



SCUD GROUP LIMITED

飛毛腿集團有限公司*

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 1399)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

HIGHLIGHTS ON FINAL RESULTS

- Turnover increased by 32.4% to RMB936.3 million
- Gross profit increased by 63.3% to RMB240.5 million
- EBITDA grew by 58.1% to RMB198.0 million
- Profit attributable to equity holders of the Company increased by 85.5% to RMB160.2 million
- Earnings per share was RMB26.35 cents

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The Board of Directors of SCUD Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries for the year ended 31 December 2006 with comparative figures for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT

		For the year ended 31 December	
		2006	2005
	Notes	RMB'000	RMB'000
Turnover		936,305	706,992
Cost of sales		(695,825)	(559,713)
Gross profit		240,480	147,279
Other income		24,535	4,419
Selling and distribution costs		(15,623)	(11,044)
Administrative expenses		(55,268)	(24,500)
Change in fair value of convertible bonds designated as at fair value through profit or loss		(8,495)	–
Convertible bonds issue expenses		(2,240)	–
Finance costs	5	(8,487)	(4,490)
Profit before taxation		174,902	111,664
Income tax expense	6	(14,711)	(8,344)
Profit for the year	4	160,191	103,320
Attributable to:			
Equity holders of the Company		160,191	86,336
Minority interests		–	16,984
		160,191	103,320
Dividends paid	14	30,744	–
Earnings per share			
– basic (cents)	7	26.35	14.39
– diluted (cents)	7	24.93	N/A

* For identification purpose only

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2006	2005
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets			
Property, plant and equipment		79,487	57,448
Intangible assets		1,807	616
Prepaid lease payments		12,131	–
Deferred tax assets		1,675	1,276
Deposit for purchase of property, plant and equipment		657	–
		<u>95,757</u>	<u>59,340</u>
Current assets			
Inventories		94,908	63,251
Trade and notes receivables	8	227,573	167,099
Other receivables and deposits	9	126,408	44,302
Promissory notes		–	406
Prepaid lease payments within one year		251	–
Amounts due from related parties		960	–
Pledged bank deposits	10	124,045	2,878
Bank balances and cash		486,937	14,817
		<u>1,061,082</u>	<u>292,753</u>
Current liabilities			
Trade and notes payables	11	94,801	36,198
Other payables	12	62,238	29,255
Provision for warranty		2,572	1,606
Amounts due to related parties		2,354	1,626
Dividend payables		–	787
Taxation		2,973	1,937
Bank loans		76,362	78,480
Convertible bonds		78,410	–
		<u>319,710</u>	<u>149,889</u>
Net current assets		<u>741,372</u>	<u>142,864</u>
Total assets less current liabilities		<u>837,129</u>	<u>202,204</u>
Capital and reserves			
Share capital/paid-in capital	13	86,404	406
Reserves		749,319	201,798
Total equity attributable to equity holders of the Company		<u>835,723</u>	<u>202,204</u>
Non-current liabilities			
Bank loans – due after one year		1,406	–
Total equity and non-current liabilities		<u>837,129</u>	<u>202,204</u>

Notes

1. GROUP RESTRUCTURING AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company is a public limited company incorporated and registered as an exempted company with limited liability in the Cayman Islands under the Companies Law (2001 Second Revision) Chapter 22 of the Cayman Islands on 20 July 2006 and its shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) with effect from 21 December 2006. Details of the Group Reorganisation are set out in the initial public offering prospectus issued by the Company dated 11 December 2006.

The Company acts as an investment holding company. The principal activities of the Company’s subsidiaries are the manufacture and sales of rechargeable battery packs, chargers and related accessories for mobile phones, digital cameras, notebook computers and other electrical appliances.

Under a group reorganisation scheme to rationalise the structure of the Group in preparation for the listing of the Company’s shares (the “Group Reorganisation”) on the Stock Exchange, the Company became the holding Company of the Group on 31 July 2006.

