SCUD GROUP LIMITED
飛毛腿集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1399)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2007

INTERIM RESULTS HIGHLIGHTS

- **For the six months ended 30 June 2007, the turnover of the Group amounted to approximately RMB542.8 million, representing an increase of 12.5% over the amount of approximately RMB482.4 million for the corresponding period of last year.**
- **There was a serious fire at the Group's production plant in Fuzhou on 31 May 2007, which adversely affected the turnover and the net profit of the Group for the first half of 2007.**
- **During the period under review, the Group recorded a loss attributable to equity holders of approximately RMB125.3 million, including a loss of inventories and fixed assets of approximately RMB220.2 million caused by the fire compared to the profit attributable to equity holders of approximately RMB79.7 million for the corresponding period of last year.**
- **Excluding loss of inventory and fixed assets caused by the fire but taking into account of the impact of the fire to the production and sales in June, the profit before tax should be approximately RMB86.6 million.**
- **In the first half of 2007, the basic loss per share was RMB12.89 cents, compared to the basic earnings per share of RMB13.28 cents for the corresponding period of last year.**
- **For the five months ended 31 May 2007 prior to the fire, the turnover of the Group amounted to approximately RMB510.0 million, representing an increase of 28.5% over the amount of approximately RMB396.8 million for the corresponding period of last year.**
- **For the five months ended 31 May 2007 prior to the fire, the net profit of the Group amounted to approximately RMB90.1 million, representing an increase of 22.3% over the amount of approximately RMB73.7 million for the corresponding period of last year.**
- **To reward the continuous support of the Company's shareholders and taking into consideration that the Group has sufficient funds for business development, the Board has resolved to declare an interim dividend of HK$2.0 cents per share.**

The Board of Directors (the "Board") of SCUD Group Limited (the "Company") hereby announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2007, together with the audited comparative figures for the corresponding period of 2006. The results have been reviewed by the audit committee of the Company.

* *For identification purpose only*

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2007

	Note	Six months ended 30 June 2007 RMB'000 (Unaudited)	2006 RMB'000 (Audited)
Turnover		542,802	482,401
Cost of sales		(401,226)	(356,360)
Gross profit		141,576	126,041
Other income		9,821	5,244
Selling and distribution costs		(17,652)	(8,285)
Administrative expenses		(36,567)	(20,954)
Losses from fire	5	(220,222)	–
Other operating expenses		(8,439)	(200)
Finance costs		(2,156)	(1,790)
Convertible bonds issue expenses		–	(2,262)
Change in fair value of convertible bonds designated as at fair value through profit or loss		–	(9,985)
(Loss) profit before taxation	6	(133,639)	87,809
Income tax credit (charge)	7	8,382	(8,120)
(Loss) profit for the period attributable to shareholders of the Company		(125,257)	79,689
Dividends	8	19,332	30,744
(Loss) earnings per share – basic (RMB cents)	9	(12.89)	13.28
(Loss) earnings per share – diluted (RMB cents)		–	13.14

CONDENSED CONSOLIDATED BALANCE SHEET
For the six months ended 30 June 2007

	Note	30.6.2007 *RMB'000* (Unaudited)	31.12.2006 *RMB'000* (Audited)
Non-current assets			
Property, plant and equipment	*10*	169,900	79,487
Prepaid lease payments		12,373	12,131
Intangible assets		2,350	1,807
Deferred tax assets		10,485	1,675
Deposit for purchase of property, plant and equipment		–	657
		195,108	95,757
Current assets			
Inventories		104,841	94,908
Trade and notes receivables	*11*	229,309	227,573
Prepaid lease payments within one year		258	251
Prepayments, deposits and other receivables		84,549	126,408
Amounts due from related parties		1,030	960
Investments held-to-maturity	*12*	100,600	–
Income tax recoverable		2,403	–
Pledged bank deposits		84,852	124,045
Bank balances and cash		381,347	486,937
		989,189	1,061,082
Current liabilities			
Trade and notes payables	*13*	266,727	94,801
Provision for warranty		3,483	2,572
Other payables, receipt in advance and accrued charges		44,604	62,238
Amount due to related parties		706	2,354
Bank loans		444	76,362
Convertible bonds	*14*	–	78,410
Income tax payable		–	2,973
		315,964	319,710
Net current assets		673,225	741,372
Total assets less current liabilities		868,333	837,129
Capital and reserves			
Share capital	*15*	99,503	86,404
Reserves		767,646	749,319
Total equity attributable to shareholders of the Company		867,149	835,723
Non-current liabilities			
Bank loans – due after one year		1,184	1,406
Total equity and non-current liabilities		868,333	837,129

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
For the six months ended 30 June 2007

1. GENERAL INFORMATION

SCUD Group Limited (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. The Company and its subsidiaries (together the "Group") are principally engaged in the distribution and marketing of rechargeable battery packs and related accessories for mobile phones, notebook computers, digital cameras and other electrical appliances.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 "Interim Financial Reporting" issued by International Accounting Standards Board.

