

Directors' Report

The directors (the "Directors") of Coslight Technology International Group Limited are pleased to present their annual report and the audited financial statements for the year ended 31st December, 2005.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of the Company's principal subsidiaries as at 31st December, 2005 are set out in note 47 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2005 are set out in the consolidated income statement on page 29.

An interim dividend of 1 Hong Kong cent (equivalent to approximately RMB0.01040) per share amounting to RMB4,504,000 was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 5 Hong Kong cents per share to shareholders whose names appear in the register of members on 26th May, 2006.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's property, plant and equipment were revalued at 31st December, 2005. The surplus arising on revaluation was approximately RMB5,403,000 (2004: RMB11,112,000), out of which approximately RMB5,043,000 (2004: RMB10,529,000) (net of approximately RMB575,000 (2004: RMB1,197,000) shared by the minority interests) was credited to the revaluation reserve and approximately RMB215,000 (2004: RMB614,000) was debited to the consolidated income statement for the years ended 31st December, 2005 and 2004.

Details of movements in property, plant and equipment of the Group during the year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 34 to the financial statements.

Directors' Report

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
XIAO Jian Min

In accordance with the Company's Bye-laws 86(2) and 87(1), Mr. Song Dian Quan, Ms. Luo Ming Hua and Mr. Xing Kai 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, 2005, 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, 2005 are set out in note 10 to the financial statements.

Directors' Report

REMUNERATION COMMITTEE

The Company has established a Remuneration Committee on 1st June, 2005 in accordance with the requirements of the Code of Corporate Governance Practice (the "Code") as contained in Appendix 14 of the Listing Rules with written terms of reference. Its primary responsibility is to make proposals to the Board with respect to the overall remuneration policy and framework for directors and senior management of the Company and the establishment of formal and transparent procedure for formulating the remuneration policy. The Remuneration Committee comprises two independent non-executive directors, namely Dr. Jiang Zhao Hua and Mr. Li Zeng Lin and one executive director, namely Mr. Zhang Li Ming. Dr. Jiang Zhao Hua is the chairman of the Remuneration Committee.

NOMINATION COMMITTEE

The Company has established a Nomination Committee on 18th November, 2005 in accordance with the requirements of the Code as contained in Appendix 14 of the Listing Rules with written terms of reference. Its primary responsibilities include reviewing and supervising the framework, number of members and composition of the Board, identifying and nominating suitable persons for appointment of director and making recommendations to the Board relating to appointment and re-appointment of directors. The Nomination Committee comprises two independent non-executive directors, namely Mr. Xiao Jin Min and Mr. Li Zeng Lin and one executive director, namely Mr. Song Dian Quan. Mr. Xiao Jin Min is the chairman of the Nomination Committee.

Directors' Report

DISCLOSURE OF INTERESTS

(1) Directors

As at 31st December, 2005, 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

| Name of Director | Type of interests | Capacity | No. of shares held | Percentage of interest |
|------------------|-------------------|------------------|--------------------|------------------------|
| 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 | 2,294,793 | 0.53% |
| LI Ke Xue | Personal | Beneficial owner | 1,460,793 | 0.34% |
| XING Kai | Personal | Beneficial owner | 1,222,793 | 0.28% |

Save as disclosed above, as at 31st December, 2005, 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.

Directors' Report

(2) *Substantial Shareholders and Others*

As at 31st December, 2005, the interest 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 were as follows:

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

Saved as disclosed above, as at 31st December, 2005, there were no other interests or short positions in 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 by the Company pursuant to 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 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.

Directors' Report

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 accumulated 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, 2005 comprised contributed surplus and retained profits in aggregate amounting to RMB188,897,000 (2004: RMB176,207,000).

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 32 and note 48 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 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 materials and finished goods to one of its affiliated companies, Guangyu Yanbian Storage Battery Manufacturing Co. Ltd. ("GYSB") in relation to its production of the SLA batteries. For the year ended 31st December, 2005, the total value of the Group's sale of raw materials and finished goods to GYSB amounted to RMB3,027,000 (2004: RMB4,364,000) and RMB422,000 (2004: Nil) respectively. During 2005, GYSB has assigned trade receivables and transferred inventories and property, plant and equipment totally amounted to RMB9,393,000 (2004: Nil) to the Group for settlement of loan balance owed to the Group.

The Group had sold some finished goods to one of its affiliated companies, Harbin Switch Company Limited ("HBS") in relation to its production of the SLA batteries. For the year ended 31st December, 2005, the total value of the Group's sale of finished goods to HBS amounted to RMB709,000 (2004: RMB2,143,000).

ii. Purchase of finished goods and raw materials

For the year ended 31st December, 2005, the Group had purchased some finished goods amounted to RMB110,000 (2004: Nil) in relation to SLA batteries from GYSB.

The Group had purchased some raw materials from one of its affiliated companies, Harbin Guangyu Electric Wire and Cable Co. Ltd. ("HGEWC") in relation to its production of the SLA batteries. For the year ended 31st December, 2005, the total value of the Group's purchase of raw materials from HGEWC amounted to RMB1,982,000 (2004: RMB1,728,000).

The Group had purchased some raw materials of lithium ion batteries from one of its affiliated companies, Shenzhen Like Xing Battery Co. Ltd. ("SZ Li Ke Xing"). For the year ended 31st December, 2005, the total value of the Group's purchases from SZ Li Ke Xing amounted to RMB11,332,000 (2004: RMB5,004,000). SZ Li Ke Xing became a subsidiary of the Group in August 2005.

Directors' Report

iii. Rental expenses paid

For the year ended 31st December, 2005, the Group had paid rental expenses of RMB200,000 (2004: Nil) and RMB311,000 (2004: Nil) to GYSB and SZ Li Ke Xing respectively.

iv. Guarantee of bank borrowings

RMB82,301,000 (2004: RMB51,123,000) and RMB12,163,000 (2004: Nil) of the Group's bank borrowings were guaranteed by Mr. Song Dian Quan, a director of the Company and Mr. Gao Xue Feng, who is a minority shareholder of a subsidiary respectively.

Certain Directors have beneficial interests in GYSB, HBS, HGEWC 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.

CORPORATE GOVERNANCE

A report on the corporate governance practices adopted by the Company is set out on page 20 to 27 of the annual 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 comprises three independent non-executive directors, namely Mr. Li Zeng Lin, Dr. Jiang Zhao Hua and Mr. Xiao Jian Min with Mr. Li Zeng Lin as the chairman. The primary duties of the Audit Committee is 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 annual results of the Group for the year ended 31st December, 2005 have been reviewed by the Audit Committee.

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, 2005.

Directors' Report

POST BALANCE SHEET EVENT

Details of significant events occurring after the balance sheet date are set out in note 46 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

Harbin, the PRC, 21st April, 2006