

Invest

China BAK Battery Company (CBAK) – A Commodity Company



Greetings from LFS

Dear Clients and Friends:

Here is my quarterly newsletter, *Invest*. The goal of *Invest* is to keep you abreast of what is happening in the financial market, inform you about new investments and keep you informed about your current investments. I welcome any questions, comments or suggestions.

Sincerely,

Douglas Ruth

Invest

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Summary:

China BAK Battery, Inc., (CBAK) is a stock that can be bought by investors seeking capital appreciation. CBAK provides a commodity product – lithium-ion batteries. Ninety-nine percent of the cell phones in operation use lithium-ion batteries. This type of battery offers higher power, lighter weight, longer life cycle and easier recharging. Lithium-ion batteries have essentially replaced NiCad and nickel-metal hybrid technology in portable applications.

The best part of being an investor in CBAK is the simple fact that there are currently 415 million cell phones in China and the knowledge that each phone eventually will need a new battery.

Portability:

Portability is the theme of 21st century. Rechargeable lithium-ion batteries allow consumers with the opportunity to use many devices while on the go, such as:

- Cell phones.
- iPods®.
- Laptop computers.
- Cordless power tools.
- BlackBerry® devices.
- Bluetooth® headsets.
- MP3 players.
- Digital still and video cameras.

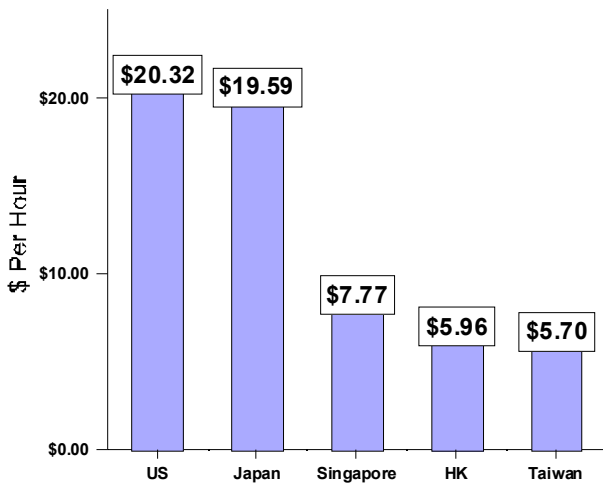


Currently, the market for lithium-ion batteries is estimated to be in excess of \$2.5 billion!

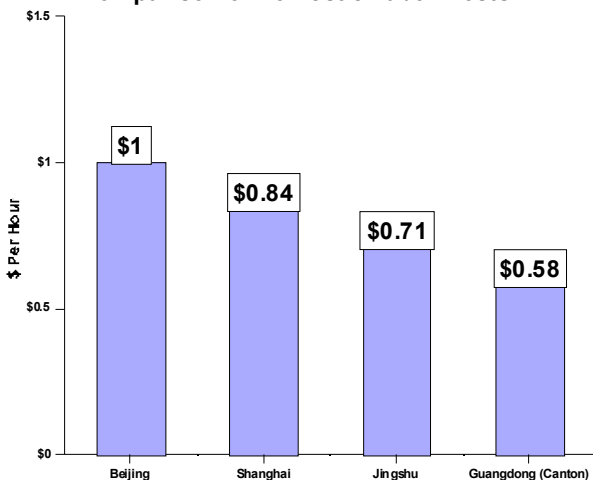
China and Cheap Manufacturing:

Cheap manufacturing gives China an edge. China can manufacture lithium-ion batteries cheaper than other countries. Many company make batteries. Manufacturers as having a superior product, however, have recognized CBAK. In fiscal 2006, the company was able to charge higher prices for its aluminum-case cell phone batteries because of their superior performance.

Comparison of International Labor Costs



Comparison of Domestic Labor Costs



When a new cell phone is sold it includes a fresh battery. In China, the cell phone battery of choice is made by CBAK. The company is in the process of creating a new battery brand comparable to the Eveready and Duracell lines.

An Opportunity for LFS Investors:

Investors must have patience as the company business is still in the development stage. CBAK has created a business plan that appears reasonable. The stock price and timing create a nice opportunity for Lenox Financial Services (LFS) investors.