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2006 except as described below.

In the current period, the Group has adopted, for the first time, a new and an amended International Financial Reporting Standard ("Standard") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") ("Interpretations") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007.

The adoption of the new Standards had no material effect on how the results or financial position of the Group for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment is required.

The Group has not adopted earlier or applied the following new and revised standards or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and financial positions of the Group.

IAS 23 (Revised)	Borrowing costs[1]
IFRS 8	Operating segments[1]
IFRIC 11	IFRS 2 – Group and treasury share transactions[2]
IFRIC 12	Service concession arrangements[3]
IFRIC 13	Customer loyalty programmes[4]
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction[3]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 March 2007.
[3] Effective for annual periods beginning on or after 1 January 2008.
[4] Effective for annual periods beginning on or after 1 July 2008.

4. **BUSINESS AND GEOGRAPHICAL SEGMENTS**

Business segments

The Group is currently engaged in providing its products to two classes of customers, namely, own-brand business and original equipment manufacturer ("OEM") business. 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:

For the six months ended 30 June 2007

	Own-brand business *RMB'000*	**OEM business** *RMB'000*	**Consolidated** *RMB'000*
Turnover	377,521	165,281	542,802
Segment results	87,147	20,517	107,664
Unallocated income			9,821
Unallocated expenses			(28,746)
Losses from fire			(220,222)
Finance costs			(2,156)
Loss before taxation			(133,639)
Income tax credit			8,382
Loss for the period			(125,257)

For the six months ended 30 June 2006

	Own-brand business *RMB'000*	**OEM business** *RMB'000*	**Consolidated** *RMB'000*
Turnover	342,036	140,365	482,401
Segment results	81,397	22,823	104,220
Unallocated income			5,244
Unallocated expenses			(9,880)
Change in fair value of convertible bonds designated as at fair value through profit or loss			(9,985)
Finance cost			(1,790)
Profit before taxation			87,809
Income tax charge			(8,120)
Profit for the period			79,689

Geographical segments

Analysis of the Group's turnover and results by geographical market have not been presented as over 90% of the Group's turnover and results are generated from the People's Republic of China (the "PRC").

5. LOSSES FROM FIRE

On 31 May 2007, there was a serious fire at the Group's production plant in Fuzhou, the PRC. Most of the Group's inventories had been destroyed whilst most of its production lines were unaffected.

The losses incurred as a result of the fire are summarised as follows:

	RMB'000
Raw material:	
Rechargeable battery cells	78,497
Metals components	3,644
Electronic components	38,720
Plastic components	26,681
Plastic casing for battery packs	20,953
Others	7,824
	176,319
Semi-Finished Goods	7,690
Finished Goods	17,469
Inventories loss	201,478
Loss on property, plant and equipments	10,458
Other damages *(Note)*	8,286
	220,222

Note: The amount represents estimated costs for reconstruction of the rented premises being damaged in the fire.

6. (LOSS) PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
(Loss) profit before taxation has been arrived at after charging (crediting):		
Operating lease rentals	4,222	1,896
Depreciation and amortisation of property, plant and equipment	9,227	6,278
Research and development costs	8,551	5,080
Exchange loss included under other operating expenses	6,974	–
Interest income	(5,804)	(366)

7. INCOME TAX (CREDIT) CHARGE

	Six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
The charge (credit) comprises:		
PRC Enterprise Income Tax	428	8,170
Underprovision in prior period	–	58
Deferred taxation credit	(8,810)	(108)
	(8,382)	8,120

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purposes at the rate of taxation applicable for the period.

Scud (Fujian) Electronics Co. Ltd. ("Scud Electronics") and Scud (Fujian) Battery Co. Ltd. ("Scud Battery") are foreign investment enterprises located in Mawei District, Fuzhou, Fujian Province, PRC. Scud Electronics (Shenzhen) Co. Ltd. ("Scud Shenzhen") is a foreign investment enterprise located in Shenzhen, PRC. Mawei District and Shenzhen are each designated as an Economic Development Zone. Accordingly, Scud Electronics, Scud Battery and Scud Shenzhen are subject to an income tax rate of 15%.

