

# CHAIRMAN'S STATEMENT

The Company and its subsidiaries (the "Group") has experienced a year full of challenge in 2003. The sealed lead acid (the "SLA") batteries business recovered again during the year due to the completion of the restructuring of the China Telecom Group boosted the demand of our SLA products. In addition, the OEM business with Emersion Power Network, Inc. has been increased tremendously, which served as the growth driver to the growth of our SLA business. Due to strong demand, the Group's lithium ion batteries business continued to growth explosively, the Group has been increasing its capacity to meet strong demand. On the other hand, the surged material price resulted in higher production costs.

## FINANCIAL RESULTS

For the year ended 31st December, 2003, turnover of the Group was approximately RMB974,097,000 (2002: RMB520,179,000) and represents an increase of 87% compared to same period of last year. Net profit for the year amounted to RMB150,454,000 (2002: RMB119,477,000), and represents an increase of 26% compared to last year. Basic earning per share was RMB0.3688 (2002: RMB0.3153) and represents an increase of 17% compared to last year.

## BUSINESS REVIEW AND PROSPECT

### *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 Chinese telephone companies and various Chinese electricity companies. In addition, we also won contracts from Huawei Technologies Company Limited, ZTE Corporation and Emerson Power Network, Inc. The expansion programme of SLA has been completed and the production capacity exceeded 1 million KVAH. During the year, turnover increased by 54% as a result of aggressive marketing strategy. The Group has been adopting vertical method of production to reduce production

cost and improve productivity and efficiency, however, the raw material price surged in 2003 which resulted in overall decline in production margin.

### *Lithium ion batteries*

The lithium ion batteries business has achieved an encouraging result in 2003 with turnover increase of approximately 2.8 times to RMB251 million. We produced approximately 20 million pieces of cells to major handsets manufacturers in the PRC. The Group had deployed advanced machinery and equipment from Japan and at the same time fully utilized the cheap labour resources in the PRC in the manufacturing process. Due to the surge in raw material cost in 2003, the gross margin of the lithium ion batteries slightly decline in the second half of the year. In the meantime, we start to produce components our own to minimise the impact of the rise in the raw material cost. We had been increasing our capital expenditure to expand production capacity with daily production capacity increasing from 50,000 cells per day at the beginning of the year to 100,000 cells per day by end of the year. The Group bought a piece of land in the high technology and development zone in Harbin City to develop a new factory for the lithium ion battery. We expected that phase I will be completed in the second quarter of 2004. We expected that by that time, the daily production capacity of the Group will increase from 100,000 cells per day to 200,000 cells per day. Capital expenditure incurred for the lithium ion batteries business in 2003 amounted to about RMB 34 million.

### *Car batteries*

The major product of Shenyang Dong Bei Batteries Company Limited, a subsidiary of the Company is conventional car battery. The product was sold to various car manufacturers in the PRC, the military and direct sales to end-users by distribution channel all over the PRC. As the level of supply of the conventional battery exceeded the level of demand, selling prices have been depressed. In addition, the surge in the raw material price in 2003

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further hit the operating margin of the product. The Group has increased selling price of car battery by about 10% in order to transfer part of impact of the rise in raw material price.

## ***Electric automation***

The Group's joint venture company formed with the Heilongjiang University on electric automation had made impressive progress as expected. Turnover grew 99% to RMB29 million.

## **PROSPECT**

In view of the rising raw material price in our production cost, we will take proactive steps to further reduce production cost and at the same time to negotiate with individual customers to review contracts terms. We expected to transfer part of the impact of the raw material cost increase to our customers and maintain our gross margin at a reasonable level.

The civil structure of the Group's new lithium ion battery production plant in the high technology and development zone in Harbin City has been in place. We plan to move to the new factory in the second quarter of 2004. By that time, we expected the daily production capacity of the Group will increase from 100,000 cells per day to 200,000 cells per day. The lithium ion battery business was also adversely affected by the rise in the raw material cost, the Group has been focusing on the alternatives to reduce production cost, such as production of lithium cobalt oxide our own, trial production of battery separator etc. Japanese battery manufacturers have announced to increase selling price of the lithium ion cells by April 2004 to compensate for the rise in the raw material costs. The Group is happy to see the declining trend of lithium ion battery price will be reversed in 2004.

## **RESEARCH AND DEVELOPMENT**

During the year, the Group's research and development has been focusing on storage power

batteries and electric automation projects. The Group and collaboration institutions have been conducting a series of tests and researches on various projects. The Group has employed more than 100 staff on research and development during the year.

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

1. Researching on lithium ion batteries materials to keep up to Japanese quality standard;
2. Strengthening lithium polymer batteries quality and placing emphasis on increasing battery density to provide higher quality product to the market;
3. Focusing on reducing production cost of the SLA battery and lithium ion battery by self production of major component of the batteries;
4. Continuing research on lap top computer batteries; and
5. Researching 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 of the Company, 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*

Hong Kong, 15th April, 2004