As of late June 2007, CBAK stock is trading at approximately \$3.25 per share. LFS believes that the fair value of the stock is approximately between \$10 and \$12. Investors should expect a lot of volatility, and large unexpected increases and decreases in the company's stock price.

Volatility of the Stock:

CBAK's management style is to get big fast. This management style suggests that the company will make a lot of decisions quickly. As investors, we can expect that some of these management choices will not work out and, as such, the stock price will fluctuate accordingly.

Buy Low – Sell High:

During calendar year 2006, CBAK stock traded above \$8 for most of the year. In late June 2007, the stock is trading at approximately \$3.25. So LFS clients are buying CBAK stock after a major correction.

CBAK's One-Year Stock Prices



A Brief History of Battery Business:

To understand CBAK, it helps to review how the battery industry has evolved over the last 20 years.

The Battery Business:



The battery industry can be broadly divided into non-rechargeable (or primary) and rechargeable (or secondary) segments. Rechargeable batteries have increased their share of the overall battery

market as they have become more cost and time efficient for use over sustained periods. They also help address environmental concerns over disposal of nonrechargeable batteries.

Battery Production in Asia is Changing:

Manufacturing has shifted from North America to Asia. The manufacturing base in Asia is also changing. Historically, China produced low-tech, low-cost batteries. Japan and Korea were known for producing batteries that included the latest technology and were rechargeable. Currently, the Chinese government is supporting battery manufacturing with financial backing and research subsidies. China is now known for manufacturing the most innovative products. These products include the lithium-ion battery.

A Better Rechargeable Battery:

About the Lithium-Ion Battery:

The lithium-ion battery:

- Was first introduced by Sony Corporation in 1992.
- Has high energy density, high voltage, compact size, light weight and excellent energy-retention characteristics.

- Provides several advantages over the traditional nickel cadmium and nickel metal hydride batteries, resulting in a significant increase in the global rechargeable battery market share.
- Is seeing demand grow in tandem with consumer electronics products powered by lithium-based batteries, such as cellular phones, notebook computers and other portable electronic devices.
- Is being used in increasingly more powerful and diverse applications as a result of technological advancements in recent years.
- Is now being used in emerging industrial applications such as power tools, electric vehicles and hybrid electric vehicles.
- Is dominated by manufacturers located in Japan, South Korea and China.

Revenues and Earnings:

Battery production in Asia is growing, which, in turn has encouraged the growth of China's manufacturing base. Additionally, both Chinese domestic and other international battery manufacturers have increased their manufacturing presence in the PRC. This explains the rapid increase in CBAK's revenue and earnings between 2002 and 2006.



China has a number of key advantages in battery manufacturing that are expected to continue to drive this growth, including:

- Low costs.
- Proximity to the consumer electronics supply-chain.
- Proximity to end-users and a developing R&D infrastructure.

Revenue and Earnings
(In \$Millions)

	As of September 30, Each Fiscal Year				
	2002	2003	2004	2005	2006
Revenue	\$3.0	\$20.0	\$63.7	\$101.9	\$143.8
Earnings	\$0.7	\$3.7	\$7.8	\$13.5	\$20.2

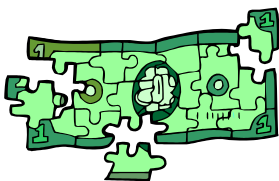


In 2006, the company entered the U.S. market for the first time and sold \$18 million worth of batteries. Since the company's inception in August 2001, the company has become the largest provider of replacement batteries for cell phones in China. Additionally, in 2006, CBAK introduced a more powerful battery to operate cordless power tools. The company's revenue for this new product line increased from virtually zero in fiscal 2005 to \$18.6 million in fiscal 2006. The company believes that both revenue and profits from cell phone batteries and cordless power tools will continue to grow in fiscal 2007. CBAK:

- Enjoys several competitive advantages, one of which is being the low-cost battery producer. The company has achieved this position by manufacturing its products in a state-of-the-art, 1.9-million-square-foot facility located in Shenzhen, China.
- Believes that:
 - The battery market offers virtually unlimited opportunities.
 - It can be a full-line manufacturer and distributor of lithium-ion batteries.
- Is currently focusing on two additional market segments:
 - Notebook computers.
 - Portable consumer electronics.