Pursuant to PRC Law of Income Tax of Foreign Investment Enterprises and Foreign Enterprises, Detailed Rules and Regulations for the Implementation of PRC Law of Income Tax of Foreign Investment Enterprise and Foreign Enterprises and the approval document 榕開國稅政 [2003] 72號 issued by Fuzhou Tax Bureau Branch on 15 May 2003, Scud Electronics is entitled to exemption from PRC enterprise income tax for two years commencing from its first profit-making year of operation to a 50% relief from PRC enterprise income tax for the next three years. Scud Electronics started to enjoy the tax exemption from 2002 and the tax relief period from 2004. A reduced enterprise income tax rate of 7.5% therefore applies from 2004 to 2006. Scud Electronics applied to extend the exemption period in 2007. The tax bureau approved the application, so the effective rate for Scud Electronics is 10% for the next three years commencing from April 2007 to April 2010, both years inclusive. No provision for enterprise income tax has been made for Scud Battery and Scud Shenzhen as Scud Battery and Scud Shenzhen did not have assessable profits since their respective dates of establishment.

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group's profits were neither arisen in nor derived from Hong Kong during both periods, and Scud Group (Hong Kong) Company Limited incurred a tax loss during the period.

8. DIVIDENDS

A dividend in respect of the six months ended 30 June 2007 of HK$2.0 cents per share, amounting to a total dividend of HK$19,840,000 (equivalent to RMB19,332,000), was proposed by the Board on 30 August 2007 subject to Shareholders' approval. This condensed consolidated financial statements has not reflected this dividend payable. For the six months period ended 30 June 2006, dividends of RMB30,744,000 were declared and paid to the then shareholders prior to the Group Reorganisation.

9. (LOSS) EARNINGS PER SHARE

The calculations of basic and diluted (loss) earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	Six months ended 30 June	
	2007	**2006**
	RMB'000	*RMB'000*
Earnings for the purpose of basic (loss) earnings per share ((Loss) profit for the period)	(125,257)	79,689
Effect of dilutive potential ordinary shares:		
Change in fair value of convertible bonds designated as at fair value through profit or loss		9,985
Earning for the purposes of diluted earnings per share		89,674
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	971,481,654	600,000,000
Effect of dilutive potential convertible bonds		82,325,454
Weighted average number of ordinary shares for the purpose of diluted earnings per share		682,325,454

No diluted loss per share has been presented in the current period as the convertible bonds and share options granted are anti-dilutive.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group mainly acquired plant and machinery at a cost of RMB32,313,000 (2006: RMB23,017,000), office equipment at a cost of RMB14,892,000 (2006: RMB1,237,000), motor vehicles at a cost of RMB2,361,000 (2006: RMB3,955,000), moulds at a cost of RMB11,205,000 (2006: RMB1,982,000), leasehold improvements at a cost of RMB395,000 (2006: nil) and addition to construction in progress of RMB49,048,000 (2006: RMB1,509,000).

11. TRADE AND NOTES RECEIVABLES

The Group allows credit periods normally ranging from 60 to 90 days to its trade customers. An aged analysis of the Group's trade receivables at the balance sheet date is as follows:

	30.6.2007	**31.12.2006**
	RMB'000	*RMB'000*
Within 6 months	204,543	223,627
Over 6 months but less than 1 year	24,766	3,808
Over 1 year but less than 2 years	–	138
	229,309	227,573

All notes receivables age within six months at the respective balance sheet date.

12. INVESTMENTS HELD-TO-MATURITY

The investments held-to-maturity are denominated in Renminbi with rates of return linked with the interbank's fixed return products, investment income from subscription of newly listed securities in the PRC and income from interbank deposits and currency funds. The investments held-to-maturity are designated as fair value through profit or loss upon initial recognition.

The maturity dates of the investments held-to-maturity are in December 2007 and are therefore classified as current. All investments held-to-maturity are stated at fair values on each balance sheet date with reference to the quotation provided by the trustee of the investments held-to-maturity.

13. TRADE AND NOTES PAYABLES

An aged analysis of the Group's trade payables at the balance sheet date is as follows:

	30.6.2007	**31.12.2006**
	RMB'000	*RMB'000*
Within 6 months	264,185	93,379
Over 6 months but less than 1 year	2,081	1,229
Over 1 year but less than 2 years	394	146
Over 2 years	67	47
	266,727	94,801

All notes payables age within six months at the respective balance sheet date.

