

Management Discussion and Analysis

FINANCIAL RESULTS

Turnover of the Group for the year from 1st January, 2002 to 31st December, 2002 was RMB520,179,000 (2001: RMB474,203,000). Net profit for the year amounted to RMB119,640,000 (2001: RMB108,121,000), represents an increase of 10.7% when comparing to 2001.

SUMMARY OF OPERATION

Products

The key products of the Group are SLA Batteries. The Group is also engaged in the production and sales of battery-related accessories, such as switch cabinets, battery storage cabinets and racks.

During the year, the Group had been aggressively developing its lithium ion business and achieved a wonderful result. The Group can make different types of lithium ion batteries according to customers' requirement. The Group now can produce the latest lithium polymer batteries.

The Group had set up a new joint venture in Shenyang to produce the conventional car batteries to feed the PRC market. The car batteries produced are also supplied to the auto producers in China and army for military purposes. The joint venture also produces conventional SLA batteries and is the first enterprise in the PRC who can produce the advance gel batteries.

Sales Network

The Group has established sales network across 29 provinces, municipalities and autonomous regions in China. Coslight brand batteries have gained a high creditability in the PRC and have captured over 20% share in the PRC telecommunications market. The Group had established offices in Russia, the USA and Germany to explore business opportunities.

New Production Facilities

In order to upgrade the products' quality, enhance operating efficiency and reduce cost, the Group has been spending on advance equipment to improve product quality and increase productivity. During the year, the Group had completed the waste water treatment plant project and obtained grade A certificate from the Province Environmental Bureau. The new separator workshop of 3,455 square meters was fully utilized.

A workshop for manufacturing SLA batteries of 11,849 square meters has been partly used to increase production.

The Group had bought different machinery and equipment from overseas and the PRC for the production of the SLA products and the lithium ion batteries.

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PLACEMENT OF SHARES

The Company had issued additional 35 million shares at HK\$2.15 each on 1st August 2002. The net proceed was approximately HK\$73 million. As at 31st December, 2002, the use of proceed is as follows:

- Approximately RMB5.5 million for the purchase and installation of new equipment to increase production capacity of the SLA batteries.
- Approximately RMB15 million for the purchase and installation of new machinery and equipment for the production of rechargeable lithium ion batteries.
- Approximately RMB15 million for the general working capital.

TRADE RECEIVABLES

For year ended 31st December, 2002, almost all of the Group's sales were made on credit. Most of these credit sales were made to regular customers who have more than three years of well-established business relationship and payment records with the Group. The Group has maintained a tight credit control policy and had not experienced any significant bad debts. The Group's customers to which the Group normally grants a longer credit terms mainly comprise the governmental post and telecommunications bureaux at provincial, municipal and county levels with strong financial background and strong bargaining power.

	2002 RMB'000	2001 RMB'000
Trade receivables		
< 90 days	167,865	102,418
90-180 days	97,168	111,310
180-360 days	121,848	105,417
> 360 days	64,558	46,759
	<u>451,439</u>	<u>365,904</u>

The account receivables turnover day for the SLA batteries was quite long if compared to other industries. The long receivable period is common in the telecom equipment providers sector, as this sector is faced with a long infrastructure period of building the telecom service network. Our major customers are China Telecom, China Mobile, China Unicom and power companies all over PRC who have creditability and strong financial position.

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LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's operation was partly financed by bank loan and internal resources. As at 31st December, 2002, total bank and other borrowings were approximately RMB311 million, of which RMB259 million due to repay within 12 months and the rest of RMB52 million due within 3 years. All the bank and other borrowings were to finance the Group's capital expenditures and working capital requirement. The financial positions of the Group remains very strong during the year due to continuous grow in turnover and net profit. At balance sheet date, the Group's current ratio was 1.80 (2001: 1.52) and the ratio of total debts to shareholders' fund was 0.75 (2001: 0.82). Bank and cash balances amounted to RMB143 million (2001: RMB95 million).

At 31st December, 2002, certain land and building, plant and machinery with carrying value of RMB226 million were pledged to secured bank borrowings of approximately RMB236 million (2001: RMB170 million).

The Company had issued additional 35 million shares at HK\$2.15 each on 1st August 2002. The net proceed was approximately HK\$73 million, of which RMB40 million will be used for the expansion of the lithium ion batteries production facilities and approximately RMB20 million will be used to finance the expansion of the SLA batteries production facilities. The remaining proceeds will be used as the Group's working capital.

According to the Group's current level of cash balances, working capital resources and bank credit facilities, the board of Directors is confidence the Group has sufficient resources to meet future business expansion and repay bank borrowings on schedule.

HUMAN RESOURCES

As at 31st December, 2002, the Group had employed 4,135 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.