The company's goal is to be an original equipment supplier to the market leaders of each of these business segments. As the low-cost producer of lithium-ion batteries, it would seem reasonable to believe that CBAK will be successful.

A Lot of Moving Pieces:



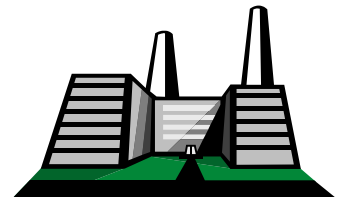
CBAK has very ambitious goals. The central theme that ties all the goals together is the company's understanding that it has to be the low-cost producer of lithium-ion batteries. For CBAK, there are a lot of different components that can fulfill this theme.

The major subcomponents include:

- Raising equity by accessing the capital markets. The company needs equity to:
 - Enhance current products.
 - Build a new factory.
 - Have working capital. (As of September 30, 2004, the company had a working capital deficit of \$26.2 million.)
 - Fund research and development (R&D).
- Being a full-line manufacturer of lithium-ion batteries once the factory is built.

The company understands that if it can be a full-line manufacturer, then it could utilize its factory to the maximum capacity.

However, being a full-line manufacturer has created its own unique challenges, as CBAK realized that when it had to supply batteries to:



- Original equipment manufacturers (OEM).
- The replacement market.

The company wanted to produce additional varieties of batteries. This required creation of new technologies, and securing investors to supply equipment and raw materials used in making batteries. CBAK also had to find customers for these additional products. Finally, management had to somehow balance operating the company's daily business while operating and executing future endeavors at the same time.

Get Big Fast!

It appears that CBAK's management style was "get big fast." Please consider all the events that occurred between September 2003 and May 2007:

The company decided to raise capital in America. CBAK and its financial advisor, Halter Financial Group (HFG), determined that the fastest, most economical method to access the capital markets was through a reverse merger.

It is interesting to note how CBAK raised capital and the prices investors paid:

- Between September 16, 2003, and March 31, 2004, 31.2 million shares of stock were purchased for \$10.9 million, or \$0.35 per share.
- On January 20, 2005, CBAK completed a private placement of its stock – 8.6 million shares were sold for \$17 million, or \$1.98 per share.
- On September 16, 2005, an offering of stock was made to the public – 7.9 million shares were sold for \$43.4 million, or \$5.50 per share.

Building A Factory – The Chicken or the Egg?

CBAK's management believed that the company had an opportunity to build a world-class business from scratch. A dilemma, however, faced the company: What should be done first?



- Build the factory?
- Secure customers?

The company decided to build the factory first. On May 8, 2007, CBAK held a conference call to discuss its second quarter fiscal 2007 results and disclose its production capabilities. The table that follows shows the amounts of batteries the company will be able to produce per month as of December 31, 2007.

CBAK Monthly Production Capabilities By Product Segment¹ (In \$Millions)

Product Segment	Per Month
Prismatic steel-case cells	\$6.2
Prismatic aluminum cells – manual production	7.6
Prismatic aluminum cells – automated production ²	8.6
Cylindrical cells	10.5
Lithium polymer cells	5.2
Miscellaneous	4.6
Total	\$41.0

1. Projected on 05-08-07 to be in place by 12-31-07.
 2. Some Original Equipment Manufacturers (OEMs) have quality standards that require batteries to be made using automatic production techniques.

Annualized Sales Potential:	\$41.0 million x 12 months = \$492 million
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Valuation:



On June 11, 2007, Mitsuru Homma, Senior Vice President of Sanyo Electric Company Ltd., discussed the company's sales projections for lithium-ion batteries.