14. CONVERTIBLE BONDS

The Company had issued convertible bonds on 23 January 2006 in the principal amount of US$10,000,000 (equivalent to approximately RMB78,161,000) with a coupon rate of 2.5% per annum and redemption premium of 12% per annum (reduced to 7.875% per annum pursuant to a supplemental agreement entered on 15 September 2006), and with maturity date on 22 January 2010 (the "Convertible Bonds"). The Convertible Bonds holder exercised its conversion rights under the Convertible Bonds and on 7 February 2007, the Company allotted and issued 93,001,246 shares at the Conversion Price as disclosed in the Prospectus. Such Conversion Shares represented approximately 9.38% of the Shares in issue as at 7 February 2007.

15. SHARE CAPITAL

	Number of shares	**Amount**
	'000	*RMB'000*
Ordinary shares of HK$0.10 each		
Authorised:		
Balance at 1 January 2007 and 30 June 2007	5,000,000	502,350
Issued and fully paid:		
Balance at 1 January 2007	860,000	86,404
Issue of shares by over-allotment	39,000	3,885
Conversion of Convertible Bonds	93,001	9,214
Balance at 30 June 2007	992,001	99,503

There was no changes in the Company's authorised share capital during the period.

16. SUBSEQUENT EVENTS

The Group has reported the fire (see note 5) to its insurers. The insurance is primarily for loss of inventories and products from fire up to RMB100,000,000 and not subsequent business disruption or other losses. Up to the date of approval of the interim condensed consolidated financial statements, the Group have not yet been able to conclude the amount of compensation receivable from the insurers as investigation is still pending. The impairment loss in respect of inventories, property, plant and equipment and other damages amounting to RMB220,222,000 in aggregate, reflected at the period ended 30 June 2007 does not take into account of any possible compensation from insurers. Any amounts eventually recoverable from the insurers will be recognised in the future periods only when it is certain to be received.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group, operating under its own brand name of "SCUD飛毛腿", is the market leader in the distribution and marketing of rechargeable battery packs for mobile phones in the PRC. The Group has also further broadened its product range and developed rechargeable battery packs which are compatible with other 3C products, including notebook computers, digital cameras and other personal electronic devices in order to enhance the Group's revenue and its competitiveness in the market.

Driven by the growth in the demand of rechargeable battery packs and peripherals for mobile phones and other portable electronic devices in the PRC, the turnover of the Group for the six months ended 30 June 2007 amounted to approximately RMB542.8 million, representing an increase of 12.5% when compared with the corresponding period last year. However, owing to the serious fire at its production plant in Fuzhou on 31 May 2007 ("fire"), most of the Group's inventory had been destroyed and the Group's production had been significantly disrupted. As a result the Group's turnover and net profit for the first half of 2007 were affected. For the five months ended 31 May 2007 prior to the fire, the Group recorded a turnover of approximately RMB510.0 million, representing an increase of 28.5% from approximately RMB396.8 million for the corresponding period last year. However, as the Group's inventory had been destroyed during the fire, the production processes, production capacity and order deliveries were materially affected in June. The monthly sales of June was only approximately RMB32.8 million. The gross profit for the first half of the year was approximately RMB141.6 million, representing an increase of 12.3% compared to the corresponding period last year. Since the fire was an individual case, the gross profit margin of the Group was not materially affected. The percentage of the Group's own brand business accounted for 69.6% and 70.9% of the Group's turnover in 2007 and 2006 respectively. For the Group's business under to own brandname, the gross profit margin for the period was 28.6%, up 0.5 percentage points from 28.1% for the corresponding period last year. For the OEM business, the gross profit margin was 20.3%, which approximated to 20.5% of the same period last year. The loss attributable to the shareholders was approximately RMB125.3 million (including the inventory loss and fixed assets loss of approximately RMB220.2 million caused by the fire), compared with the profit attributable to the shareholders of RMB79.7 million recorded in the corresponding period last year. Loss per share for the period was RMB12.89 cents (30 June 2006: earnings of RMB13.28 cents).

As it will take time for the production facilities to fully resume their normal operations, the results for the third quarter of 2007 are expected to be challenging. However, the management anticipates that, capitalizing on the Group's strong distribution network and brand awareness, upon the resumption of normal production and merchandise supply of the plant, the volume of order deliveries of the Group will pick up. It is expected that the results in the fourth quarter of 2007 will demonstrate a significant improvement over that of the third quarter of 2007.