The principal steps of the Group Reorganisation were as follows:

- On 31 July 2006, the ultimate beneficial owners, namely Mr. Fang, Mr. Lin and Mr. Guo, Swift Joy Holdings Limited (“Swift Joy”), Right Grand Holdings Limited (“Right Grand”) and Cheer View Holdings Limited (“Cheer View”) and the Company entered into the Sale and Purchase Agreement pursuant to which Mr. Fang, Mr. Lin and Mr. Guo transferred their respective interests in Great Speed, to the Company in consideration of (i) the Company allotting and issuing 33,433 shares, 14,970 shares and 1,497 shares, credited as fully paid, to Swift Joy, Right Grand and Cheer View respectively at the direction of the ultimate beneficial owners and (ii) the Company assuming the obligations of Mr. Fang under the promissory note as a result of which the Company owes its subsidiary, Great Speed Enterprises Limited (“Great Speed”) US\$49,999.
- The consolidated income statements include the income statements of the companies comprising the Group as if those companies had been wholly owned controlled entities of Great Speed since 1 January 2005, or since their dates of incorporation. The balance sheets as at 31 December 2005 have been prepared to present the assets and liabilities of the Group as if the current structure had been in existence.

The Group resulting from the above mentioned Group Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the principles of merger accounting.

2. PRINCIPAL ACCOUNTING POLICIES

The consolidated financial statements of the Company for the year ended 31 December 2006 (the “Financial Statements”) have been prepared in accordance with the International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

3. TURNOVER AND SEGMENTAL INFORMATION

The Group is currently engaged in providing its products to two classes of customers, namely, own-brand name products customers and original equipment manufacturer (“OEM”) customers. The Directors of the Company regard these segments as the primary source of the Group’s risks and returns.

Segment information about these businesses is presented as follows:

2006

	Own-brand name products customers RMB'000	OEM customers RMB'000	Consolidated RMB'000
Turnover	620,132	316,173	936,305
Segment results	174,188	66,292	240,480
Unallocated income			24,535
Unallocated expenses			(70,891)
Change in fair value of convertible bonds designated as at fair value through profit or loss			(8,495)
Convertible bonds issue expenses			(2,240)
Finance costs			(8,487)
Profit before taxation			174,902
Income tax expense			(14,711)
Profit for the year			160,191

2005

	Own-brand name products customers RMB'000	OEM customers RMB'000	Consolidated RMB'000
Turnover	468,935	238,057	706,992
Segment results	101,325	44,036	145,361
Unallocated income			4,419
Unallocated expenses			(33,626)
Finance costs			(4,490)
Profit before taxation			111,664
Income tax expense			(8,344)
Profit for the year			103,320

4. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2006 RMB'000	2005 RMB'000
Directors' remuneration	736	394
Other staff costs	42,672	28,684
Other staff retirement benefits scheme contributions	1,455	637
Less: Staff costs included in research and development costs	(3,487)	(3,068)
	<u>41,376</u>	<u>26,647</u>
Auditors' remuneration	1,750	1,150
Depreciation	14,269	8,986
Less: Depreciation included in research and development costs	(2,598)	(1,667)
	<u>11,671</u>	<u>7,319</u>
Amortisation of intangible assets (included in administrative expenses)	179	115
Loss on disposal of property, plant and equipment	–	9
Research and development cost (net of government grant of RMB1,273,000 (2005: RMB999,000))	12,635	6,697
Release of prepaid lease payments	146	–
Operating lease rentals in respect of land and buildings	4,161	2,502
Allowance for trade and note receivables	650	1,844
Write-off of receivables	1,995	–
Impairment loss on property, plant and equipment	526	510
Write-off of intangible assets	284	–
Net exchange loss	–	283
Cost of inventory recognised as an expense	695,825	559,713
Listing expense	7,699	–
and after crediting:		
Interest income	12,078	244
Net exchange gain	<u>3,596</u>	<u>–</u>

5. FINANCE COSTS

	2006 RMB'000	2005 RMB'000
Interest on bank borrowings	3,733	4,362
Interest on discounted notes receivable (without recourse)	94	128
Effective interest on convertible bonds	<u>4,660</u>	<u>–</u>
	<u>8,487</u>	<u>4,490</u>

6. INCOME TAX EXPENSE

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operated.

