

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

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

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 acquired a joint venture company in Shenyang which produces 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 involves 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 31 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

The construction of the new lithium ion battery factory of 22,000 square meters was completed and operation commenced in May 2004.

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

MANAGEMENT DISCUSSION AND ANALYSIS

7

TRADE RECEIVABLES

For the year ended 31st December, 2004, 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. The aged analysis of trade receivables as at the balance sheet date is as follows:

	2004 RMB'000	2003 RMB'000
< 90 days	415,614	333,735
90-180 days	213,203	190,715
180-360 days	186,788	113,797
> 360 days	80,833	59,323
	896,438	697,570

The trade 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, China Netcom 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 loans and internal resources. As at 31st December, 2004, the Group has bank balances and cash amounted to RMB249 million (2003: RMB259 million). The total bank and other borrowings of the Group as at 31st December, 2004 were approximately RMB609 million (2003: RMB437 million), of which RMB559 million (2003: RMB363 million) will be due to repay within 12 months and the rest of RMB50 million (2003: RMB74 million) will be due in the next 3 years. These borrowings carry interest ranging from 1.69% to 7.91% (2003: from 4.02% to 7.91%) per annum. All bank and other borrowings were used to finance the Group's capital expenditures and working capital requirement.

According to the Group's current level of cash balances, working capital resources and banking facilities, the Board is confident that the Group has sufficient resources to meet its future business expansion and repay bank borrowings on schedule.

MANAGEMENT DISCUSSION AND ANALYSIS

GEARING AND LIQUIDITY RATIO

The Group's gearing ratio, defined as the ratio between total bank borrowings and shareholders' equity, was 0.63 (2003: 0.51). The current ratio of the Group, represented by the ratio between current assets over current liabilities, was 1.45 (2003: 1.72).

CHARGES ON GROUP ASSETS

As at 31st December, 2004, certain property, plant and equipment of the Group with carrying value of RMB229 million (2003: RMB249 million) were pledged to secure bank borrowings of approximately RMB215 million (2003: RMB231 million).

CAPITAL STRUCTURE

There has been no change in the capital structure of the Group as at 31st December, 2004 as compared with that as at 31st December, 2003.

FOREIGN CURRENCY RISK

The Group did not have any significant exposure to foreign currency risk as most of the Group's operations are in the PRC and the transactions are denominated in Renminbi.

SIGNIFICANT INVESTMENTS

During the year under review, the Group has acquired a licensed software of an online game at a consideration of approximately RMB33,090,000 for a term of two years.

CAPITAL COMMITMENTS

	2004 RMB'000	2003 RMB'000
Capital expenditure authorised but not contracted for in respect of acquisition of property, plant and equipment	70,754	71,040
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	10,589	25,408

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2004, the Group had employed 7,440 (2003: 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.