The Board and the management of the Group anticipate a full resumption of normal operations of the Group in early 2008 and will continue to enhance its operational efficiency, upholds the principle of maximizing shareholders' benefits as the basis for its decision making. Through enlarged product range and the gradual development of new markets, the management is confident that the Group's operations will be back on the growth track.

Optimization of the sales network

Conducting sales through a distribution system enables the Group to establish an extensive market coverage and a customer services network in the PRC in an effective and highly cost efficient manner. As at 30 June 2007, the Group had a total of 350 first tier distributors, increased by 19 compared with that as at the end of 2006. Currently, its distribution network comprises about 180 exclusive distributors. It is expected that the distributors increased during the first half of the year will have a more significant contribution on the sales of the Group in the second half of the year. In addition, the Group has presently set up offices in nine major areas nationwide to strengthen the establishment of channel network and management, and to strengthen the team of distributors and foster new competitive distributors by adopting the moral of "the best of the best survived".

Enhancement of production capacity

With improved production flow and the results achieved from the evaluation system based on key performance indicators, the production capacity in the first half of 2007 prior to the fire increased by 30% compared with that at the end of 2006. After the fire, management has made every endeavour to resume production and delivery of its products and as the material supply chain gradually improved, over 60% of its production capacity had resumed as at 30 August 2007.

Expansion of product range
With respect to the product, it is the strategy of the Group to continue its focus on developing high-end products with higher profit margins. Presently, mobile phone batteries remain the core products of the Group. As at 30 June 2007, mobile phone batteries accounted for 78.1% of the Group's turnover. The types of mobile phone batteries launched by the Group under its own brand "SCUD飛毛腿" has reached 2,600 which are compatible with 3,000 handset models. Moreover, the Group continued to focus on developing its business under its own brand "SCUD飛毛腿", together with the complementary OEM business to further enhance the quality, technology and management of its products. As at 30 June 2007, the Group's business under its own brand and OEM business accounted for 69.6% and 30.4% of the Group's total turnover respectively, more or less the same ratio of last year.

To strengthen the brand image, the renovation of about 800 SCUD sales counters, mainly located in regions such as Guangdong, Hubei and Henan, have been completed. The outcome has been highly noticeable, particularly on raising brand awareness.

Product safety is one of the crucial factors for building up the Group's brand image. Therefore, the Group is committed to ensuring the quality of its products. In particular, more recent reports of handset battery explosions have drawn consumers' attention to the need for trustworthy handset battery brands. "SCUD飛毛腿" has been established as a reliable and well-known handset battery brand in the domestic market and all the batteries produced by the Group have met the stated standards in all quality tests carried out in different regions. We will further increase our effort in the promotion of our brand. We have already strengthened the management on the internal quality control by setting down reasonable applications and standardization of various instructions. Meanwhile, we will also join forces with the relevant governmental authorities to combat pirated products so as to protect the safety of consumers.

Review Report on the fire

1. Cause of the fire

   At 5:30 p.m. on 31 May 2007, in the rehabilitation processing team of the workshop manufacturing division which is located on the third floor in Scud (Fujian) Battery Co., Ltd., a worker failed to follow the proper operational procedures in undertaking the battery frictioning procedure, which resulted in a short circuit of a battery and caused the fire. After the fire broke out, the management at the site immediately started to put out the fire and called the police. The fire spread so quickly that the plant located on the fourth floor was soon affected. All the staff were evacuated. Additional rescue team was arranged and warnings were posted throughout the whole plant.

2. Loss caused by the fire

   A gross floor area of over 3,000 square meters was affected by the fire, making two workshops with a plant area of 5,000 square meters unavailable for use. Some production facilities, raw material, semi-finished goods and finished goods were also destroyed. A direct economic loss of approximately RMB220.2 million comprising inventory loss of approximately RMB215.0 million was recorded. As the insurance claim has not yet been completed, any survey of the structure of the plant cannot be carried out. It is expected that the two damaged workshops will not be reopened for use until the renovation work is completed by the end of 2007. The Group is, however, relieved to report that there were no fatalities in connection with this fire.

3. Resumption of production

   After the fire, the Group initiated emergency procedures and set up a production self-help commanding centre, to accelerate the resumption of production and deal with the aftermath of the fire in order to resume the supply to the market within two weeks. At present, the production capacity has recovered to over 60%. After the fire, the Group received consolation letters from its major distributors and OEM customers such as leading suppliers Sanyo, Bak, BYD and Lishen, expressing their full support to our operations and offering understanding and allowance for the Group's delay in deliveries. Our suppliers worked overtime with additional shifts to speed up the goods deliveries to us and provided us with the production materials within the shortest lead time.