Pursuant to the applicable tax laws and regulations of the PRC, certain subsidiaries within the Group enjoyed preferential tax rate for the year 2005 and 2006.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group's profits neither arose in nor were derived from Hong Kong during 2005 and 2006.

An analysis of the provision for tax in the Financial Statements is as follows:

	2006 RMB'000	2005 RMB'000
The charge comprises:		
– PRC enterprise income tax	15,052	8,697
– Underprovision in prior year	<u>58</u>	<u>–</u>
	<u>15,110</u>	<u>8,697</u>
– Deferred tax	<u>(399)</u>	<u>(353)</u>
	<u>14,711</u>	<u>8,344</u>

7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the equity holders of the Company is based on the following data:

	2006 RMB'000	2005 RMB'000
Earnings		
Earnings for the purposes of basic earnings per share (profit for the year attributable to the equity holders of the Company)	160,191	86,336
Effect of dilutive potential ordinary shares:		
Effective interest on convertible bonds	4,660	—
Change in fair value of convertible bonds designated as at fair value through profit or loss	8,495	—
	<u>173,346</u>	<u>86,336</u>
	2006 '000	2005 '000

Number of shares

Weighted average number of ordinary shares for the purposes of basic earnings per share	607,835	600,000
Effect of dilutive potential ordinary shares:		
Convertible bonds	87,395	N/A
Share options	167	N/A
	<u>695,397</u>	<u>600,000</u>

For both 2005 and 2006, the calculations of basic earnings per share are based on 600,000,000 shares in issue on the assumption that the issue of such shares of the Company upon the Group Reorganisation had been completed on 1 January 2005.

8. TRADE AND NOTES RECEIVABLES

	2006 RMB'000	2005 RMB'000
Notes receivables	26,319	27,437
Trade receivables	207,237	146,903
Less: Allowance for doubtful debts	(5,983)	(7,241)
	<u>227,573</u>	<u>167,099</u>

The average credit period granted on sales of goods ranged from 60 to 90 days. As at 31 December, 2005, certain notes receivables were pledged to the banks to secure banking facilities granted to the Group.

The following is an aged analysis of trade and note receivables at the balance sheet date:

	2006 RMB'000	2005 RMB'000
Age		
0 to 60 days	168,524	135,469
61 to 180 days	55,103	31,630
181 to 365 days	3,808	—
1–2 years	138	—
	<u>227,573</u>	<u>167,099</u>

The Directors consider that the carrying amount of trade and notes receivables approximates to their fair values.

9. OTHER RECEIVABLES AND DEPOSITS

	2006 RMB'000	2005 RMB'000
Advance to suppliers	74,334	38,919
Advance to related companies	4,972	2,281
Refundable deposits	1,493	2,430
Others	48,274	1,429
Less: Allowance for doubtful debts	(2,665)	(757)
	<u>126,408</u>	<u>44,302</u>

The Directors consider that the carrying amount of other receivables approximates to their fair values.

10. PLEDGED BANK DEPOSITS

	2006 RMB'000	2005 RMB'000
Pledged bank deposits	<u>124,045</u>	<u>2,878</u>

The deposits carry fixed interest rate at 4.17% (2005: 1.71%). The pledged bank deposits will be released upon the settlement of the notes payables and bank borrowings. The Directors consider that the carrying amount of bank deposits approximates to their fair values.

11. TRADE AND NOTES PAYABLES

	2006 RMB'000	2005 RMB'000
Trade payables	69,473	15,409
Notes payables	25,328	20,789
	<u>94,801</u>	<u>36,198</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases ranged from 30 to 60 days.

The following is an aged analysis of trade and notes payables at the balance sheet date:

Age	2006 RMB'000	2005 RMB'000
0 to 60 days	86,790	22,033
61 to 180 days	6,589	14,039
181 to 365 days	1,229	23
1–2 years	146	103
Over 3 years	47	–
	<u>94,801</u>	<u>36,198</u>

The Directors consider that the carrying amount of the Group's trade and notes payables approximates to their fair values.

