

The directors (the "Directors") of Coslight Technology International Group Limited (the "Company") are pleased to present their annual report of the Company and the audited financial statements for the year ended 31st December, 2004.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of the Company's subsidiaries as at 31st December, 2004 are set out in note 16 to the financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2004 is set out in the consolidated income statement on page 20.

An interim dividend of 2 Hong Kong cents (equivalent to approximately RMB0.02122) per share amounting to RMB9,190,000 was paid to the shareholders of the Company on 15th October, 2004. The Directors recommend a final dividend of 4 Hong Kong cents per share to shareholders on the register of members on 27th May, 2005.

## PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's property, plant and equipment were revalued at 31st December, 2004. The surplus arising on revaluation was approximately RMB18,962,000 (2003: RMB16,464,000), out of which approximately RMB18,379,000 (2003: RMB15,317,000) (net of approximately RMB1,197,000 (2003: RMB681,000) shared by the minority interests) was credited to the revaluation reserve and approximately RMB614,000 (2003: credited of RMB466,000) was debited to the consolidated income statement for the year ended 31st December, 2004.

Details of movements in property, plant and equipment of the Group during the year are set out in note 12 to the financial statements.

# DIRECTORS' REPORT

## DIRECTORS

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

***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  
XIAO Jian Min

In accordance with the Company's Bye-laws 86(2) and 87 (1), Mr. Li Zeng Lin and Mr. Jiang Zhao Hua will retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting.

## 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.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-laws.

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 OF SIGNIFICANCE

Save as disclosed under the heading "Connected Transactions", no contracts of significance to which the Company or its subsidiaries was a party and in which a Director had a material beneficial interest, whether directly or indirectly, subsisted at the end of the year and 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, 2004 are set out in note 8 to the financial statements.

**DISCLOSURE OF INTERESTS****(1) Directors**

As at 31st December, 2004, the interests of each Director in the shares, underlying shares and debentures of the Company (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**

<b>Name of Director</b>	<b>Type of interests</b>	<b>Capacity</b>	<b>No. of shares held</b>	<b>Percentage of interest</b>
SONG Dian Quan	Personal	Beneficial owner	251,527,300	58.08%
LUO Ming Hua	Personal	Beneficial owner	3,186,027	0.74%
LIU Xing Quan	Personal	Beneficial owner	2,434,793	0.56%
LI Ke Xue	Personal	Beneficial owner	1,700,793	0.39%
XING Kai	Personal	Beneficial owner	1,222,793	0.28%

Save as disclosed above, as at 31st December, 2004, there were no other interests or short positions of the Directors 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 31st December, 2004, the interest and short positions of every person, other than Directors of the Company, in the shares and underlying shares of the Company which have been notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded in the register required to be kept under section 336 of the SFO were as follows:

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

## DIRECTORS' REPORT

Save as disclosed above, as at 31st December, 2004, the register maintained by the Company pursuant to section 336 of the SFO which have been notified to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or recorded no other interests or short positions in shares and underlying shares of the Company.

### SHARE OPTIONS

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

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

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

- (a) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant of an option, which must a trading day;
- (b) the average closing price of the shares as stated in the Stock Exchange's daily quotations for the 5 trading days immediately preceding the date of the offer of grant of an option; and
- (c) the nominal value of the shares.

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

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

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

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as disclosed under the heading "Share options" above, at no time during the year 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.

### **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, 2004 comprised contributed surplus and retained profits in aggregate amounting to RMB176,207,000 (2003: RMB175,156,000).

Details of the movements in the Group's and the Company's reserves during the year are set out in the consolidated statement of changes in equity on page 23 and note 29 to the financial statements respectively.

## DIRECTORS' REPORT

### 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 less than 30% of the Group's total purchases for the year.

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 transactions under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Details are set out as below:

*i. Sale of finished goods and raw material*

The Group had sold some raw material to one of its affiliated company, Guangyu Yanbian Storage Battery Manufacturing Co. Ltd. ("GYSB") in relation to its production of the SLA batteries. For the year ended 31st December, 2004, the total value of the Group's sale of raw materials to GYSB amounted to RMB4,364,000 (2003: RMB2,043,000), which represents approximately 0.39% of the Group's total sales.

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, 2004, the total value of the Group's sale of finished goods to HBS amounted to RMB2,143,000 (2003: RMB2,605,000), which represents approximately 0.19% of the Group's total sales.

*ii. Purchase of finished goods and raw materials*

The Group had purchased some raw materials 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, 2004, the total value of the Group's purchase of raw materials from HGEWC amounted to RMB1,728,000 (2003: RMB896,000), which represents approximately 0.28% of the Group's total purchases.

The Group had purchased some raw materials from one of its affiliated company, Shijia Zhuang Guanguyu Battery Material Co. Ltd. ("SZGBM") in relation to its production of the lithium ion batteries. For the year ended 31st December, 2004, the total value of the Group's purchases from SZGBM amounted to RMB2,962,000 (2003: RMB3,965,000), which represents approximately 0.48% of the Group's total purchases.

The Group had purchased some raw materials of lithium ion batteries from one of its affiliated company, Shenzhen Like Xing Battery Co. Ltd. ("SZ Li Ke Xing"). For the year ended 31st December, 2004, the total value of the Group's purchases from SZ Li Ke Xing amounted to RMB5,004,000 (2003: nil), which represents approximately 0.82% of the Group's total purchases.

**iii. Guarantee of bank borrowings**

RMB51,123,000 (2003: RMB28,710,000) of the Group's bank borrowings were guaranteed by Mr. Song Dian Quan.

Certain Directors have beneficial interests in GYSB, HBS, HGEWC, SZGBM and SZ Li Ke Xing.

## **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.

## **COMPLIANCE WITH THE CODE OF BEST PRACTICE**

In the opinion of the Board, the Company had complied throughout the year ended 31st December, 2004 with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules which was in force prior to 1st January, 2005, except that the independent non-executive directors of the Company are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation in accordance with the bye-laws of the company.

## **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 and the code of conduct regarding securities transactions by directors adopted by the Company.

## DIRECTORS' REPORT

### INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

### AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") has reviewed the audited financial statements as at 31st December, 2004. The Audit Committee currently comprises three independent non-executive Directors, namely Mr. Li Zeng Lin, Mr. Jiang Zhao Hua and Mr. Xiao Jian Min.

### 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.

### SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2004.

### 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, 21st April, 2005