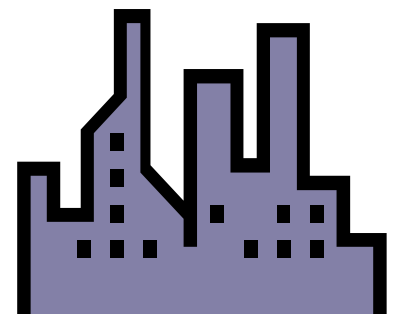
His comments were recorded by Reporter Kiyoshi Takenaka, who disclosed the following:

Facts About Sanyo:

- Is the world's largest rechargeable battery manufacturer.
- Had \$2.5 billion in sales for fiscal 2006.
- Has a global market share of 29%.
- Batteries account for over one-half of the company's overall profit.
- Batteries are used in four of every 10 mobile phones in the world.
- Projects that lithium-ion battery sales will grow by 8.5% for the year ending March 2008.
- Projects that profits will increase to 15%.
- Operating profit margin from the sale of lithium-ion batteries was 10% for the year ending March 2007¹.

Assumptions:

- CBAK has built a large factory because it believes that the facility will be used.
- CBAK's profit margins should be comparable to or higher than Sanyo's.



¹ It is interesting to note that CBAK's net profit margins have historically been higher than Sanyo's operating profit margins. The difference can be explained because Sanyo is operating in Japan and CBAK is operating in China. Additionally, CBAK is paying taxes at a rate of 3% because of special incentives.

Profit Projections:

Working from both CBAK and Sanyo financial disclosures, LFS is making the following projections. By the period ending September 30, 2009:

- CBAK’s sales will increase from \$143.8 million to approximately \$400 million.
- Company profits will increase from the \$22.6 million achieved during fiscal 2006 to approximately \$48 million – a 12% net profit margin.
- Earnings will be approximately \$1.00 per share. If the company can earn \$1.00 per share, the fair value of CBAK is \$10 to \$12.

CBAK’s Stock History:

CBAK has been a public entity for a short period of time. The following table and graph show the price of the company’s stock.

CBAK Quarterly High and Low Stock Prices

As of Fiscal Yr.	Q1 Ending Dec. 31 ¹		Q2 Ending March 31		Q3 Ending June 30		Q4 Ending Sept. 30	
	High	Low	High	Low	High	Low	High	Low
2003	\$1.01	\$1.01	\$0.39	\$0.37	\$0.60	\$0.60	\$1.01	\$1.01
2004	\$1.01	\$1.01	\$1.01	\$1.01	\$1.01	\$1.01	\$1.45	\$1.02
2005	\$3.50	\$1.25	\$7.30	\$2.80	\$8.50	\$5.00	\$7.75	\$6.54
2006	\$11.10	\$5.60	\$12.50	\$7.80	\$10.75	\$8.18	\$8.80	\$4.24
2007 ¹	\$6.76	\$6.38	\$6.75 ²	\$3.67 ²				

1. CBAK’s fiscal year begins October 1 and ends September 30 of the subsequent year. Fiscal year 2007 began October 1, 2006.
 2. Through March 16, 2007

CBAK’s 2-Year Stock Price



Since May 31, 2006, the company’s common stock has been listed on the NASDAQ Global Market under the symbol CBAK. Prior to that date, the stock had been quoted on the Over-the-Counter Bulletin Board under the symbol CBBT.

Capital Expenditures:

CBAK has spent a large sum of money building a state-of-the-art factory in China. The factory is almost complete and the company’s capital expenditures should start to decrease. The table below shows the company’s capital expenditures.

Capital Expenditures
(In \$Millions)

Fiscal Year					
2002	2003	2004	2005	2006	2007
\$0.5	\$4.7	\$28.3	\$30.6	\$41.4	\$45.0 ¹

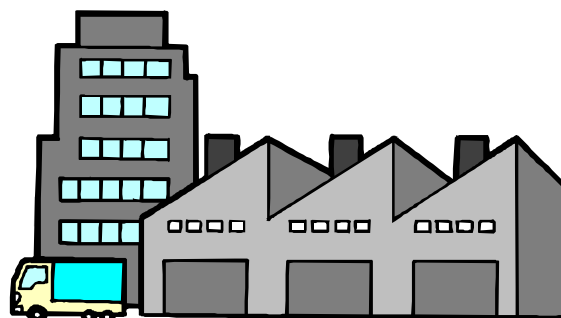
1. Estimated as of December 8, 2006.

Currently, the company conducts all of its operations in BAK Industrial Park in Shenzhen, China. CBAK plans to finish a major portion of BAK Industrial Park by the end of calendar 2007.