12. OTHER PAYABLES

	2006 RMB'000	2005 RMB'000
Deposits from customers	3,686	17,856
Payroll and welfare payables	3,392	4,807
Accrued expenses	35,883	1,673
Other tax liabilities	–	3,118
Purchase of property, plant and machinery	18,349	789
Advance from suppliers	–	500
Others	928	512
	<u>62,238</u>	<u>29,255</u>

The Directors consider that the carrying amount of the Group's other payables approximates to their fair values.

13. SHARE CAPITAL/PAID-IN CAPITAL

	Number of shares '000	Amount RMB'000
Ordinary shares of HK\$0.10 each		
Authorised:		
On the date of incorporation	3,800	382
Increase during the year	4,996,200	501,968
Balance at 31 December 2006	<u>5,000,000</u>	<u>502,350</u>
Issued and fully paid:		
Allotted and issued on the date of incorporation	–	–
Issue of shares on Group Reorganisation	50	5
Issue of 49,950,000 shares pursuant to first capitalisation issue	49,950	5,018
Issue of 550,000,000 shares pursuant to second capitalisation issue	550,000	55,259
Issue of shares by placing and public offering	260,000	26,122
Balance at 31 December 2006	<u>860,000</u>	<u>86,404</u>

The share capital of RMB406,000 shown on the consolidated balance sheet as at 31 December 2005 represented the issued and fully paid capital of Great Speed.

14. DIVIDENDS

No dividends has been paid or declared by the Company since its incorporation. However, for the year ended 31 December 2006, dividends of RMB30,744,000 were declared by the then shareholders prior to the Group Reorganisation (2005: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Market Review

According to the "Statistics Report of the Telecommunications Industry, December 2006" published by the Ministry of Information Industry, the number of mobile phone users in the PRC reached 461 million as at 31 December 2006, representing an increase of 17.3% or a net increase of 68 million from 393 million as compared with last year. This translated into a penetration rate of 35.3 mobile phones users for every 100 people. The relatively low penetration rate is indicative of the enormous room for market development, with significant growth potential in the rural market particularly. With the promotion of the "Communication Projects in Rural Areas" by the government, operators in the PRC are now stepping up the construction of communication infrastructure in rural areas, further promoting the development of the communication industry in this market segment. It is expected that the investment in this market segment by telecommunications operators will attract more mobile phone users, which will in turn fuel the demand for branded batteries. As shown in the report entitled "Existing Development and Trend of the Mobile Phone Battery Industry of China Mainland, 2006-2007" released by FPDdisplay Research Centre, the demand for replacement batteries reached 183 million pieces in 2006 and is expected to increase to 205 million pieces in 2007. Based on such figures, the market share of branded mobile phone rechargeable batteries of the Group was approximately 12.5% in 2006 as compared to 10.6% in 2005.

Business Review

The Board of Directors and the management of the Group have been committed to enhancing operational efficiency and upholding the principle of maximizing shareholders' interests as the basis for decision making. In reviewing the performance of its business, the Group evaluates its results and future business development based on the following indicators:

- **Sales results, gross profit margin and net profit margin** — the Group has always endeavoured to establish a leading position in the market, which can be reflected by its market share. During the year, the Group's turnover increased by 32.4% from RMB707.0 million to RMB936.3 million due to the growing demand of rechargeable battery packs and peripherals for mobile phones and other portable electronic devices in the PRC. Meanwhile, in addition to actively increasing turnover, the Group also places emphasis on cost control and ultimate profitability. The improved gross profit margin and net profit margin can reflect the Group's competitiveness. In fact, the gross profit margin and net profit margin of the Group were further increased to 25.7% and 17.1% respectively, up 4.9 percentage points and 2.5 percentage points respectively. This is not only demonstrated in our shift of product mix towards higher margin own brand products but also the enhancement in production efficiency, economies of scale and lower purchase cost.
- **Expansion of sales network** — the rechargeable battery market of the PRC is highly fragmented and competitive. Extensive sales network and strong brand effect are crucial for the Group's own brand business to stay ahead of its competitors. Sales network and brand recognition are complementary to each other since a reputable brand will facilitate expansion into new markets while an extensive sales network helps to further establish brand recognition. As a fast growing enterprise, the Group places much emphasis on the development of sales network and brand recognition. As at 31 December 2006, the Group had 331 first tier distributors, increased by 83 compared with 248 as at 31 December 2005, further expanding the Group's market coverage to over 35,000 sales points, spanning across 31 provinces, municipalities and autonomous regions in the PRC.
- **Product mix** — in order to maintain its competitiveness in the highly competitive rechargeable battery market, the Group believes wide product range and models and the optimization of product mix are keys to its success. The Group is committed to developing middle to high end rechargeable batteries which can increase the overall profit margin of the Group due to the higher gross profit margin for such products. Meanwhile, the Group also develops products that cater more to the mass market in order to meet the demand of different customer segments.

