

Chairman's Statement

The Group has experienced a year full of challenge and opportunities in 2002. Due to the restructuring of the China Telecom Group, our major income from sealed lead acid (the "SLA") products recorded a decline in turnover since the Company's shares were listed in Hong Kong. With the completion of the China Telecom and China Netcom reorganization, the demand for the SLA products will increase due to increase capital spending in the telecommunication networks. On the other hand, the lithium ion business grew explosively during the year. Due to strong demand, the Group has been increasing its capital spending to increase production capacity of lithium ion batteries throughout the year. The Group had formed a joint venture company, Shenyang Dong Bei Storage Batteries Company Limited, to produce car batteries, SLA batteries and high performance gel batteries.

FINANCIAL RESULTS

For the year ended 31st December, 2002, turnover of the Group was approximately RMB520,179,000 (2001: RMB474,203,000) and represents an increase of 9.7% compared to the same period of last year. Net profit for the year amounted to RMB119,640,000 (2001: RMB108,121,000) and represent an increase of 10.7% compared to last year. Basic earning per share was RMB0.3158 (2001: RMB0.2978) and represent an increase of 6.0% compared to last year.

BUSINESS REVIEW

SLA products

The SLA products manufactured by the Group is mainly used for standby power for telephone and telecommunications exchange stations and power control stations. Our major customers included China Telecom, China Netcom, China Mobile, China Unicom and China Railcom. The Group has been signing contracts directly with these telcos through their group companies at the provincial, municipal and county level. The demand for the SLA products decrease due to the re-structuring of the China Telecom Group and therefore the industrial capital spending reached its lowest during the year. Other than the People's Republic of China (the "PRC") market, the Group has established offices in Russia, the USA and Germany to seek business opportunities in the overseas markets. The Group has been adopting vertical method of production by producing accessories like plastic cases, steel cabinets etc. on its own to reduce production cost and enhance productivity. Last year, the Group had set up a workshop to produce the separator (a fabric substance to separate the cathode and anode) in order to reduce production cost of approximately 2%.

Lithium ion batteries

Due to strong demand from local handset manufacturers and cost competitive as to foreign counterparts, the lithium ion batteries turnover increase 11 times to RMB66.5 million. We produced approximately 4 million pieces of cells to major handsets manufacturers in PRC. The Group had deployed advanced machinery and equipment from Japan and at the same time fully utilized the cheap labor resources in the PRC in the manufacturing process. As a result, our products are more reliable and cost competitive to our competitors. We had been increasing our capital expenditure to expand production capacity with daily production capacity increased from 20,000 cells per day at the beginning of the year to 50,000 cells per day by end of the year. Capital expenditure incurred

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amounting to about RMB20 million. The Group is also one of the top lithium polymer batteries producers in the PRC with existing production capacity of 10,000 cells per day. The lithium polymer batteries are characterized by their small volume, slim size and high density. They are about 10% to 20% higher density compared to lithium ion batteries with the same size.

Car batteries

The Group had established a joint venture company, Shenyang Dong Bei Batteries Company Limited, with a Chinese partner in August 2002. The Group has an equity stake of 67% of the joint venture. The capital injection would be RMB40 million of which RMB20 million had been injected and the rest will be injected before August 2003. The joint venture mainly produces conventional car batteries, it captured approximately 5% of the PRC domestic market. In the meantime, approximately 35% of its products are sold to car manufacturers and the army for military use. The rest is sold in the PRC through its distributed network. In addition, it produces SLA products (similar to existing products of the Group) and gel batteries. The joint venture is the only one manufacturer in PRC who can manufacture gel batteries. The gel batteries have a better performance than the conventional batteries under certain conditions.

Electric automation

The joint venture company formed with the Heilongjiang University on electric automation progress as expected. Turnover grew 164% to RMB14.8 million. The electric automation products are sold to the power network sectors and private enterprises in the PRC.

PROSPECT

The China Telecom group and the China Netcom group are expected to increase capital spending on the telecom network after the re-organization. As of the date of this report, we see a significant growth of order as compared to the same period of last year. In the meantime, the SLA expansion program is basically completed. The old production facilities have been moved to the new factory buildings, and the new procurements will be installed according to schedule, and the 1,000,000 KVAH facilities will be completed by end of the year. The Group is in negotiation with foreign manufacturers and distributors to explore the possibility for business ventures, and actively negotiate with foreign telecom operators for direct sales of our SLA products.

Due to strong demand of our lithium ion batteries from local handset manufacturers, our existing facilities of 50,000 cells per day cannot meet customers demand. We have planned to expand our existing capacity and by May 2003, our production capacity will be increased to 80,000 cells per day. The Group bought a piece of land in the high technology and development zone in Harbin City to develop a new facility for the expected increase in the demand of lithium ion batteries. Phase I of the facilities will be completed in the first quarter of 2004. The capital requirement will be approximately RMB60 million and the daily production capacity will be 80,000 cells per day. As a result, the Group's total capacity will be 160,000 cells per day in the first quarter of 2004. The turnover of the lithium ion batteries is expected to grow significantly in 2003 and 2004.

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The conventional car batteries business will benefit from the increasing demand of new cars in the PRC market, we expect turnover will grow steadily. The new joint venture can utilize its existing distribution channel, strengthening sales to car manufacturers to maintain its market share and set for further development. The Group focuses on making use of the existing technology in producing SLA batteries to reduce the production cost of the gel batteries, consequently to explore the high end market both in the PRC and overseas. In the meantime, some local enterprises as well as international companies have expressed their interest in the gel batteries, we expect there will be a breakthrough in 2003.

RESEARCH AND DEVELOPMENT

The Group's research and development focuses on storage power batteries and electric automation projects. The Group and collaboration institutions have been conducting a series of testings and researches on various projects. The Group has employed more than 100 staff on research and development and the expenses incurred amounted to RMB3.7 million in 2002.

The major research and development projects of the Group cover the following areas:

1. Research on lithium ion batteries materials to keep up to Japanese quality;
2. Strengthening lithium polymer batteries quality and emphasis on increasing battery density to provide high quality product to the market;
3. Focus on reducing production cost of the gel batteries. Integrate the Group's existing technology on producing SLA and foreign know-how on the manufacturing process;
4. Research on lap top computer batteries. In the meantime, we have developed prototypes for testing;
5. Research on electric automation, uninterrupted power supply (the "UPS") system for computer and direct current UPS system for power plant.

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 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

Hong Kong, 15th April, 2003