Use and Area of BAK Industrial Park

Usage	Area (m ²)
Completed facilities:	
Manufacturing:	
Prismatic (steel case)	27,776
Prismatic (aluminum case)	15,919
Cylindrical	15,400
Lithium polymer	6,944
High-power lithium phosphate	6,944
R&D and administrative	18,593
Warehousing	19,087
Workers dormitory	42,915
Other facilities	<u>21,206</u>
Subtotal	174,784
Facilities under construction:	
Manufacturing:	
Prismatic (aluminum case)	29,260
Workers dormitory	3,209
Other facilities	<u>10,925</u>
Subtotal	43,394
Total	218,178

The company has completed construction of 174,784 square meters of new facilities including manufacturing facilities, warehousing and packaging. Of that space, approximately 111,000 square meters are new manufacturing facilities.



CBAK and the Battery Business:

In late December 2005, CBAK released its first full-year financial report. This report covered both fiscal years 2004 and 2005. The company’s fiscal year starts on October 1 and ends September 30. In late December 2006, CBAK released its second *Annual Report*.

Fiscal Year	Duration of Year	Annual Report Released
2004:	October 1, 2003, through September 30, 2004	First Annual Report for 2004 Second Annual Report for 2005
2005:	October 1, 2004, through September 30, 2005	
2006:	October 1, 2005, through September 30, 2006	

The majority of CBAK’s revenue and profit comes from the sale of cell phone batteries. The following table shows the sales data for various types of batteries.

Sales in \$Millions and Percentages

	Fiscal Year Ending September 30							
	2003		2004		2005		2006	
Prismatic cells:								
Steel-case cells	\$19.7	98.5%	\$37.9	59.6%	\$56.9	55.9%	\$64.3	44.7%
Aluminum-case cells	\$0.3	1.5%	\$13.1	20.5%	\$23.7	23.3%	\$49.5	34.4%
Battery packs	0	0	\$12.5	19.5%	\$20.2	19.8%	\$9.8	6.8%
Cylindrical cells ¹	0	0	\$0.3	0.4%	\$1.1	1.0%	\$0.6	0.4%
Lithium polymer cells	0	0	²	-	\$0.02	²	\$1.0	0.8%
High-power lithium-phosphate cells	<u>0</u>	<u>0</u>	<u>0</u>	<u>-</u>	<u>0</u>	<u>-</u>	<u>\$18.6</u>	<u>12.9%</u>
Total	\$20.0	100.0%	\$63.8	100.0%	\$101.9	100.0%	\$143.8	100.0%

1. Cylindrical cells produced using primarily a manual manufacturing process and were sold for use in portable DVD players.
2. Less than 0.1%

Six-Month Sales – Net Revenues by Product
(In \$Millions)

	Six Months Ending March 31	
	2006	2007
Steel-case cell	\$33.25	\$22.61
Aluminum-case cell	23.05	29.07
High-power lithium-phosphate cell	2.53	14.27
Battery pack	5.27	3.72
Cylindrical cell	0.03	1.28
Polymer cell	<u>0.19</u>	<u>1.65</u>
Total	\$64.32	\$72.60

Cell Phones in China – A Dynamic Industry:

The cell phone industries in China and America are similar. There are, however, two differences. In America, the cell phone is often considered a fashion item. Trend-setting designs sometimes convince consumers to pick one phone over another. In China, cell phones are often sold and resold during their useful lives.

Cell Phone Industry in China and U.S.A.

Market Characteristic	China	U.S.A.
Demand for batteries for cellular phones is driven by two factors:		
Sales of new cellular phones. When a new cell phone is purchased, a fresh battery is included.	X	X
Replacement market for cellular phone batteries.	X	X
Cell phones are often sold and resold during their useful life.	X	
Often a consumer will purchase a second battery to carry as a spare.	X	X
Lithium-ion batteries have a finite life, so over time consumers will need to purchase a battery to replace the failed battery in their phone.	X	X
As the number of active cellular phone subscribers increases, the number of replacement batteries sold increases.	X	X
Cell phones are considered a fashion item.		X
There are 416 million subscribers and the expectations are that another 250 million will be added over the next 5 years.	X	

According to Motorola Chief Executive Officer Ed Zander:

- Thirty-two mobile phones are sold every second of every day.
- There are 7 billion people on the planet and only 2.8 billion cell phones in use, which creates the potential for more sales.

