COSLIGHT TECHNOLOGY INTERNATIONAL GROUP LIMITED

光宇國際集團科技有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code : 1043)

2005 FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31ST DECEMBER, 2005

The board of directors (the "Board") of Coslight Technology International Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereafter collectively referred to as the "Group") for the year ended 31st December, 2005, together with the comparative figures for the year ended 31st December, 2004 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31st December, 2005

	Notes	2005 RMB'000	2004 RMB'000 (Restated)
Continuing operations			
Turnover	2	**1,307,449**	1,125,046
Cost of sales		**(882,461)**	(743,311)
Gross profit		**424,988**	381,735
Other income		**22,037**	12,629
Distribution costs		**(148,334)**	(149,133)
Administrative expenses		**(131,618)**	(67,465)
Share of result of an associate		**(3,906)**	–
Gain on disposal of a subsidiary		–	778
Gain on disposal of an associate		–	25
Finance costs	3	**(38,576)**	(34,488)
Profit before taxation		**124,591**	144,081
Income tax expense	4	**(8,642)**	(10,990)
Profit for the year from continuing operations		**115,949**	133,091
Discontinued operation	5		
Profit (loss) for the year from discontinued operation		**147**	(6,933)
Profit for the year		**116,096**	126,158
Attributable to:			
Equity holders of the Company		**110,927**	122,024
Minority interests		**5,169**	4,134
		116,096	126,158
Dividends declared	6	**22,884**	32,165
Proposed final dividend of HK$0.05 (2004: HK$0.04) per share		**22,520**	18,380

	Notes		
Earnings per share	*7*		
From continuing and discontinued operations:			
– Basic		**25.61 cents**	28.18 cents
– Diluted		**N/A**	N/A
From continuing operations:			
– Basic		**25.58 cents**	29.78 cents
– Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET
As at 31st December, 2005

	Notes	**2005** *RMB'000*	2004 *RMB'000* (Restated)
Non-current assets			
Property, plant and equipment		**506,383**	503,435
Intangible assets		**17,605**	45,358
Goodwill		**4,193**	4,193
Negative goodwill		**–**	(16,502)
Prepaid lease payments		**34,225**	29,687
Interest in an associate		**–**	–
Deferred taxation assets		**2,371**	499
		564,777	566,670
Current assets			
Loans receivable		**–**	8,489
Inventories	*8*	**267,701**	221,290
Trade and other receivables	*9*	**1,198,649**	976,888
Prepaid lease payments		**917**	796
Amounts due from directors		**825**	932
Amounts due from related companies		**23,610**	15,308
Amount due from an associate		**40,744**	–
Investment held for trading		**350**	–
Other investment		**–**	378
Pledged bank deposits		**61,333**	37,258
Bank balances and cash		**197,299**	249,173
		1,791,428	1,510,512
Current liabilities			
Trade and other payables	*10*	**624,272**	466,338
Amounts due to related companies		**18,618**	11,202
Amount due to an associate		**1,586**	–
Taxation payable		**9,604**	7,316
Other borrowings		**8,740**	279
Bank borrowings – due within one year		**578,537**	558,808
		1,241,357	1,043,943
Net current assets		**550,071**	466,569
		1,114,848	1,033,239
Capital and reserves			
Share capital		**46,308**	46,308
Reserves		**971,454**	862,305
Equity attributable to equity holders of the Company		**1,017,762**	908,613
Minority interests		**94,007**	70,810
Total equity		**1,111,769**	979,423

Non-current liabilities		
Bank borrowings – due after one year	–	50,197
Deferred taxation liabilities	**3,079**	3,619
	3,079	53,816
	1,114,848	1,033,239

Notes:

1. **Changes in Accounting Policies**

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1st January, 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and/or prior accounting years are prepared and presented:

A. Business Combinations

In the current year, the Group has applied HKFRS 3 "Business combinations" which is effective for business combinations for which the agreement date is on or after 1st January, 2005. The principal effects of the application of HKFRS 3 to the Group are summarised below:

Goodwill

In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1st January, 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1st January, 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated.

Excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost (previously known as "negative goodwill")

In accordance with HKFRS 3, any excess of the Group's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition ("discount on acquisition") is recognised immediately in profit or loss in the period in which the acquisition takes place. In previous years, negative goodwill arising on acquisitions was presented as a deduction from assets and released to income based on an analysis of the circumstances from which the balance resulted. In accordance with the relevant transitional provisions in HKFRS 3, the Group derecognised all negative goodwill of RMB16,502,000 at 1st January, 2005, which was previously presented as a deduction from assets, with a corresponding increase to accumulated profits at 1st January, 2005.

B. Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the revaluation model. In the current year, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively.

C. Financial instruments

HKAS 32 "Financial instruments: Disclosure and presentation" requires retrospective application whereas HKAS 39 "Financial instruments: Recognition and measurement", which is effective for annual periods beginning on or after 1st January, 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Debt and equity securities previously accounted for under the benchmark treatment of SSAP 24

By 31st December, 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1st January, 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition. On 1st January, 2005, the Group classified and measured its debts and equity securities in accordance with the transitional provision of HKAS39. Other investment of RMB378,000 was reclassified as investment held for trading at 1st January, 2005. This change in accounting policy has had no material effect on results for the current year.

Financial assets and financial liabilities other than debt and equity securities

From 1st January, 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. This change in accounting policy has had no material effect on results for the current year.

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	Effect of adopting	2005 *RMB'000*	2004 *RMB'000*
Decrease in amortisation of goodwill	HKFRS 3	**700**	–
Decrease in release of negative goodwill	HKFRS 3	**(2,080)**	–
Discount on acquisition of a subsidiary released to income	HKFRS 3	**5,061**	–
Increase in profit for the year		**3,681**	–

Analysis of increase in profit for the year by line items presented according to their function:

	2005 *RMB'000*	2004 *RMB'000*
Decrease in administrative expenses	**700**	–
Increase in other income	**2,981**	–
Increase in profit for the year	**3,681**	–

The cumulative effects of the application of the new HKFRSs as at 31st December, 2004 and 1st January, 2005 are summarised below:

	Effect of adopting	As at 31.12.2004 (originally stated) RMB'000	Adjustments RMB'000	As at 31.12.2004 (restated) RMB'000	Adjustments RMB'000	As at 1.1.2005 (restated) RMB'000
Balance sheet items						
Property, plant and equipment	HKAS 17	595,928	(92,493)	503,435	–	503,435
Prepaid lease payments	HKAS 17	–	30,483	30,483	–	30,483
Deferred taxation liabilities	HKAS 17	(12,921)	9,302	(3,619)	–	(3,619)
Negative goodwill	HKFRS 3	(16,502)	–	(16,502)	16,502	–
Investment held for trading	HKAS 39	–	–	–	378	378
Other investment	HKAS 39	378	–	378	(378)	–
Net effects on assets and liabilities		566,883	(52,708)	514,175	16,502	530,677
Accumulated profits	HKFRS 3	(418,548)	–	(418,548)	(16,502)	(435,050)
Revaluation reserve	HKAS 17	(81,368)	52,708	(28,660)	–	(28,660)
Net effects on equity		(499,916)	52,708	(447,208)	(16,502)	(463,710)

The financial effects of the application of the new HKFRSs to the Group's equity on 1st January, 2004 are summarised below:

	As originally stated *RMB'000*	Adjustments *RMB'000*	As restated *RMB'000*
Revaluation reserve	(66,220)	46,106	(20,114)

2. Turnover and segment information

Business segments

For management purposes, the Group is currently organised into four major operating divisions – sealed lead acid batteries and related accessories, lithium ion batteries, nickel batteries and electricity control devices. The Group was also involved in the sales and distribution of online game products. That operation was discontinued in June 2005.

Segment information about these businesses is presented below.

2005

	Continuing operations							Discontinued operation	
	Sealed lead acid batteries and related accessories *RMB'000*	Lithium ion batteries *RMB'000*	Nickel batteries *RMB'000*	Electricity control devices *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*	Online games *RMB'000*	Consolidated *RMB'000*
TURNOVER									
External sales	893,063	250,534	80,538	29,555	53,759	–	1,307,449	3,518	1,310,967
Inter-segment sales	1,409	799	134	–	25,788	(28,130)	–	–	–
Total turnover	894,472	251,333	80,672	29,555	79,547	(28,130)	1,307,449	3,518	1,310,967
RESULT									
Segment result	153,324	18,223	7,306	3,109	393	–	182,355	(21,940)	160,415
Unallocated corporate income							335	–	335
Unallocated corporate expenses							(15,617)	–	(15,617)
Share of result of an associate							(3,906)	–	(3,906)
Finance costs							(38,576)	–	(38,576)
Profit before taxation							124,591	(21,940)	102,651
Income tax expense							(8,642)	–	(8,642)
Gain on deemed disposal of a subsidiary							–	22,087	22,087
Profit for the year							115,949	147	116,096

