

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, 2006.

RESULTS

For the year ended 31st December, 2006, turnover of the Group from continuing operations amounted to approximately RMB 1,619,747,000 (2005: RMB1,307,449,000), representing an increase of 24% as compared with last year. The profit attributable to equity holders of the Company for the year amounted to approximately RMB144,575,000 (2005: RMB110,927,000) which represents an increase of 30% over last year. Earnings per share for the year ended 31st December, 2006 was RMB 0.3338 (2005: RMB0.2561).

DIVIDENDS

The Board declares and proposes the final dividend of HK\$ 0.05 per share for the year ended 31st December, 2006 to shareholders whose names appear in the register of members on 25th May, 2007 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 of SLA batteries in 2006 was good and a sustained growth trend has been continuously maintained. The SLA battery business again scaled a new height with a turnover of approximately RMB 1,052,586,000 (2005: RMB 893,060,000) in 2006, representing an increase of approximately 18% 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 2006, 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. In addition, the Group was capable of shifting the cost burden to customers. 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.

Lithium ion batteries

Lithium-ion (Li-ion) battery is the second major product of the Group which accounts for 20 % of the Group's turnover in 2006. The operating environment for domestic handset manufacturers improved significantly in 2006. For the year ended 31st December, 2006, the Group produced and sold approximately 25 million pieces of cells, representing a substantial increase of 30% as compared with last year, with a turnover of approximately RMB 319,507,000 (2005: RMB250,534,000), representing an increase of approximately 28% as compared with last year. The increase was attributable to the increase in the number of purchase order of lithium ion batteries as a result of the restructuring of domestic handset manufacturers for the purpose of acquiring a larger market share in both the domestic and overseas markets. Notwithstanding the highly competitive operating environment and the upsurge of raw material costs, the gross profit margin of lithium ion batteries improved slightly during the period as compared to the corresponding period of last year. The increase of gross profit margin was attributable to the decrease of unit production cost as a result of the substantial increase of production volume during the period.

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Nickel batteries

The Group has acquired 70% equity interest in Shenzhen Li Ke Xing Battery Co. Ltd. which is principally engaged in the manufacturing of small-sized rechargeable Nickel batteries in August 2005. 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 at 31 st December 2006, the Group recorded a turnover of RMB 190,100,000 for Nickel battery business.

Car batteries

Due to the strong demand of SLA batteries and the low profit margin of car batteries, the Group continued to adopt 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.

Electric automation

During the year, the Group's electric automation business achieved a turnover of RMB18,682,000 (2005: RMB29,555,000) 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.

Prospects

SLA

SLA battery will remain the core product of the Group future development. The Group will maintain its growth momentum and its leading position among the peers in China.

The operating results of the Company will continue to grow in line with the persistent rise in demand of SLA battery in the future.

1. Under normal circumstances, the demand of SLA products from Chinese telecommunications operators, namely China Mobile, China Telecom, China Netcome and China Unicom, will increase by approximately 15 % annually.

In consideration of the possible issuance of "3G" license by the Chinese government, there will see an apparent increase in the demand of SLA products from the telecommunications operators.

2. Telecommunications devices manufacturers such as Huawei, ZTE and Emerson maintained a strong momentum in their export business and their demand of SLA has been increased rapidly. Under such circumstances, the Company was capable of selling its SLA products in the global market indirectly through the purchases and sales orders made by the telecommunications devices manufacturers. During 2006, the volume of indirect exported products has increased by 50 % as compared to 2005. It is expected that a growth of more than 30% in the next few years will be maintained.
3. The volume of indirect exported products was maintained at approximately 5% and will increase substantially in the next few years as the Company was duly appointed as the supplier of Vodafone in 2006. It is expected that the demand of Vodafone will increase rapidly in the future.

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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. The piling and ground infrastructure is currently underway, and upon commencement of operation of the new SLA battery production base in 2007, the overall production capacity of the Group will be increased by 1,200,000 kVAH. It is anticipated that the SLA batteries produced in the new production base will mostly be sold to indirect export 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 2007.

Mineral products

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 two Russian lead and zinc resources in 2006. 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. Such mineral mines have abundant mineral resources with approximately 300,000 tonnes of metal deposits. In addition, the Group also has a permit to mine for lead, zinc, copper and other metal deposits in certain mineral mines located in Altai Krai, Siberia of Russia. The mineral resources of such mineral resources are rich with approximately 545,000 tonnes of metal deposits. The Group expects that approximately 40,000 to 60,000 tonnes of metal can be mined each year after such mineral mines commence production 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.

Lithium-ion battery

There was a growth of 30% of lithium-ion battery volume in 2006 as compared to 2005. This trend is expected to be sustained in the following years and the major reasons are as follow:

1. The Company has a stable customer base for its lithium-ion battery products as such products are mainly delivered to the primary handset product market and supplied to domestic headset manufacturers as auxiliary products. Meanwhile, the Company is extending its customer base to maintain moderate growth.
2. The Company will extend its efforts in the development of lithium polymer battery products. Such products are mainly applied to mobile digital electronic products such as bluetooth-enabled headsets, MP3 and satellite positioning system. Its lithium-ion battery products are expected to generate notable revenue in 2007.
3. The Company will develop lithium-ion battery for bikes. Lithium-ion battery enjoys the edge of replacing the existing lead-acid battery for fueling electric bicycles. The growth in demand of such products will also generate considerable revenue for the Company in the coming years.

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Internet games

The Company owns 33% shares of Beijing Guangyu Huaxia Technology Corporation Limited ("Guangyu Huaxia"), which is a professional internet games developer and operator. During 2005 and 2006, Guangyu Huaxia Corporation Limited recorded a substantial loss as a result of the operation of 「希望」 internet game, which is a product of an Korean company. Guangyu Huaxia commenced operation of domestic internet game「問道」in April 2006 and has generated successful results up to April 2007. As at April this year, the game ranked third among major locally-developed internet games in terms of the number of online customers and shall continue the upward trend. The internet games operation is expected to generate substantial revenue in the following three years, bringing greater contribution to the operating results of the Company and becoming one of the most important businesses of the Company.

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, 23rd April, 2007