In response to the increasing demand for mobile phones and other portable electronic devices, more and more new models of mobile phones and electronic devices are launched in the market, providing an impetus for the business growth of the Group's products.

As at 31 December 2006, the Group's own "SCUD 飛毛腿" brand products comprise over 2,200 models of rechargeable mobile phone battery packs which are compatible with 2,800 mobile phone models.

Outlook and Prospects

The Directors believe that PRC's ever-growing economy will contribute to the increasing demand for 3C products and in turn lead to an increase in the demand for rechargeable battery packs to power such devices. The Group will not only benefit from the growth of the mobile phone industry in the PRC, but will also benefit from the trend of more advanced multimedia functions of the latest models mobile phones and the higher electricity consumption of mobile phones. It is expected that with the operation of the 3G network in the PRC in the near future, the Group will be presented with unlimited opportunities.

With a view to capturing the emerging market opportunities, the Group has already formulated its development strategies to further consolidate its market share and enlarge its business scale.

First of all, the Group is in the process of actively revamping its marketing and branding strategies with a view to further upgrading its brand recognition and sales coverage. In the medium term, the Group's market share should benefit from these strategies.

Secondly, in respect of the distribution network, the Group plans to increase its brand equity by partnering with its 2,000 first-tier distributors to redecorate and spruce up Scud sales counters. In addition, the Group plans to explore the markets in the other cities with development potential, such as in the western region of the PRC. Market coverage will be increased to attract and retain outstanding distributors and enlarge the area covered by the existing distribution network. Meanwhile, the Group will strengthen the distribution network for its rechargeable battery packs designed for digital cameras, notebook computers and other portable electronic devices.

With respect to products, the Group will continue to focus on maintaining the leading position of its own brand products in the market of mobile phone rechargeable battery packs in the PRC. The Group will also allocate more resources to capture the opportunities brought by the growth in the demand for other portable electronic devices in the PRC, such as the demand for rechargeable battery packs for notebook computers, digital cameras and other portable electronic devices, in order to increase the Group's income and enhance its market competitiveness.

In order to provide customers with more choices of products to meet their different needs, the Group will keep abreast of the changes in the preferences of its end customers and the market trend, and will launch new series of rechargeable battery products designed for various portable electronic devices on a timely basis.

With respect to production, in order to cater to the market demand for battery packs for 3C products, the Group intends to lease more production space of approximately 11,000 sq.m in the second quarter of 2007, which will enable it to increase its annual production capacity by 50% from 40 million to 60 million pieces. Meanwhile, the Group will continue its preparations for the construction of its new plant in Fuzhou in March 2007. Upon completion, the Group's production facilities can all be centralized and located at the new production plant and occupy a gross floor area of 64,000 sq.m. The Group's annual production capacity is expected to be increased to approximately 120 million pieces when fully operation. It is targeted that the plant will commence production in the fourth quarter of 2008.

Regarding research and development, the Group will focus on devoting more resources for the research and development of mobile phone rechargeable battery packs to accelerate the pace of product research and development and supplement battery models required by mobile phones of non-major brands as soon as possible. At the same time, the Group will strive to commence research and development upon the introduction of new mobile phones for the launch of its new products.

Meanwhile, the Group has speeded up the efforts in exploring various opportunities including the forming of potential business alliances and the acquisitions of businesses, technology platforms or projects which are adjacent to the Group's existing value chain. These initiatives will be developed with a view to become the growth drivers of the Group in the near future.