2004

	Continuing operations						Discontinued operation	
	Sealed lead acid batteries and related accessories *RMB'000*	Lithium ion batteries *RMB'000*	Electricity control devices *RMB'000*	Others *RMB'000*	Elimination *RMB'000*	Total *RMB'000*	Online games *RMB'000*	Consolidated *RMB'000*
TURNOVER								
External sales	698,172	309,364	29,843	87,667	–	1,125,046	310	1,125,356
Inter-segment sales	42,086	–	2,898	1,480	(46,464)	–	–	–
Total turnover	740,258	309,364	32,741	89,147	(46,464)	1,125,046	310	1,125,356
RESULT								
Segment result	143,454	30,341	2,803	6,130	–	182,728	(6,933)	175,795
Unallocated corporate income						3,897	–	3,897
Unallocated corporate expenses						(8,859)	–	(8,859)
Gain on disposal of a subsidiary	–	–	–	778	–	778	–	778
Gain on disposal of an associate	–	–	–	25	–	25	–	25
Finance costs						(34,488)	–	(34,488)
Profit before taxation						144,081	(6,933)	137,148
Income tax expense						(10,990)	–	(10,990)
Profit for the year						133,091	(6,933)	126,158

Geographical segments

The Group is principally engaged in the sale of sealed lead acid batteries and related accessories, lithium ion batteries, nickel batteries and electricity control devices, and substantially all of its activities are based in the People's Republic of China (the "PRC"). Accordingly, no geographical analysis of financial information is provided.

3. **Finance costs**

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Interest payable on:						
Bank borrowings wholly repayable within five years	**38,416**	34,482	**–**	–	**38,416**	34,482
Other borrowings wholly repayable within five years	**160**	6	**–**	–	**160**	6
	38,576	34,488	**–**	–	**38,576**	34,488

4. **Income tax expense**

	Continuing operations		Discontinued operation		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
The charge comprises:						
PRC enterprise income tax	**(11,667)**	(10,985)	**–**	–	**(11,667)**	(10,985)
Deferred taxation credit (charge)	**3,025**	(5)	**–**	–	**3,025**	(5)
	(8,642)	(10,990)	**–**	–	**(8,642)**	(10,990)

No provision for Hong Kong Profits Tax has been made in the financial statements as the Group's income neither arises in, nor is derived from, Hong Kong.

Pursuant to the relevant laws and regulations in the PRC, certain of the Company's PRC subsidiaries are entitled to exemption from PRC enterprise income tax for the first two years commencing from their first profit-making year of operation and, thereafter, these PRC subsidiaries will be entitled to a 50% relief from PRC enterprise income tax for the following three years ("Tax Holidays").

In accordance with the regulations of the PRC, the major subsidiaries of the Company are qualified as production-oriented entities and they are entitled to PRC enterprise income tax rate of 15%.

Seven (2004: four) of the major operating subsidiaries of the Company are subject to enterprise income tax in the PRC in the current year. These subsidiaries have been established as wholly foreign-owned enterprises under the laws of the PRC and have obtained the approval from the PRC Tax Bureau for the Tax Holidays.

5. **Discontinued operation**

During the year, the Group entered into an agreement under which the Company's 35.57% equity interest in a subsidiary, 北京光宇華夏科技有限責任公司Beijing Guangyu Huaxia Technology Corporation Limited, was deemed to be disposed by way of capital injection by the Group amounting to RMB18,800,000 and an independent third party amounting to RMB27,608,000. As the capital injected by the independent third party was more than the Group's capital contribution, the Group's interest in this subsidiary was then decreased from 77% to 41.43% and this subsidiary became an associate of the Group. The subsidiary disposed of was engaged in the business of sales and distribution of online games.

6. **Dividends**

	2005	2004
	RMB'000	*RMB'000*
Dividends declared to equity holders of the Company:		
2003 final dividend of HK$0.05 (shown as RMB0.05305)	**–**	22,975
2004 interim dividend of HK$0.02 (shown as RMB0.02122)	**–**	9,190
2004 final dividend of HK$0.04 (shown as RMB0.04244)	**18,380**	–
2005 interim dividend of HK$0.01 (shown as RMB0.0104)	**4,504**	–
Total dividends declared during the year	**22,884**	32,165

The directors have determined that a final dividend of HK$0.05 (shown as RMB0.05200) (2004: HK$0.04 (shown as RMB0.04244)) per share amounting to approximately RMB22,520,000 (2004: RMB18,380,000) should be paid to the shareholders of the Company whose names appear in the register of members on 26th May, 2006.