4. Insurance claim

   In January 2007, Scud (Fujian) Battery Co. Ltd. took out insurance with the Fujian Branch of China Pacific Insurance (Group) Co., Ltd. (中國太平洋保險公司福建分行) to cover the raw materials, semi-finished and finished products with a total insured amount of RMB100.0 million. Both parties have employed appointed a third party to conduct a reasonable evaluation. The on-site investigation has in principle been completed pending the issue of the preliminary assessment report. It is expected that the insurance claim will be concluded in principle by October 2007. The Company is now comparing the terms of various insurers against the Group's current insurance plan to formulate a reasonable insurance strategy.

5. Liability penalty
All members of the executive committee of the Group have completed a thorough review of the emergency procedures and fire prevention policies with regard to the fire. The chairman of the Committee/president of the Group proposed to the Board for a salary cut of 30% for himself for one year and 10% for other executive committee members for half a year, and the direct supervisor held responsible be dismissed from his job or receive internal punishment by the Company.

6. The market impact
There was a shortage in our supplies due to the fire, resulting in a temporary sourcing of other brands' merchandise by some small distributors to replenish their supplies. However, as the Group has built up its leading position in the market over the years, as it resumed supply of merchandise, the distributors gradually resumed purchase of the Group's products. A full resumption of supply to the market is expected by the second quarter of 2008 the latest. The Group also takes this opportunity to strengthen the team of distributors and develop new competitive distributors by using the moral of "the best of the best survived". For the OEM business, the fire has had limited impact on the OEM customers as the supply of products has been fully resumed within a short period of time.

7. Strengthening management and lowering management cost
Through the on-going implementation of the key performance indicators evaluation system, the Group will reorganize its departments and minimize the duties duplication and overlapping among different departments. We will also implement a system of eliminating personnel with substandard performance to divert some of the underperformed management staff. The "5S+1" principles will be implemented for on-site management. 5S stands for "Structure, Systematize, Sanitize, Standardize and Self-discipline" and 1 stands for "Safety", suggesting that safety is the first priority while 5S serves as the foundation and protection. The practice helps to remove the underlying dangers, create a neat and tidy environment, identify potential hazards, improve product quality and reduce costs.

To prevent or lower the risk of fire, the Group has actively implemented necessary precautions, which included:

(1) Increasing the number of fire extinguishing equipments at the plant; enforcing patrol and inspections; identifying and rectifying any problems in a timely manner; maintaining clear passageways and sufficient water supply for fire fighting.

(2) Organizing regular and additional, if necessary, safety education and training for staff, especially for new staff members during orientation.

(3) Conducting two or more large-scale safety and fire drills annually, and setting 31 May as the Company's annual fire drill day to hold safety inspections and fire drills.

(4) Enhancing plant management and formulating safety responsibility zones, and arranging safety inspectors in each workshop to conduct daily patrols so as to identify and eliminate any hidden problems immediately.

(5) Increasing investments on fire safety in the new plant, and installing reasonable and sufficient equipment supply in each fire safety zone.

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. Not only will the Group benefit from the growth of the users of mobile phone in the PRC, but will also benefit from the trend of more advanced multimedia functions of 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 opportunities emerging in the market, the Group has already formulated its development strategies to further consolidate its market share and enlarge its business scale.

With respect to the distribution network, the Group planned to provide financial aid to about 2,000 major sales points in 2007 with an aim of enhancing the image of its display counters, so as to bring higher economic benefits to the Group. Renovation was carried out for 800 counters during the first half of 2007 resulting in noticeable impact on raising brand awareness. In the second half of the year, the Group will further enhance the image of display counters for the remaining 1,200 sales points. The Directors foresee that the increase in the number of distributors will be monitored in the second half of the year, as the Group is concerned with the quality, rather than the quantity, of its distributors. Presently, the Group has set up offices in various major areas nationwide, strengthening the management and training of the distributors, in order to improve the profitability of its distributors. Moreover, the Group will continue to actively expand its developments in cities with promising potentials, and strengthen and retain quality distributors through expanding the market coverage so as to expand the coverage for product distribution.

With respect to products, the Group will continue to focus on maintaining the leading position of its own branded mobile phone rechargeable battery products 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, standard rechargers and stationed backup batteries, in order to increase the Group's income and enhance its market competitiveness. In April 2007, the Group trial launched notebook computer batteries under its own brand "SCUD飛毛腿". In the second half of the year, the Group will, subject to market demand, consider further expanding its distribution network. 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.