Looking ahead, with the advent of the 3G mobile phone era, and the enormous business opportunities presented in the market of the battery for 3C products in the PRC, the Directors firmly believe that, by leveraging on the Group's leading position in the mobile phone rechargeable battery industry of the PRC and more than 35,000 sales points spanning across 31 provinces, municipalities and autonomous regions in the PRC, and implementing the development strategies formulated by the Group, the Group will be in a favourable position to develop into the most popular battery brand for 3C products in the PRC and generate fruitful returns for its shareholders.

Financial Review

Turnover

Driven by the growth in the demand of rechargeable battery packs and the peripherals for mobile phones and other portable electronics devices in the PRC, the consolidated turnover of the Group for the year ended 2006 was RMB936.3 million, representing an increase of 32.4% over the amount of RMB707.0 million for the year ended 2005. During the year, turnover attributable to the Group's own brand business increased 32.2% from RMB468.9 million to RMB620.1 million while the turnover attributable to the Group's OEM business increased 32.9% from RMB238.1 million to RMB316.2 million. The Group's own brand business as a percentage of the Group's turnover was maintained at 66.3% for 2005 and 66.2 for 2006.

The increase in the Group's turnover attributable to its own brand business was principally a result of (i) an increase in the number of the Group's first tier distributors. The number of first tier distributors of the Group has grown from 248 as at 31 December 2005 to approximately 331 as at 31 December 2006; (ii) the increase in sales of the Group's mobile phone peripherals; and (iii) the increase in production capacity. The increase in the Group's turnover attributable to its OEM business was principally a result of the increase in sales of (i) its notebook computer battery packs from RMB19.2 million for 2005 to RMB34.1 million for 2006 and (ii) mobile phone rechargeable battery packs from RMB194.9 million for 2005 to RMB268.2 million for 2006.

Cost of sales

The Group's cost of sales amounted to RMB695.8 million in 2006. Direct materials, direct labour and other production cost accounted for approximately 89.4%, 3.3% and 7.3% of the cost of sales. Overall, as a percentage of the Group's turnover, the Group's cost of sales decreased from 79.2% in 2005 to 74.3% in 2006.

Gross profit and gross profit margin

The Group's gross profit increased 63.3% from approximately RMB147.3 million for the year 2005 to approximately RMB240.5 million for 2006. For the Group's own brand business, the gross profit increased by 72.0% from RMB101.3 million for 2005 to RMB174.2 million for 2006. For the Group's OEM business, the gross profit increased by 50.7% from RMB44.0 million for 2005 to RMB66.3 million for 2006.

The gross profit margin of the Group increased from 20.8% for 2005 to 25.7% for 2006. For the Group's own brand business, the gross profit margin was 28.1%, higher than 6.5% for last year primarily due to enhancement of production efficiency and economies of scale, lower purchase cost and a shift of product mix towards higher margin own brand products in the current year. For the OEM business, the gross profit margin increased from 18.5% to 21.0% over the period compared.

Other income

The other income of the Group increased from RMB4.4 million in 2005 to RMB24.5 million in 2006. This increase was primarily due to the increase in interest income derived from the Company's initial public offering in December 2006.

Change in fair value of convertible bonds designated as at fair value through profit or loss

A subsidiary of the Group issued US\$10 million (equivalent to approximately RMB78,161,000) convertible bonds on 23 January 2006 with a coupon rate of 2.5% per annum and redemption premium of 12% per annum, and with a maturity date on 23 January 2010.

Upon application of International Accounting Standards 39, the entire convertible bonds were designated as "financial liabilities at fair value through profit or loss" which requires the convertible bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognized directly in the income statement. For the year 2006, a loss on changes in fair value of approximately RMB8.5 million is recognized in the consolidated income statement.

On 15 September 2006, a supplemental agreement to the issue of convertible bonds was signed to modify the terms of the convertible bonds and such modification is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

On 7 February 2007, the convertible bonds holder exercised its right to convert all the bonds into an aggregate of 93,001,246 shares of HK\$0.1 each in the Company.