7. **Earnings per share**

For continuing and discontinued operations

The calculation of the basic and diluted earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2005	2004
	RMB'000	*RMB'000*
Earnings:		
Profit for the year and earnings for the purposes of basic earnings per share	**110,927**	122,024
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**433,080**	433,080

Diluted earnings per share has not been presented for the years ended 31st December, 2005 and 2004 because there were no potential ordinary shares in issue.

From continuing operations

The calculation of the basic earnings per share from continuing operations attributable to the ordinary equity holders of the Company is based on the following data:

Earnings figures are calculated as follows:

	2005	2004
	RMB'000	*RMB'000*
Profit for the year attributable to equity holders of the Company	**110,927**	122,024
Less: (Profit) loss for the year from discontinued operations	**(147)**	6,933
Earnings for the purposes of basic earnings per share from continuing operations	**110,780**	128,957

The denominators used are the same as those detailed above for basic earnings per share.

From discontinued operation

Basic earnings per share for the discontinued operation is RMB0.00034 (2004: basic losses per share of RMB0.01601) per share based on the profit for the year from the discontinued operation of RMB147,000 (2004: loss of RMB6,933,000) and the denominators detailed above for basic earnings per share.

8. Inventories

	2005	2004
	RMB'000	*RMB'000*
Raw materials	**95,182**	76,273
Work in progress	**90,621**	54,158
Finished goods	**81,898**	90,859
	267,701	221,290

9. Trade and other receivables

The credit terms given to the customers vary from 3 months to 9 months from the final inspection acceptance and are generally based on the financial strength of individual customers. The following is an aged analysis of trade receivables at the balance sheet date:

	2005	2004
	RMB'000	*RMB'000*
Within 90 days	**504,468**	415,614
More than 90 days, but not exceeding 180 days	**354,725**	213,203
More than 180 days, but not exceeding 270 days	**144,985**	140,833
More than 270 days, but not exceeding 360 days	**46,682**	51,036
More than 360 days, but not exceeding 540 days	**48,027**	65,838
More than 540 days, but not exceeding 720 days	**35,594**	24,139
More than 720 days	**25,611**	11,088
Less: Accumulated impairment	**(38,681)**	(25,313)
Trade receivables	**1,121,411**	896,438
Other receivables	**97,468**	80,450
Less: Accumulated impairment	**(20,230)**	–
	77,238	80,450
	1,198,649	976,888

The fair value of the Group's trade and other receivables at 31st December, 2005 approximates to the corresponding carrying amount.

10. Trade and other payables

The following is an aged analysis of trade payables at the balance sheet date:

	2005	2004
	RMB'000	*RMB'000*
Within 30 days	**132,569**	111,940
More than 30 days, but not exceeding 60 days	**31,696**	32,015
More than 60 days, but not exceeding 90 days	**38,519**	5,344
More than 90 days, but not exceeding 180 days	**160,298**	24,690
Over 180 days	**28,128**	43,060
Trade payables	**391,210**	217,049
Other payables	**233,062**	249,289
	624,272	466,338

The fair value of the Group's trade and other payables at 31st December, 2005 approximates to the corresponding carrying amount.

DIVIDENDS

The Company has paid an interim dividend of HK$0.01 (2004: HK$0.02) per share on 30th November, 2005. The Board has proposed the distribution of final dividend of HK$0.05 per share for the year ended 31st December, 2005 (2004: HK$0.04) 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. The final dividend is expected to be paid on or before 31st July, 2006.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Tuesday, 23rd May, 2006 to Friday, 26th May, 2006 (both dates inclusive) during which no transfer of shares can be registered. All transfer of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Hong Kong branch share registrar of the Company, Secretaries Limited, whose office is at 26/F Tesbury Centre, 28 Queen's Road East, Hong Kong for registration no later than 4:00 p.m. on Monday, 22nd May, 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

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).

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.

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: RMB 96,600,000).

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%.

FINANCIAL REVIEW

Assets and liabilities

As at 31st December, 2005, the Group has total assets of RMB2,356,205,000 (2004: RMB2,077,182,000) which were financed by current liabilities of RMB1,241,357,000 (2004: RMB1,043,943,000), non-current liabilities of RMB3,079,000 (2004: RMB53,816,000), shareholders' equity of RMB1,017,762,000 (2004: RMB908,613,000) and minority interests of RMB94,007,000 (2004: RMB70,810,000).

