

Directors' Report

The directors (the "Directors") of Coslight Technology International Group Limited (the "Company") are pleased to present their annual report and the audited consolidated financial statements for the year ended 31st December, 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company.

The principal activities of the Company's principal subsidiaries as at 31st December, 2006 are set out in note 42 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2006 are set out in the consolidated income statement on page 27.

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 25th May, 2007.

PROPERTY, PLANT AND EQUIPMENT

Certain of the Group's property, plant and equipment were revalued at 31st December, 2006. The surplus arising on revaluation was approximately RMB24,495,000 (2005: RMB5,403,000), (net of approximately RMB168,000 credit (2005: RMB575,000) shared by the minority interests) was credited to the revaluation reserve and approximately RMB147,000 (2005: RMB215,000) was credited to the consolidated income statement for the years ended 31st December, 2006 and 2005.

Details of movements in property, plant and equipment of the Group during the year are set out in note 15 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 31 to the consolidated financial statements.

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

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In accordance with bye-law 87(1) of the bye-laws of the Company, Mr. Li Ke Xue, Mr. Zhang Li Ming and Mr. Liu Xing Quan 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 terminated 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, 2006 are set out in note 9 to the consolidated financial statements.

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 Rules governing the listing of Securities of Stock Exchange of Hong Kong Limited (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.

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DISCLOSURE OF INTERESTS

(1) Directors

As at 31st December, 2006, 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	1,722,793	0.40%
LI Ke Xue	Personal	Beneficial owner	880,793	0.20%
XING Kai	Personal	Beneficial owner	826,793	0.19%

Save as disclosed above, as at 31st December, 2006, 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.

(2) Substantial Shareholders and Others

As at 31st December, 2006, there were no other 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: NIL

Note: On 23rd January, 2007, the Company was informed by Nordea I SICAV – Far Eastern Value Fund ("Nordea") that they have disposed of the shares of the Company below the 5% on 25th February, 2005. After 23rd January, 2007, Nordea have reported their such disposal to HKEx & disclosed accordingly. Before 23rd January 2007, the Company has no knowledge of Nordea's disposal.

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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 share options scheme of the Company 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 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 be 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.

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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, 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, 2006 comprised contributed surplus and retained profits in aggregate amounting to RMB102,501,000 (2005: RMB188,897,000).

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the five largest customers of the Group accounted for less than 26% of the Group's turnover for the year.

Purchases from the five largest suppliers accounted for less than 20% 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.

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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

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, 2006, the total value of the Group's sale of finished goods to HBS amounted to RMB4,530,000 (2005: RMB709,000).

The Group had sold some finished goods to 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 2006, the total value of the Group's sale of finished goods to HGEWC amounted to RMB210,000 (2005: NIL).

ii. Purchase of raw materials

The Group had purchased some raw materials amounted to RMB8,653,000 (2005: RMB1,982,000) in relation to SLA batteries from HGEWC.

iii. Rental expenses paid

For the year ended 31st December, 2006, the Group had paid rental expenses of RMB270,000 (2005: RMB200,000) to GYSB.

iv. Guarantee of bank borrowings

RMB242,000,000 (2005: RMB82,301,000) of the Group's bank borrowings were guaranteed by Mr. Song Dian Quan, a director of the Company.

In addition, at 31st December, 2006, RMB12,500,000 (2005: RMB12,163,000) of the Group's bank borrowing was guaranteed by Mr. Gao Xue Feng, who is a minority shareholder of a subsidiary. Such bank borrowing was also secured by a property owned by Mr. Guo Xue Feng with carrying value of approximately RMB330,000 as at 31st December, 2005 (2006: NIL)

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

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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 pages 18 to 24 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 advises to the Board. The annual results of the Group for the year ended 31st December, 2006 have been reviewed by the Audit Committee. As verified by the Company, none of the members had served as a partner or a former partner to the existing auditors.

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, 2006.

AUDITOR

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

On behalf of the Board
SONG Dian Quan
Chairman

Harbin, the PRC, 23rd April, 2007