korea. It is expected that the growth will be sustained in the coming years. The third reason is the indirect export through Huawei Technologies will grow in a stable manner. For the first half of 2008, products exported indirectly through Huawei Technologies increased by 53% over the corresponding period in 2007 and are expected to grow in the future. The Group expects the SLA batteries business will continue to grow and generate further sales and profit contribution to the Group and is confident to maintain its core position.

The Group's construction of a new SLA batteries production base in Zhuhai City will be completed by the end of 2008. Upon which, the annual production capacity will be increased by 1,200,000 kVAH to cope with the tremendous demand due to the grant of 3G license. In addition, the SLA batteries produced in the new production base will mostly be sold to the customers located in Southern China, resulting in lower transportation costs and higher profitability.

The Group expects the market condition for its lithium-ion battery business will continue to improve in 2008. The operation of the PRC mobile phone company will be more stable. The Group will continue to expand its customer base of local and overseas mobile phone manufacturers to enhance profitability. The Group will also continue to adopt measures to increase production efficiency and lower production cost so as to enhance the gross profit margin of its major products.

The domestic online game “問道” operated by Guangyu Huaxia ranks third in terms of the number of online players among major online games in China. The number of online players continues to increase. For the first half of 2008, the revenue and profit have grown by over 100%. As new games have been put in operation recently, including “創世” developed by the Group, we are confident that our games will achieve a great success. Following the recent change in shareholding of Guangyu Huaxia, the Group's effective equity interests on Guangyu Huaxia increased from 39.68% to 46.16%.

In the coming years, the R&D and operation of internet games will bring greater contribution to the operating results of the Group and becomes one of the most important businesses of the Group.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICIES

As at 30th June, 2008, the Group has employed 10,928 (31.12.2007: 9,210) 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, 2008 (2007: Nil).

DISCLOSURE OF INTERESTS

(1) Directors

As at 30th June, 2008, 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 Issuers 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	260,323,300	63.26%
LUO Ming Hua	Personal	Beneficial owner	3,186,027	0.77%
LIU Xing Quan	Personal	Beneficial owner	1,132,793	0.28%
XING Kai	Personal	Beneficial owner	826,793	0.20%
LI Ke Xue	Personal	Beneficial owner	668,793	0.16%

Save as disclosed above, as at 30th June, 2008, 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 Issuers.

(2) Substantial Shareholders and Others

As at 30th June, 2008, 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 share options scheme of the Company was 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

During the period, the Company repurchased 21,576,000 shares of its own ordinary shares on the Stock Exchange as follows:

Month of repurchase	Number of shares repurchased '000	Highest price paid per share HK\$	Lowest price paid per share HK\$	Aggregate price paid HK\$'000
January 2008	5,836	4.47	4.28	25,461
March 2008	10,990	4.15	3.92	44,296
May 2008	4,750	4.00	3.94	18,868

Apart from the above repurchases of shares, there was no other 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 the 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, 2008 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 16th September, 2008.

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, 16th September, 2008