

Directors' Report

The directors are pleased to present their annual report of Coslight Technology International Group Limited (the "Company") and the audited financial statements for the year ended 31st December, 2002.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of the Company's principal subsidiaries as at 31st December, 2002 are set out in note 16 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2002 is set out in the consolidated income statement on page 22.

An interim dividend of 2.6 Hong Kong cents (RMB0.02782) per share amounting to RMB11,074,000 was paid to shareholders on 22nd October, 2002. The Directors recommend a final dividend of 5 Hong Kong cents (RMB0.0535) per share amounting to RMB21,297,000 to shareholders on the register of members on 16th May 2003.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's property, plant and equipment were revalued at 31st December, 2002. The revaluation resulted in a surplus over book values amounting to RMB44,627,000. The surplus arising on revaluation of RMB28,474,000 and RMB666,000 was credited to the revaluation reserve and credited to the consolidated income statement respectively.

Details of these other movements in property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 24 to the financial statements.

In order to finance the Group's sealed lead acid and lithium-ion batteries projects, the Company issued 35 million ordinary shares of HK\$0.10 each, for consideration of HK\$2.15 per share. The allocation was made on 1st August, 2002 to independent third parties. The new shares rank pari passu with the existing shares in all respects.

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DIRECTORS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors:

SONG Dian Quan

LUO Ming Hua

LI Ke Xue

XING Kai

ZHANG Li Ming

LIU Xing Quan

Independent non-executive directors:

LI Zeng Lin

JIANG Zhao Hua

In accordance with Articles 86(2) and 87 (1) of the Company's by-law, Mr Xing Kai and Mr Liu Xing Quan will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

The terms of office of each non-executive directors is the period up to his retirement by rotation in accordance with the Company's by-law.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors has entered into a service contract with the Company for an initial period of three years commencing from 1st October, 2002, and renewable annually upon expiry, unless and until by either party by three months written notice.

Save as disclosed above, none of the directors being proposed for the re-election at the forthcoming Annual General Meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed under the heading "Connected and Related Parties Transactions", no contracts of significance to which the Company or its subsidiaries was a party and in which a director of the Company had a material beneficial interest, whether directly or indirectly, subsisted at any time during the year.

REMUNERATIONS OF DIRECTORS AND FIVE HIGHEST PAID EMPLOYEES

The aggregate remunerations of the directors and the five highest paid employees for year ended 31st December, 2002 were set out in note 9 to the financial statements.

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DIRECTORS, EXECUTIVES AND ASSOCIATES' INTEREST IN SHARES

As at 31st December, 2002, the interests of the Directors, chief executives and their associates in the share capital of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance") were as follows:

Name of Director	Type of interest	No. of ordinary shares held
SONG Dian Quan	Personal	251,527,300
LUO Ming Hua	Personal	3,186,027
LI Ke Xue	Personal	2,390,793
XING Kai	Personal	2,346,793
LIU Xing Quan	Personal	2,434,793

Save as disclosed above, none of the directors or chief executives, nor their associates had any interest in the securities of the Company or any of its associated corporation.

SHARE OPTIONS

Particulars of the Company's share option scheme as set out in note 25 to the financial statements.

At 31st December, 2002, the following options to subscribe for shares were outstanding under the share option scheme of the Company.

	Date of grant	Number of share option	Exercisable period	Exercise price
Director				
Zhang Li Ming	4th July, 2001	400,000	03.01.2002 – 03.07.2003	HK\$1.12
Employee				
Chen Sheung Wang	4th July, 2001	600,000	03.01.2002 – 03.07.2003	HK\$1.12
		<u>1,000,000</u>		

At 31st December, 2002, no share options were exercised during the year under the scheme.

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DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Share options", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company 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.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, the following substantial shareholders hold 10% or more in the share capital of the Company under Section 16(1) of the SDI Ordinance of Hong Kong are recorded in the register.

Name	Number of Shares	Approximate percentage of voting rights
SONG Dian Quan	251,527,300	63.19%

Other than as disclosed above, the Company has not been notified of any other interest representing 10% or more in the issued share capital of the Company as at 31st December, 2002.

RESERVES

In addition to retained profits, under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st December, 2002 comprised contributed surplus and retained profits in aggregate amounting to RMB172,388,000 (2001: RMB170,129,000).

Details of the movements in the Group's and the Company's reserves during the year are set out in the statements of changes in equity on page 25.

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MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Group accounted for less than 30% of the Group's turnover for the year.

Purchases from the five largest suppliers accounted for approximately 30% of the Group's total purchases for the year and purchases from the Group's largest supplier accounted for approximately 13% of the Group's total purchases for the year.

Certain interest in Harbin Ya Guang Modern Separators Company Limited ("HB Ya Guang") is owned by the Company's directors Song Dian Quan, Luo Ming Hua, Li Ke Xue, Xing Kai and Liu Xing Quan. It is the sole supplier of superfine glass fiber separators of the Group and accounted for approximately 0.66% of total purchase of the Group.