Liquidity, financial resources and capital structure

During the year, the Group adopted prudent treasury policies in managing cash resources and bank borrowings. As at 31st December, 2005, the Group has bank and cash balances amounted to RMB197,299,000 (2004: RMB249,173,000). The total bank and other borrowings of the Group as at 31st December, 2005 were approximately RMB587,277,000 (2004: RMB609,284,000), amongst which all will be due to repay within 12 months (2004: RMB559,087,000). These borrowings carry interest ranging from 2.34% to 7.91% (2004:

from 1.69% to 7.91%) per annum. As at 31st December, 2005, approximately 72% of the Group's bank and other borrowings were denominated in Renminbi and 28% were denominated in Hong Kong dollars. All bank and other borrowings were used to finance the Group's capital expenditures and working capital requirements.

According to the Group's current level of cash balances, working capital resources and banking facilities, the Board is confident that the Group has sufficient resources to meet its future business expansion and repay bank borrowings on schedule.

Gearing and liquidity ratio

The Group's gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0.57 (2004: 0.67). The current ratio of the Group, represented by a ratio between current assets over current liabilities, was 1.44 (2004: 1.45), reflecting the abundance of financial resources.

Charges on group assets

As at 31st December, 2005, certain property, plant and equipment of the Group with carrying value of RMB166,173,000 (2004: RMB228,626,000) were pledged to secured bank borrowings of approximately RMB265,314,000 (2004: RMB214,550,000).

Foreign currency risk

The Group did not have any significant exposure to foreign currency risk as most of the Group's operations are in the PRC and transactions are denominated in Renminbi.

Acquisition of a subsidiary

In August 2005, the Group has acquired 70% equity interest in SZ Li Ke Xing at a consideration of RMB17.56 million. SZ Li Ke Xing is principally engaged in the business of manufacturing of small-sized rechargeable Nickel batteries. The acquisition will further enhance the revenue base and widen the product range of the Group whilst better enable the Group to gain access to overseas markets as 70% of the products of SZ Li Ke Xing are for export.

Deemed disposal of a subsidiary

During the year, the Group has disposed 35.57% equity interest in a subsidiary which was engaged in the business of sales and distribution of online games, namely Beijing Guangyu Huaxia Technology Corporation Limited, by way of capital injection by the Group and an independent third party.

Capital Commitments

	2005 ***RMB'000***	2004 *RMB'000*
Capital expenditure authorized but not contracted for in respect of acquisition of property, plant and equipment	**70,754**	70,754
Capital expenditure contracted but not provided in the financial statements in respect of acquisition of property, plant and equipment	**3,652**	10,589

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.

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.

OTHER INFORMATION

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2005, the Group has employed 8,611 (2004: 7,440) staff in the PRC. The Group has adopted continuous human resources development and training programs to maintain high level of product quality and customer services. Remuneration package is generally structured by reference to market conditions and individual performance.

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, the Company has complied throughout the year ended 31st December, 2005 with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the deviation from Code provision A.4.1 in respect of the service term of directors.

Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. None of the existing independent non-executive directors of the Company is appointed for specific term and this constitutes a deviation from Code provision A.4.1. In accordance with the bye-laws of the Company, at each annual general meeting one-third of the directors for the time being (or, if their number is not a multiply of three, the number nearest to but not less than one-third) shall retire from office by rotation such that each director (including those appointed for a specific term) will be subject to retirement by rotation at least every three years at the annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure the Company's corporate governance practices are similar to those in the Code.

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 the directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

AUDIT COMMITTEE

The Audit Committee of the Company comprises three independent non-executive directors, namely Mr. Li Zeng Lin, Mr. 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.

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 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 Mr. Jiang Zhao Hua and Mr. Li Zeng Lin and one executive director, namely Mr. Zhang Li Ming. Mr. 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 of Corporate Governance Practice 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.

PRELIMINARY ANNOUNCEMENT OF THE RESULTS AGREED BY AUDITORS

The figures in respect of the Group's consolidated income statement, consolidated balance sheet and the related notes thereto for the year ended 31st December, 2005 as set out in this announcement have been agreed by the Group's auditors, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

DISCLOSURE OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE

A detailed results announcement for the year ended 31st December, 2005 containing all the information required by paragraphs 45(1) to 45(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

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.

By Order of the Board
SONG Dian Quan
Chairman

Harbin, the PRC, 21st April, 2006

As at the date of this announcement, the Board comprises 9 directors, of which 6 are executive directors, namely Mr. Song Dian Quan, Ms. Luo Ming Hua, Mr. Li Ke Xue, Mr. Xing Kai, Mr. Liu Xing Quan and Mr. Zhang Li Ming and 3 are independent non-executive directors, namely Mr. Li Zeng Lin, Mr. Jiang Zhao Hua and Mr. Xiao Jian Min.

* *For identification purposes only*