Profit before taxation

Operating profit was RMB174.9 million, representing an increase of approximately 56.6% compared to 2005. During the year, the Group recorded total operating expenses of RMB70.9 million, comprising approximately RMB15.6 million for distribution costs and RMB55.3 million for administrative expenses. Distribution costs comprised RMB4.3 million for advertising and promotion expenses, RMB3.0 million for salaries and allowances, and RMB1.0 million provision with respect to the warranties applicable to the Group's own brand business. The distribution cost amounted to 1.7% of turnover, compared with 1.6% in 2005. A higher distribution cost was primarily due to the increased efforts in marketing and brand building, thereby increasing advertising and promotion expenses.

During 2006, the Group recorded administrative expenses of approximately RMB55.3 million, comprising approximately RMB12.6 million for research and development expenses and RMB7.7 million being the professional fees incurred for the initial public offering of the Company. Research and development expenses accounted for approximately 1.3% of the total turnover in 2006, or an increase of RMB5.9 million from 2005. The Group's administrative expenses accounted for 5.9% of total turnover in 2006, a growth of RMB30.8 million from 2005.

Liquidity and Financial Resources

The Group's cash and bank balance increased to RMB486.9 million, representing an increase of RMB472.1 million from the balance recorded as at the end of December 2005. The increase is largely due to positive cash flow of RMB102.2 million generated from the operating activities and RMB481.2 million from the proceeds of the initial public offering. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity of RMB835.7 million was 39.1% as at 31 December 2006. In addition, the Group has restricted short term bank deposits of RMB124.0 million. As at 31 December 2006, the Group has no long-term liabilities. The current ratio and quick ratio also improved to 3.3 times and 3.0 times from 2.0 times and 1.5 times respectively in 2005.

Net Current Assets and Net Assets

The Group's net current assets as at 31 December 2006 was approximately RMB741.4 million, an increase of 418.8% or RMB598.5 million from the balance of RMB142.9 million recorded as at 31 December 2005 due largely to the proceeds from the issue of shares by the initial public offering of the Company. Net assets rose to RMB837.1 million, representing an increase of RMB634.9 million or 314.0% over the balance as at 31 December 2005.

Pledge of Assets

As at 31 December 2006, the Group pledged its bank deposit of RMB83.5 million (2005: Nil) and certain machinery and electronic equipment with an aggregate carrying amount of RMB3.3 million (2005: RMB19.0 million) to certain banks to secure bank facilities granted to a subsidiary of the Group.

As at 31 December 2006, the Group pledged its bank deposit of RMB40.5 million (2005: RMB2.9 million) to certain banks to secure notes payable and letter of credit facilities granted to a subsidiary of the Group.

Contingent Liabilities

As at 31 December 2006, the Group had no contingent liabilities. As at 31 December 2005, guarantees given to the banks in respect of bank facilities and notes payables were RMB40.6 million and RMB28.9 million respectively.

Foreign Exchange Exposure

The Group carries out the majority of its transactions in RMB and accordingly, the Group is not exposed to any significant foreign currency risk. Although the Group has certain bank balances and short-term bank loans denominated in USD, JPY and HKD, their proportion to the Group's total assets is insignificant. The Group has convertible bonds denominated in USD and management considers the exchange rate fluctuation between RMB and USD is not significant, and thus no hedging arrangement of foreign currency risk has been entered into.

Employee, Remuneration Policies and Share Option Scheme

As at 31 December 2006, total number of employees of the Group was approximately 2,300. The Group ensures all levels of employees are paid competitively within the standard in the market and employees are rewarded on a performance-related basis within the framework of the Group's salary, incentives and bonus scheme.

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 3 December 2006 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme was adopted for a period of 10 years and the Company by ordinary resolution in general meeting or the Board of Directors of the Company may at anytime terminate the Scheme without prejudice to the options granted during the life of the Scheme and which remain unexpired immediately prior to such termination.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 24,970,000 (2005: N/A), representing 2.9% (2005: N/A) of the shares of the Company in issue at that time. The number of shares issued and to be issued in respect of which options granted and may be granted to a substantial shareholder or an independent non-executive director or any of their respective associates representing in aggregate over 0.1% the Company's share capital on the date of such grant or with an aggregate value in excess of HK\$5 million must be approved in advance by resolution of the Company's shareholders (voting by way of poll).