Four Types of Batteries – Only Two That Currently Make Money:

CBAK makes four different battery cell types:

3. Prismatic (steel case or aluminum case).
4. High-power lithium phosphate.
5. Cylindrical.
6. Lithium polymer.

Prismatic cells and high-power lithium-phosphate cells are CBAK’s current moneymakers. Only these two types of cells will be discussed in this newsletter. For information on cylindrical and lithium-polymer cells, refer to the entire company analysis.

Prismatic Battery Cells — Cellular Phones:



The technical term for a cell phone battery is *prismatic cell*. CBAK offers three different types of prismatic cells:

- Steel-case cells.
- Aluminum-case cells.
- Battery packs.

End Uses:

Battery-Cell Type	End Applications	Number of Cells Per Battery
Prismatic (steel case or aluminum case)	• Cellular phone	1
	• Camcorder	2
	• MP3/MP4 player	1 - 2
	• Digital camera	1

Customers:

CBAK customers for cell phone batteries come from two different sources:

- **OEM:** The OEMs manufacture mobile phone handsets. They purchase batteries to support their production of new cellular phones. They also purchase batteries to serve the replacement market, which they sell under their own brand name. The companies CBAK supplies includes:



Original Equipment Manufacturer Customers

Customer	2004	2005	2006
Haier			X
Konka			X
Lenovo			X
Ningbo Bird			X

- **Independent Battery Manufacturers:** These third-party manufacturers compete against the OEM for a share of the replacement market. They typically sell their products under their own brand name or a private label.

CBAK’s cell phone business has increased nicely.

Total Sales of Prismatic Cells (In \$Millions)

Fiscal Year		
2004	2005	2006
\$63.5	\$100.8	\$123.6

Facts About Prismatic Cells:

- Based on production output, CBAK is currently the largest maker of steel-case cells in China.
- Prismatic cells are contained in metal casings made of either steel or aluminum but are otherwise the same product.
- Aluminum-case cells generally are more expensive to manufacture and cost more. The profit margin is higher when aluminum-case cells are sold.



- They are lighter than steel-case cells and are safer, so they are suited for use in batteries included in the OEM cellular phones. Demand for lighter cell phones caused CBAK to:



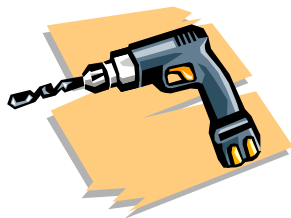
- Increase the percentage of aluminum-case cells in the total production of prismatic cells.
- Further increase this percentage to two-thirds of all the prismatic cells produced in the near future.
- At the request of customers that order prismatic battery packs, the company also engages battery pack manufacturers to assemble its prismatic cells into batteries for a fee and then sell battery packs to these customers both for the replacement and OEM markets. This is common in the manufacturing business.

Entering New Markets:

- The company is currently actively pursuing OEM qualifications from international brand owners such as Nokia and Motorola.

High-Power Lithium-Phosphate Battery Cells – Power Tools:

The second type of battery that is a moneymaker for CBAK is a high-power lithium-phosphate cell. Since the beginning of 2005, most major tool manufacturers began to use lithium-based battery packs. Manufacturers have taken advantage of both the increased power and lightweight structure of lithium-based batteries by:



- Introducing more powerful products.
- Extending the life cycle of current products.
- Decreasing the size of current products.

In fiscal 2006, CBAK successfully started selling high-power lithium-phosphate cells for use in cordless tools. Power tools such as drills, saws

and grinders are used for both commercial and personal purposes. Because of high-power requirements, many power tools have historically used small combustion engines or heavier nickel metal hydride batteries, or relied on external power sources.

Sales of High-Power Lithium-Phosphate Batteries (In \$Millions)

2004	2005	2006
\$0	\$0	\$18.5

The market for portable high-powered tools is rapidly growing and has prompted many users, both commercial and personal, to replace or upgrade their current power tools.

