

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

Turnover of the Group for the year from 1st January, 2003 to 31st December, 2003 was RMB974,097,000 (2002: RMB520,179,000). Net profit for the year amounted to RMB150,454,000 (2002: RMB119,477,000), represents an increase of 26% when comparing to 2002.

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.

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 joint venture company in Shenyang to produce the conventional car batteries to feed the PRC market. The car batteries produced are also supplied to the auto makers 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.

The Group also involved in the production of electric automation system with Heilongjiang University, major products include electric circuit system protection, capacitor protection and transformer system protection.

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 25% share in the PRC telecommunications market. Dong Bei brand conventional car batteries have been selling to various car makers and distributed all over China.

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 workshop for manufacturing SLA batteries of 11,849 square meters.

The civil structure of the new lithium ion battery factory of 22,000 square meters was completed.

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 proceeds were approximately HK\$73 million. As at 31st December, 2003, the proceed had been applied according to the press announcement dated 20th July, 2002:

- Approximately RMB20 million had been used for the purchase and installation of new equipment to increase production capacity of the SLA batteries.
- Approximately RMB40 million had been used for the purchase and installation of new machinery and equipment for the production of rechargeable lithium ion batteries.
- Approximately RMB15 million had been used for the general working capital.

The Company had issued additional 34 million shares at HK\$2.975 each on 3rd October, 2003. The net proceeds were approximately HK\$99 million. As at 31st December, 2003, the proceeds were applied as follows:

- Approximately RMB9 million has been used for the purchase and installation of new machinery and equipment for the production of rechargeable lithium ion batteries.
- Approximately RMB48 million has been used for the working capital requirement of the lithium ion batteries business.
- Approximately RMB17 million has been used for the general working capital.

TRADE RECEIVABLES

For the year ended 31st December, 2003, 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.

	2003 RMB'000	2002 RMB'000
Trade receivables		
< 90 days	333,735	167,865
90-180 days	190,715	97,168
180-360 days	113,797	121,848
> 360 days	59,323	64,558
	697,570	451,439

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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.

LIQUIDITY AND FINANCIAL RESOURCES

During the year, the Group's operation was partly financed by bank loan and internal resources. As at 31st December, 2003, total bank and other borrowings were approximately RMB437 million, of which RMB363 million will be due to repay within 12 months and the rest of RMB74 million will be due in the next 3 years. All bank and other borrowings were to finance the Group's capital expenditures and working capital requirement. The financial position remains very strong due to continuous growth in turnover and net profit. As at 31st December, 2003, the Group's current ratio was 1.72 (2002: 1.78) and the ratio of total debts to shareholders' fund was 0.95 (2002: 0.78). Bank and cash balances amounted to RMB259 million (2002: RMB143 million).

As at 31st December, 2003, certain land and building, plant and machinery with carrying value of RMB249 million were pledged to secured bank borrowings of approximately RMB231 million (2002: RMB236 million).

The Company had issued additional 34 million shares at HK\$2.975 each on 3rd October, 2003. The net proceeds were approximately HK\$99 million, of which RMB40 million has been used for the expansion of the lithium ion batteries production facilities. The remaining proceeds has been 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 is confident that the Group has sufficient resources to meet its future business expansion and repay bank borrowings on schedule.

HUMAN RESOURCES

As at 31st December, 2003, the Group had employed 6,320 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.