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 as early as possible. The Group has begun to develop mobile phone battery rechargers of unified standard, and plan to launch two models of such products in 2007. One of which has passed the test and is scheduled to be launched this September, and the other model will be launched by the end of this year. The motive battery project for power stations has entered the stage of trial production in small volume.

With respect to production, the Group will increase the production shifts and the proportion of high-end products to further speed up the resumption of production capacity. It is expected that 100% of its production capacity would be recovered by the end of 2007. The Group has leased a plant with gross floor area of over 2,000 square meters near the factory as a warehouse in June 2007. The Group has also reached an understanding with Scud (Fujian) Technology Co., Ltd, an affiliated corporation, to give the Group first priority to lease the new plant which is now under construction by that company. The new plant is scheduled to be completed by the end of the year. By then, it will further increase the production capacity by 30% to 65 million units at the beginning of 2008.

As a result of the fire, the Company has amended certain design proposals of its new plant by increasing the safety equipments. However, the completion schedule and the designed capacity of the production plant will remain unchanged and the new plant is expected to commence production in the fourth quarter of 2008 as scheduled. Upon commencement of operations, the annual capacity for the new plant will be increased to 120 million units. During the period under review, the capital expenditure of the new plant amounted to approximately RMB26.0 million, mainly used in design and ground leveling and piling work, as well as material cost.

The Group has formulated important initiatives for its internal management during the year. Firstly, the full implementation of key performance indicators evaluation system has been started since July 2007. Besides, designation of positions and responsibilities for the internal management of the companies under the Group, trimming management expenses, lowering costs and enhancing management effectiveness, have been implemented.

Currently, the Group is negotiating for a number of merger and acquisition proposals which are complementary to the business of the Group. If undertaken as scheduled, they would significantly enhance the Group's business development, including a positive contribution to various aspects like the market, gross profit margin as well as production cost.

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 favorable position to develop into the most preferred battery brand for 3C products in the PRC and generate fruitful returns for its shareholders.

Financial Review

During the period under review, the Group recorded administrative expenses of approximately RMB36.6 million, comprising approximately RMB8.6 million for research and development expenses which accounted for approximately 1.6% of the turnover for the six months in 2007, or an increase of 68.3% as compared with the corresponding period in 2006. The Group's administrative expenses accounted for 6.7% of the turnover for the six months in 2007, a growth of approximately RMB15.6 million from the corresponding period in 2006. Distribution costs of approximately RMB17.7 million comprised RMB8.5 million for advertising and promotion expenses. The distribution cost amounted to 3.3% of the turnover for the six months in 2007, compared with 1.7% in 2006. A higher distribution cost was incurred for current period as we expanded our advertising coverage for our branded products and further brand building by way of upgrading the distribution network.

During the first half of this financial year, the Group recorded other operating expenses of approximately RMB220.2 million which mainly represents the exceptional losses from the fire at the Group's production plant in Fuzhou. Most of the Group's inventory had been destroyed and the Group's production was materially disrupted. The losses from the fire comprise approximately RMB201.5 million of inventories loss, RMB10.5 million of loss on property, plant and equipments and RMB8.3 million estimated costs for reconstruction of the rented premises being damaged in the fire. The Group has reported the incident to its insurers, but the insurance primarily covers losses of inventory and products damaged in the fire and not subsequent business disruption or other losses. Up to the reporting date of the interim financial report, the insurers have not yet been able to conclude the amount of compensation. Hence, the loss reflected in the period ended 30 June 2007 is before taking into account any possible compensation from the insurers and such loss amount would be reduced to the extent of any compensation from the insurers.

Liquidity and Financial Resources

The Group maintained a sound financial position in terms of high assets liquidity and free of debt burden. During the period, the Group generally financed its operations with internally generated cash flow and the proceeds from initial public offerings. The Group's cash and bank balances and pledged bank deposits as at 30 June 2007 amounted to RMB466.2 million (at 31 December 2006: RMB611.0 million). There were no significant short and long term interest-bearing bank borrowings outstanding as at 30 June 2007. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity of RMB867.1 million (at 31 December 2006: RMB835.7 million) was 0.2% as at 30 June 2007 (at 31 December 2006: 18.5%). In addition, the Group has restricted short term bank deposits of RMB84.9 million (at 31 December 2006: RMB124.0 million).

As at 30 June 2007, the Group's current ratio was 3.1 times (at 31 December 2006: 3.3 times) based on current assets of RMB989.2 million (at 31 December 2006: RMB1,061.1 million) and current liabilities of RMB316.0 million (at 31 December 2006: RMB319.7 million).

