

Chairman's Statement

On behalf of the board of directors (the "Board") of Coslight Technology International Group Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 31st December, 2005.

RESULTS

For the year ended 31st December, 2005, turnover of the Group from continuing operations amounted to approximately RMB1,307,449,000 (2004: RMB1,125,046,000), representing an increase of 16% as compared with last year. The profit attributable to equity holders of the Company for the year amounted to approximately RMB110,927,000 (2004: RMB122,024,000) which represents a decrease of 9% over last year. By adopting vertical method of production and stringent control on production cost during the year, the gross profit margin of the Group from continuing operations has been maintained at 33% as compared with 34% in last year. Earnings per share for the year ended 31st December, 2005 was RMB0.2561 (2004: RMB0.2818).

DIVIDENDS

The Board declares and proposes the final dividend of HK\$0.05 per share for the year ended 31st December, 2005 to shareholders whose names appear in the register of members on 26th May, 2006 and a resolution to this effect will be proposed and subject to the shareholders' approval in the forthcoming annual general meeting.

BUSINESS REVIEW

Sealed lead-acid ("SLA") products

The performance of the Group's core business in the manufacturing of SLA batteries in 2005 was good and a sustained growth trend has been continuously maintained. The SLA battery business, including car batteries, achieved a turnover of approximately RMB893,063,000 (2004: RMB698,172,000), representing an increase of approximately 28% over last year. The increase was attributable to the constant growth of business of telecommunication operators in the PRC and the strong demand from OEM customers such as Emerson Power Network, Inc. and Huawei Technologies Company Limited. In 2005, the raw material price remained high and the Group continued to implement stringent cost control measures and adopt vertical method of production to reduce production cost and enhance production efficiency. The decrease in gross profit margin is mainly due to the increase of sales to OEM customers which have lower gross profit margin but shorter credit period.

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Lithium ion batteries

The operating environment was still tough for domestic handset manufacturers in the first half of 2005. For the year ended 31st December, 2005, the Group produced and sold approximately 19.5 million pieces of cells with a turnover of approximately RMB250,534,000 (2004: RMB309,364,000), representing a decrease of approximately 19% as compared with last year. The decrease was attributable to the reduction of orders from domestic handset manufacturers which were suffering from a loss of market share in the PRC. The gross profit margin has been squeezed because of the relative low production volume during the year as compared with 2004. The market of domestic handset manufacturers has started to revive in the fourth quarter of 2005 and the lithium ion battery business of the Group has returned to a stage of stable development with a recovery growth after experiencing severe setback since the second half of 2004.

Nickel batteries

The Group has acquired 70% equity interest in Shenzhen Li Ke Xing Battery Co. Ltd. ("SZ Li Ke Xing") which is principally engaged in the manufacturing of small-sized rechargeable Nickel batteries in August 2005 ("date of acquisition"). The acquisition of SZ Li Ke Xing further enhanced the revenue base and widened the product range of the Group whilst better enabled the Group to gain access to overseas market as 70% of the products of SZ Li Ke Xing are for export. In 2005, the Group recorded a turnover of RMB80,538,000 for Nickel battery business since the date of acquisition.

Car batteries

Due to the strong demand of SLA batteries and the low profit margin of car batteries, the Group has adopted appropriate business strategy to reduce the production of car batteries and shift resources of a subsidiary of the Company, Shenyang Dongbei Batteries Company Limited to produce SLA batteries. In light of this, the turnover of car batteries for the year ended 31st December, 2005 has dropped significantly to RMB55,000,000 as compared with last year (2004: RMB96,600,000).

Electric automation

During the year, the Group's electric automation business achieved a turnover of RMB29,555,000 (2004: RMB29,843,000) which was mainly attributable to the sales of power generator integrated automation systems, power transformer automation systems and power network automation systems, etc. to power network sectors and industrial enterprises in the PRC.

Online games

During the year, the Group has ceased to invest in the online game business and has disposed 35.57% equity interest in a subsidiary engaged in the business of sales and distribution of online games to 41.43%.

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PROSPECTS

SLA battery business will remain as the focus of the Group's future development. The Group will maintain its momentum in the development of SLA battery business and continue its leading position in the industry. As the opportunity of issuance of the 3G licences in China becomes more mature, some of the telecommunication operators have started the preparation for the construction of the 3G network. Provided that both 2G and 3G telecommunication technologies are in parallel run, which means that additional SLA batteries will be required on top of the existing 2G network. The upcoming 3G implementation in the PRC together with the expansion of the existing 2G network will definitely boost the demand of SLA products. OEM business will be another major growth driver of the Group due to the persistent strong demand from OEM customers. Given the growth in the demand of SLA batteries from the telecommunication operators and OEM customers, the Group is confident that the SLA battery business will continue to grow and play a more important role in the Group's turnover and profit contribution.

Due to the high utilization rate of the existing SLA battery production lines, the Group will start the construction of a new SLA battery production base in Xinqing Science and Technology Park of Doumen District, Zhuhai City in the second half of 2006. The Group has already acquired the land in 2002 and the new production base is now under the design stage. Upon commencement of operation of the new SLA battery production base in 2007, the overall production capacity of the Group will be increased by 900,000 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 in Shenyang to satisfy the existing orders.

In view of the raw material price remained on the high side since 2004, the Group has started negotiation with individual major customers to transfer part of the impact of the raw material cost increase to them and some have already agreed on the selling price increment. 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 2006.

In order to further the vertical integration of the Group and also add a new business segment to the portfolio of the Group, the Group has acquired 70% equity interest of a Russian joint venture company in March 2006. This joint venture company has a permit to mine for lead, zinc and other metal deposits in certain mineral mines located in Faso Lane, Primorsky Territory of Russia. Such mineral mines have abundant mineral resources with approximately 300,000 tonnes of metal deposits and the Group expects that approximately 150,000 tonnes of metal can be extracted from the mineral mines. The mineral mines will commence production in 2007 and the Group expects that approximately 20,000 to 30,000 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.

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The Group will also continue to expand the overseas markets. One of the largest telecommunication operators in Europe has come to China to select supplier of SLA batteries for their telecommunication network and they have just completed the on-site inspection of the Group's production plant and the certification process is still undergoing. The Group expects that export sales of SLA products will be the further growth driver of the Group.

The Board expects that the market condition of lithium-ion batteries will continue to recover in 2006. The operation of domestic handset manufacturers will be gradually stable. The Group will continue to explore new domestic and overseas handset manufacturers as customers to enhance profitability.

The Group will continue to adopt measures to further enhance production efficiency and lower production cost in order to improve the gross profit margin of the major products.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to extend our sincere gratitude to all the shareholders for their continuous trust and support, to our customers for patronizing and supporting the Group's products, and to our staff for their tireless efforts and devotion.

SONG Dian Quan

Chairman

Harbin, the PRC, 21st April, 2006