

## CHAIRMAN'S STATEMENT

3

2004 was a challenging year to the Company and its subsidiaries (hereafter collectively referred to as the "Group"). Facing keen market competition and implementation of macro-economic regulation and control measures by the government of the People's Republic of China (the "PRC") in 2004, the increase in turnover of the Group has been slowed down in 2004 as compared with 2003. The upsurge of raw material prices also resulted in the gross margin of the Group being declined from 38% in 2003 to 34% in 2004.

**FINANCIAL RESULTS**

For the year ended 31st December, 2004, turnover of the Group was approximately RMB1,125,356,000(2003: RMB974,097,000) and represents an increase of 16% as compared with last year. Net profit for the year was approximately RMB122,024,000(2003: RMB150,454,000), representing a decrease of 19% over last year. Basic earnings per share was RMB0.2818 (2003: RMB0.3688), representing a decrease of 24% as compared with last year.

**BUSINESS REVIEW*****Sealed Lead Acid ("SLA") products***

The SLA products manufactured by the Group are 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 and China Unicom in the telecommunication sector. In addition, we also provide SLA batteries to Emerson Power Network, Inc., Huawei Technologies Company Limited and ZTE Corporation. The Group is the largest SLA battery manufacturer in the PRC with market share over 25%. The current production capacity of SLA batteries exceeded 1 million kVAH per annum.

During the year, turnover of SLA battery business increased by 8% to approximately RMB602 million, and accounted for 53% of the total turnover. The increase was mainly attributable to the increase of our market share in the China telecommunication sector resulted from the efforts of the sales force and the increasing orders from Emerson Power Network, Inc. and Huawei Technologies Company Limited. The increase in overseas sales also contributed part of the increase in turnover. But the gross margin declined due to the upsurge of raw material prices. The Group has been striven very hard to reduce the production cost by exercising stringent cost control and at the same time discussing with our customers to increase selling price. On the other hand, the Group has also adopted vertical method of production by producing accessories such as plastic shells, sulfuric acid and separators, etc. on its own to reduce production cost and improve price competitiveness. However, this was still unable to completely offset the extent of increase in raw material prices. The gross margin of SLA products has been decreased from 46% in 2003 to 39% in 2004.

***Lithium ion batteries***

Due to the slowdown of local handset market and delays in rollout of new products in the second half of 2004, the demand of lithium ion batteries has been dropped in 2004. As our customers are mainly domestic handset manufacturers, the drop in demand of lithium ion batteries resulted in a decrease in turnover of lithium ion battery business in the second half of 2004 as compared with the first half. During the year, the Group produced about 25.6 million cells with a turnover of approximately RMB309 million which represents an increase of 23% as compared with last year and accounted for 27% of the total turnover. Due to the surge in raw material prices in 2004, the gross margin of lithium ion batteries has been dropped from 30% in 2003 to 19% in 2004.

## CHAIRMAN'S STATEMENT

The construction of the new lithium ion battery factory located in the high technology and development zone of Harbin City has been completed and operation has been commenced in May 2004. The Group has 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 so as to improve price competitiveness. The maximum daily production capacity of the Group has been extended to 200,000 cells per day.

### ***Car batteries***

The major product of Shenyang Dongbei Batteries Company Limited, a subsidiary of the Company, is conventional car batteries. The car batteries were sold to various car manufacturers, the military and directly to end-users through distribution channels all over the PRC. During the year under review, the gross margin of car batteries business was also affected by the surge of raw material prices of lead and plastic ABS. Turnover from the production and sale of car batteries for the year amounted to approximately RMB97 million, representing a decrease of approximately 12% as compared with previous year and accounted for 9% of the total turnover.

### ***Electric Automation***

The electric automation products of the Group include power generator integrated automation systems, power transformer automation systems and power network automation systems, etc. which are mainly sold to power network sectors and industrial enterprises in the PRC for control, monitor and protection of power plants, transformer stations and electric transmission network. Turnover from electric automation for the year amounted to approximately RMB30 million, and accounted for 3% of the total turnover.

## RESEARCH AND DEVELOPMENT

During the year under review, the research and development team of the Group continued to focus on projects which covered the following areas:

1. Research on raw materials of lithium ion battery to improve quality standard;
2. Improvement of production technique of SLA battery and lithium ion battery to increase the production efficiency and quality of our products;
3. Focus on production of major components of SLA battery and lithium ion battery on our own to lower production cost and enhance price competition;
4. Continuing research on lap top computer batteries; and
5. Research on electric automation devices, uninterrupted power supply ("UPS") system for computer, direct current UPS for power plant and other peripherals to enhance products variety.

## PROSPECT

In 2005, the Group will continue to maintain its leading position in the PRC market of SLA batteries by capitalizing on the strong client relationship and high product quality. We had already established sales networks across all provinces, municipalities and autonomous regions in the PRC. The sales team will adopt proactive sales and marketing strategy to increase the market share. Apart from the additional orders obtained from our current customers such as Emerson Power Network, Inc. and Huawei Technologies Company Limited, the Group has successfully acquired orders from new customers such as American Power Conversion Corporation.

# CHAIRMAN'S STATEMENT

5

The Group is well-prepared for the launch of 3G in PRC. Given that both 2G and 3G telecommunication technologies are in parallel run, which means that additional SLA batteries will be required on top of the existing 2G network to be used as standby power of telecommunication systems. The upcoming 3G implementation in the PRC will definitely boost the demand for SLA batteries.

The Group will continue to expand its marketing efforts in overseas markets and sales offices have been established in Russia, Southeast Asia, Germany and USA, etc. to solicit new customers. We expect that there will be remarkable increase in the export sales of SLA products to Russia in 2005.

Based on the above reasons, the Group is confident that considerable growth in SLA battery business can be achieved in 2005 as compared to 2004.

For lithium ion battery business, the Group expects that the domestic handset market will be recovered in 2005 in the way that the local handset manufacturers will restructure their marketing strategy and rollout new models in the second half of 2005 which will in turn increase the demand of lithium ion batteries.

In view of the raw material prices being steady and have a trend to go down in 2005, the Group expects that the gross margin of the major products will be improved in 2005 under the stringent control of production cost and adoption of vertical method of production.

## 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.

**SONG Dian Quan**

*Chairman*

Hong Kong, 21st April, 2005