End Uses:

Battery-Cell Type	End Applications	Number of Cells Per Battery
High-power lithium-phosphate	• Power tool	6 –10

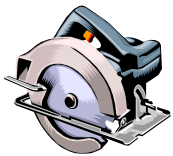
Customers:

- Recently, manufacturers of power tools, such as Milwaukee, Black & Decker, Bosch, Metabo and Rigid, have begun to use lithium-ion technology.
- The company began commercial production of lithium-phosphate cells in October 2005 for use in cordless power tools of Black & Decker, a leading power tools manufacturer.
- The DeWalt Division of Black & Decker began marketing a power tool product line that uses nano lithium-phosphate technology in its batteries. DeWalt markets its power tools with the following tag line: *“The power of corded without the cord.”*

- The initial launch includes six new products: a drill, a full-size circular saw, a reciprocating saw, an SDS rotary hammer, an impact wrench and a jigsaw.



- Bruce Brooks, President of DeWalt Construction, commented, "This was one of the most exciting product launches in a number of years."
- These new batteries offer two or three times the runtime of 18-volt batteries, significantly higher power while offering users 2,000-plus charges, and all at the same weight of traditional batteries.
- To put this market opportunity in perspective, DeWalt currently produces 30 cordless products and has sold an estimated 50 million of its 18-volt rechargeable batteries to power their tools.



Facts About High-Power Lithium-Phosphate Battery Cells:

- The cordless power tool market is dominated by batteries with a power of 18 volts or less.
- New technology developed by CBAK has resulted in an increased power of the batteries to 36 volts.
- Currently, CBAK is the only supplier of lithium-phosphate cells for 36-volt high-power batteries to A123 Systems, an emerging leader in high-power lithium battery technology.
- A123 Systems' high-power batteries contain 10 lithium-phosphate cells, giving an aggregate power of 36 volts.
 - CBAK believes this voltage is the highest in the market and will be able to power larger and heavier tools.
 - The first shipment of high-power lithium-phosphate battery cells was delivered in the first quarter of calendar 2006.

Sales of Batteries to A123 Systems (In \$Millions)

Six Months Ending March 31	
2006	2007
\$2.7	\$14.3

Entering New Markets:

- Future applications may include medical devices and hybrid electric vehicles.

Sales:



CBAK has built an extensive sales and service network in China, highlighted by its strong presence in China's economically prosperous coastal regions. A significant portion of sales is generated in these coastal regions. The company has representative offices in several cities in China targeting its key customers.

CBAK Sales Offices

	2005	2006
Beijing	X	X
Dalian	-	X
Fuzhou	X	X
Guangzhou	X	X
Qingdao	X	X
Quanzhou	X	X
Shanghai	X	X
Xiamen	X	X
Zhuhai	X	-

Executives and the Board of Directors:

CBAK is headed by two executives: Xiangqian Li and Huanyu Mao. Dr. Li is also the largest shareholder. He provided \$2.4 million at the initial startup of the organization. Dr. Li has a Bachelor's Degree in gas engineering. Please note that Dr. Li's salary is very low.

Dr. Mao is a scientist who has extensive experience with lithium-ion batteries. Additionally, the company has an impressive Board of Directors roster.



Biographies:

Xiangqian Li has served as the Director, Chairman of the Board, President and Chief Executive Officer since January 20, 2005. Previously, Dr. Li served in the following capacity:

- **December 2000 until March 2001:** Chairman of the Board of Directors and General Manager of Shenzhen BAK Li-Ion Battery Co., Ltd.
- **March 2001 until June 2001:** Chairman of the Board of Directors and General Manager of Jilin Provincial Huaruan Technology Company Ltd.

- **April 2001:** Chairman of the Board of Directors and General Manager of BAK Battery.
- **June 2001 to June 2003:** Chairman of Huaruan Technology Co., Ltd., a PRC company engaged in the car audio business.
- **Prior to 2001:** Dr. Li was self-employed.

Dr. Li graduated from Lanzhou Railway Institute and holds a Bachelor's degree in thermal energy, and gas and power engineering. He has a Doctorate of Quantity Economics from Jilin University in China.