A consideration of HK\$1.0 is payable on the grant of an option.

USE OF PROCEEDS

The Company raised an aggregate proceeds of HK\$604.0 million as a result of the initial public offering of shares of the Company on the Mainboard of the Stock Exchange (inclusive of HK\$78.8 million raised from the over-allotment option exercised in January 2007). During the reporting period, the Company applied HK\$78.0 million (equivalent to RMB78.2 million) and HK\$195.0 million (equivalent to RMB195.6 million) to the capital injection in Scud (Fujian) Electronics Co. Ltd and Scud (Fujian) Battery Co. Ltd respectively. The capital injected to the subsidiaries are intended to be used in strengthening and expansion of the Group's sales and marketing network in PRC, promoting the "SCUD飛毛腿" brand name, construction of new factory in Fuzhou, expansion of production capabilities and repayment of bank loans during the next 12 months. As at 31 December 2006, proceeds in the amount of HK\$340.7 million remained unutilized and were held as deposits with commercial banks in Hong Kong.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares since the day of listing.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors and same as referred to herein, the Company has complied with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the year ended 31 December 2006. During the course of its audit, it has come to the attention of the Directors that one of the caps in respect of purchases of raw materials and moulds from a related party (constituting continuing connected transactions for the Company) may have been exceeded for the year ended 31 December 2006. Further details will be set out in the Company's annual report.

To meet corporate governance standards and enhance corporate performance and accountability, the Company has established an Internal Audit department to ensure that the Group maintains an effective system of internal controls. The internal control system is designed to provide reasonable assurance against material misstatement or loss; to manage the risk of system failure; and to assist in the achievement of the Group's objectives. In addition to safeguarding the Group's assets, it also ensures the maintenance of proper accounting records and compliance with relevant laws and regulations.

Further details of the Company's compliance with the Code on Corporate Governance Practices can be found in the Company's annual report for the year ended 31 December 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). The Directors have complied with the standards set out in the Model Code for the year ended 31 December 2006.

AUDIT COMMITTEE

An Audit Committee was established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's results for the year ended 31 December 2006. The Audit Committee comprises three independent non-executive directors and one non-executive director of the Company. A meeting of the Audit Committee was held to review the Group's annual results for the year ended 31 December 2006 before they presented the same to the Board of Directors for approval.

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

A Nomination Committee and a Remuneration Committee were established by the Company and the primary duties of the Nomination Committee and Remuneration Committee are mainly to study and formulate the criteria of selection and the remuneration policy of the directors and the senior management of the Company, to review candidates for the directors and the senior management of the Company, and to review the human resources development and the utilization policy of the Company.

EXECUTIVE COMMITTEE

An Executive Committee was established by the Company and the primary duties of the Executive Committee are mainly to review and formulate the strategic positioning and development plans of the Company, to review and formulate strategies for market development and operation, to monitor operational and financial performance to assets and control risks, and to review the strategies of the Company on its material projects, business expansion, asset restructuring and operations.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed with management the accounting principles and practice adopted by the Group, discussed auditing, financial reporting matters and has reviewed the annual results for the year ended 31 December 2006. In addition, the consolidated financial statements of the Group for the year ended 31 December 2006 have been audited by our auditors, Messrs, Deloitte Touche Tohmatsu and an unqualified opinion report has been issued.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

This announcement will be published on the website of the Stock Exchange. The annual report for the year containing all the information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange in due course.

ACKNOWLEDGEMENT

As at the date of this announcement, the executive directors of the Company are Mr. Fang Jin, Mr. Lin Chao, Mr. Guo Quan Zeng and Mr. Li Hui Qiu, the non-executive director is Mr. Ho Man and the independent non-executive directors are Mr. Heng Kwo Seng, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang.

On behalf of the Board of
SCUD Group Limited
Fang Jin
Chairman

Hong Kong, 28 March 2007

“Please also refer to the published version of this announcement in South China Morning Post.”