

The Group has achieved an outstanding performance in year 2001. Facing keen market competition, the Group has continued its research and development with technical institutes, to improve products quality and enhance product competitiveness. At the same time, the Group has adopted proactive sales and marketing strategy to explore new market, consequently, both turnover and net profit of SLA showed a significant increase. The Lithium ion products and Electric Automation devices had launched to the market during the year. We expected the demand of the new products would grow significantly in the coming years.

FINANCIAL RESULTS

For the year ended 31st December, 2001, turnover of the Group was approximately RMB474,203,000 (2000:RMB325,614,000) an increase of 46% compared with same period last year. Net profit after tax amounted to RMB108,121,000 (2000:RMB80,708,000) an increase of 34% compared with the previous year. Basic earning per share was RMB0.2978 (2000: RMB0.2223) an increase of 34% from previous year.

BUSINESS REVIEW AND PROSPECT

The SLA products manufactured by the Group is mainly used for standby power for telephone and telecommunications exchanges stations and power control stations. Our major customers included China Telecom, China Mobile and China Unicom, etc. The intelligent type SLA batteries produced by the Group, which comply with world class standard, win admiralty from our major customers and ensure the organic growth of the Group's turnover.

The Group adopted vertical integration method of production by producing accessories like plastic shells, sulfuric acid and fiber, etc. on its own to lower production cost and improve price competitiveness.

The Group has adopted proactive sales and marketing strategy to broaden customers base. We had established sales networks all over PRC provinces, municipalities and autonomous regions. We also aimed at international market, sales teams have been sent to Russia, South East Asia, Europe and USA to conduct business activities. We have concluded sales of approximately US\$1 million in Russia, and expect to achieve US\$2 million in 2002.

The SLA production capacity and actual production was about 500,000 KVAH. We plan to double production capacity to 1 million KVAH. By the time of this report, civil structure had been completed and machinery procurement in progress, the installation and commissioning of the new production line will be started second half of 2002.

We expect the demand of the SLA batteries will keep on growing in the coming years due to:

- i. The Ministry of Telecommunication had forecasted the industry growth would not be less than 20% in the next 5 years.

BUSINESS REVIEW AND PROSPECT (Continued)

- ii. The split of the China Telecom to China Telecom (Southern) and China Netcom (Northern) will boost the demand of telecom equipment and SLA, the demand for our products will be further enhanced if additional mobile license granted.
- iii. During the year, the Group had started to develop small to medium capacity SLA batteries, the market is very tremendous and yet to be explored.
- iv. The overseas sale will grow significantly in the coming years.

The Group had completed the production line for lithium ion batteries during the year. The equipment was imported from Japan and the scale ranked third in PRC. The Group is aggressively soliciting new customers such as Motorola, Nokia, Siemens, Bird, TCL and Philips, etc. In the meantime, we have concluded several contracts and expected that not less than 9 companies will sign contracts with us by end of 2002. We expected to sell over 3 million pieces of cell in 2002 and turnover will be around RMB50 million. By 2004, the turnover of the lithium ion product will be about 30% of total sales.

Coslight Electric Automatic Company Limited (HCEA) makes electric automation products which include power generator integrated automation systems, power transformer integrated automation system and power network integrated automation system with about 50 different types. They are high tech products and manufactured by modular basis, the quality of the products have reached leading standard in PRC. The turnover in 2001 was RMB5 million, we expected the turnover will reach RMB50 million in 2003.

RESEARCH AND DEVELOPMENT

The Group was permitted to establish the Post Doctor Workshop by the Ministry of Education in December 2001. We also set up Coslight Research and Development Institution which focus on three main areas: the electro-chemistry R&D center, electric and electronic product R&D center and electric automation R&D center. The Institution has about 60 people and each of the research centers has about 20 staff. At 2001, the R&D expenses amounted to RMB2 million.

The major R&D projects of the Group cover the following areas:

- 1. Continue R&D on advance lithium ion batteries material to keep the Group's products in line with Japanese counterparts.
- 2. R&D on lithium ion automobile. It is the national major R&D 863 project, the Group R&D partner is the First Automobile Group in China.

RESEARCH AND DEVELOPMENT (Continued)

3. Fuel cell batteries. Fuel cell batteries are environmental friendly batteries products. Major car manufacturers such as Toyota, General Motor and Daimler Chrysler, etc. had actively participated in the development of this product. It is expected that the product will be launched to the market by 2004 and occupied 10% of the market by 2010. We have been in co-operation with Harbin Industrial University to develop the product and a prototype had been developed. We will keep on R&D on the product in 2002 and prepare for the commercialization of the product in the future.
4. R&D of electric automation products. It will include electric automation devices, UPS system, direct current UPS system, etc. The Group has planned to develop into the electric/electronic products in the future and make the products another major source of incomes in the coming years.

APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to extend our sincere gratitude to all the shareholders for their continued 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

Hong Kong, 9th April, 2002