Huanyu Mao has served as Chief Technology Officer since January 20, 2005. Dr. Mao has been Chief Scientist of BAK Battery since September 2004. He was named Chief Operating Officer on June 30, 2005. Dr. Mao pioneered lithium-ion battery core technologies before their commercialization in 1992. He holds seven U.S. patents relating to lithium-ion technology. From 1997 until September 2004, Dr. Mao served as Chief Engineer of Tianjin Lishen Company, one of the leading Chinese battery manufacturers. He has served as a Director since May 12, 2006. Dr. Mao graduated from Memorial University of Newfoundland, Canada, and received a Doctorate degree in electrochemistry in conductive polymers. **I left Mao for consistency on stock.**

Executive Compensation:

Summary Compensation Table

Name	Year	Salary	Bonus	Restricted Stock Award	Securities Underlying Options	All Other Compensation
Xiangqian Li, CEO, etc.	2002	0	0	N/A	N/A	N/A
	2003	0	0	N/A	N/A	N/A
	2004	\$8,709	0	N/A	N/A	N/A
	2005	\$8,836	0	0	0	\$45,730 ¹
	2006	\$29,893	0	0	0	0

1. Includes value of company car service.

Stock Ownership:

	2005 ¹	2006 ²	2007
Xiangqian Li			
Number of Shares	21,233,437	21,233,437	
% of Class	51.8%	43.4%	
Huanyu Mao			
Number of Shares	249,805	249,805	
% of Class	*	*	
% of Class	53.2%	45.1%	

1. As of January 20, 2005.
 2. As of September 30, 2006.
 * - Less than 1%.

CBAK Competitive Advantages:

CBAK enjoys several competitive advantages:

3. The Company Believes It Makes a Better Battery:

Longer usage and higher discharge rates:

CBAK believes that it makes a better battery than the competition. Cell phone batteries are measured by discharge volume. CBAK believes its batteries have a higher discharge volume resulting in longer talking time for mobile phone users. The higher discharge capacity is especially useful for mobile phones with color screens, which have a high demand on the battery's continuous discharge voltage.

4. The Company is the Low-Cost Producer:

Batteries are commodities: Both wholesale and retail customers base their purchasing decisions largely on price. The low-cost producer has a competitive advantage over other manufacturers.



CBAK believes that it is the low-cost producer and has worked hard to achieve this position.

5. The Company Focuses on Innovative Research and Development (R&D):

Core competency: One of CBAK's core competencies is its focus on Research and Development.

CBAK's R&D team consists of 237 researchers and scientists, led by Dr. Huanyu Mao. Dr. Mao:



- Is the company's Chief Operating Officer and Chief Technology Officer.
- Is a pioneer and veteran of the lithium-ion industry since its commercialization in 1992.
- Holds seven U.S. patents for inventions related to lithium-ion technology.

Focus of research:

- During 2004, research was aimed at developing new or improved anode raw material and new products.
- During 2005, research had been focused on new or improved cathodes and product safety research.

6. Logistics:

Proximity to Electronics Supply Chain: CBAK conducts all of its operations in Shenzhen, in close proximity to China's electronics manufacturing base and its rapidly growing market. China's battery industry continues to grow and capture market share in the global marketplace.

7. International Product Distribution:

The company has established international product distribution: CBAK sells products both domestically and internationally. The table that follows shows the amount of revenue by location.

Revenue by Location by Fiscal Year
(In \$Millions, Except Percents)

Region	2004		2005		2006	
	\$	%	\$	%	\$	%
PRC Mainland	\$43.4	68.0%	\$72.4	71.0%	\$96.7	67.2%
United States of America	-	-	-	-	18.6	13.0%
Hong Kong, China	10.5	16.5%	17.4	17.2%	17.2	12.0%
The Republic of Turkey	6.3	10.0%	7.7	7.5%	4.6	3.2%
Others ¹	3.6	5.5%	4.4	4.3%	6.7	4.6%
Total Revenues	\$63.8	100.0%	\$101.9	100.0%	\$143.8	100.0%

1. Includes Taiwan, the Middle East, Italy, Germany and India

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- Delphax Technologies, Inc. (DLPX)
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- Jinpan International Limited (JST)
- Park-Ohio Holdings (PKOH)
- R. G. Barry (DFZ)
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