Save as disclosed above, none of the directors, their associates, or any shareholder which, to the knowledge of the directors, owned more than 5% of the Company's share capital had any beneficial interest in the share capital of any of the five largest customers or suppliers of the Group.

CONNECTED AND RELATED PARTIES TRANSACTIONS

During the year, certain transactions that had been entered into by the Group became connected and related parties transactions under the Rules Governing the Listing of Securities of Hong Kong Stock Exchange. Details are set out below:

i. Purchase of superfine glass fiber separators

Since January 1999, HB Ya Guang has been the sole supplier of superfine glass fiber separators to the Group in relation to its production of fixed-value regulated SLA batteries. For the year ended 31st December, 2002, the total value of the Group's purchase of superfine glass fiber separators amounted to RMB1,568,000 (2001: RMB15,975,000), which represents approximately 0.66% of the Group's total purchase.

ii. Sale of finished goods and raw material

The Group had sold some raw materials to one of its affiliated company, Beijing Zhaotang Science and Technology Company Limited ("BJ Zhaotang") in relation to its production of the SLA Batteries. For the year ended 31st December, 2002, the total value of the Group's sale of finished goods amounted to RMB297,000 (2001: nil), which represents approximately 0.06% of the Group's total sale.

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The Group had sold some raw material to one of its affiliated company, Guangyu Yanbian Storage Battery Manufacturing Company Limited ("GYSB") in relation to its production of the SLA batteries. For the year ended 31st December, 2002, the total value of the Group's sale of finished goods amounted to RMB1,440,000 (2001: RMB2,135,000), which represents approximately 0.28% of the Group's total sale.

The Group had sold some finished goods to one of its affiliated company, Harbin Switch Company Limited ("HBS") in relation to its production of the SLA batteries. For the year ended 31st December, 2002, the total value of the Group's sale of finished goods amounted to RMB322,000 (2001: RMB913,000), which represents approximately 0.06% of the Group's total sale.

iii. Purchase of finished goods and raw materials

The Group had purchased some finished goods from one of its affiliated company, Harbin Guangyu Electric Wire and Cable Co. Ltd. ("HGEWC") in relation to its production of the SLA batteries. For the year ended 31st December, 2002, the total value of the Group's sale of finished goods amounted to RMB872,000 (2001: nil), which represents approximately 0.36% of the Group's total purchase.

The Group had purchased some raw materials from BJ Zhaotang in relation to its production of the SLA batteries. For the year ended 31st December, 2002, the total value of the Group's purchase of raw materials amounted to RMB82,000 (2001: RMB658,000), which represents approximately 0.03% of the Group's total purchase.

The Group had purchased some finished goods from GYSB in relation to its production of the SLA batteries. For the year ended 31st December, 2002, the total value of the Group's purchase amounted to RMB504,000 (2001: RMB3,605,000), which represents approximately 0.21% of the Group's total purchase.

The Group had purchased some raw materials from one of its affiliated company, Shenzhen Like Xing Battery Co. Ltd. ("SZ Like Xing") in relation to its production of the SLA batteries. For the year ended 31st December, 2002, the total value of the Group's purchase of raw materials amounted to RMB52,000 (2001: nil), which represents approximately 0.02% of the Group's total purchase.

The Group had purchased some raw materials from one of its affiliated company, Shijia Zhuang Guangyu Battery Material Co. Ltd. ("SZGBM") in relation to its production of the lithium ion batteries. For the year ended 31st December, 2002, the total value of the Group's purchase amounted to RMB1,390,000 (2001: nil), which represents approximately 0.58% of the Group's total purchase.

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iv. Guarantee of bank loan

RMB19,050,000 (2001: RMB26,950,000) of the Group's bank loans were guaranteed by related parties to which certain directors of the Company have beneficial interest. In addition, RMB31,900,000 (2001: nil) of the Group's bank borrowings was guaranteed by Mr. Song.

Certain directors of the Company have beneficial interests in BJ Zhaotang, GYSB, HB Ya Guang, HBS, HGEWC, SZ Like Xing and SZGBM.

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 year.

CORPORATE GOVERNANCE

The Company had complied throughout the year ended 31st December, 2002 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong Limited.

AUDIT COMMITTEE

The audit committee comprises two members – Mr. Li Zeng Lin and Mr. Jiang Zhao Hua, both of whom are independent non-executive directors. During the year, the audit committee held two meetings and performed the following duties:

1. reviewed and commented in the Company's draft annual and interim financial reports;
2. reviewed and commented in the Group's internal controls relating to the sales system, with the assistance of the internal audit department.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's bye-laws, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

POST BALANCE SHEET EVENTS

Details of subsequent events occurring after the balance sheet date are set out in note 34 to the financial statements.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
SONG Dian Quan
Chairman

Hong Kong, 15th April, 2003