Net Current Assets and Net Assets

The Group's net current assets as at 30 June 2007 was approximately RMB673.2 million, a decrease of 9.2% or RMB68.2 million from the balance of RMB741.4 million recorded as at 31 December 2006. Net assets rose to RMB867.1 million, representing an increase of RMB31.4 million or 3.8% over the balance as at 31 December 2006.

Exposure to fluctuation in exchange rates

For the six months ended 30 June 2007, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. 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 Directors consider that no hedging of exchange risk is required. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when it is appropriate.

Significant investments and acquisitions

During the period under review, the Group made no significant investment nor had it made any material acquisition or disposal of subsidiaries. However, the Group is actively exploring the opportunities including formal potential business alliances, acquisition of businesses, technology platforms or projects outside its existing value chain.

Commitments

During the period under review, the Group was committed to the expansion of the Group's existing production facilities to enhance its production capacity. The Group's capital commitments outstanding as at 30 June 2007 amounting to RMB140.6 million (2006: RMB6.5 million) was mainly associated with the expansion of existing capacity and the construction of the new production plant in Fuzhou. As at 30 June 2007, the Group has not provided any form of guarantee for any company other than the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

Pledge of assets
As at 30 June 2007, the Group has pledged fixed assets of approximately RMB3.1 million and bank deposits of approximately RMB84.9 million to secure the bank credit facilities granted to a subsidiary of the Group (31 December 2006: plant and machinery of RMB3.3 million and bank deposits of RMB124.0 million).

Capital structure
During the period under review, the Company issued and allotted 39,000,000 shares of HK$0.10 each at HK$2.02 each upon the exercise of the over-allotment option for a total consideration of approximately HK$78,780,000. In addition, the Company issued 93,001,246 shares of HK$0.10 each as a result of the conversion of the convertible bonds in the aggregate principal amount of US$10,000,000. Consequent to the aforesaid events, the issued share capital of the Company was increased by HK$13.1 million (represented by 132,001,246 ordinary shares) to HK$99.5 million (represented by 992,001,246 ordinary shares).

Use of Proceeds
The Company raised aggregate proceeds of HK$604.0 million as a result of the initial public offering. As at 30 June 2007, the Company applied HK$78.0 million (equivalent to RMB78.2 million) and HK$195.0 million (equivalent to RMB195.6 million) as capital injection to 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 expanding of the Group's sales and marketing network in the PRC, promoting the "SCUD 飛毛腿" brand name, construction of new factory in Fuzhou, expansion of production capabilities and repayment of bank loans. As at 30 June 2007, the Group has utilized approximately RMB26.5 million for the construction of the new factory, RMB37.7 million for funding the establishment of new production lines, RMB10.0 million for promotion and advertising and RMB55.0 million for repayment of bank borrowings. The unutilized proceeds are held as deposits with commercial banks in Hong Kong as at 30 June 2007.

Employee, Remuneration Policies and Share Option Scheme
As at 30 June 2007, the total number of employees of the Group was approximately 2,400 (31 December 2006: 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. Other benefits include state-managed retirement benefits scheme operated by the PRC government, mandatory provident funds in Hong Kong and the year-end bonus based on individual performance.

At 30 June 2007, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 24,970,000 (31 December 2006: 24,970,000), representing 2.9% (31 December 2006: 2.9%) 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 Companys share capital on the date of such grant or with an aggregate value in excess of HK$5.0 million must be approved in advance by resolution of the Companys shareholders (voting by way of poll). A consideration of HK$1.0 is payable on the grant of an option.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS
Save as disclosed above, at no time during the six months ended 30 June 2007 was the Company or any of its fellow subsidiaries and subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or convertible bonds of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

INTERIM DIVIDEND
The Board hereby proposes, subject to Shareholders' approval, to declare an interim dividend of HK$2.0 cents per share. A circular containing the notice of the Shareholders' meeting together with details of book close for the purpose of approving this dividend will be sent to Shareholders in due course.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES
During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES
The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices ("Corporate Governance Code") contained in Appendix 14 of the Listing Rules throughout the six months period ended 30 June 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company had adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Code throughout the six months period ended 30 June 2007.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-Executive Directors and one Non-Executive Director and reports to the Board. The Audit Committee has reviewed with the management the unaudited financial information and interim results for the six months ended 30 June 2007.

APPRECIATION

I would like to take this opportunity to thank all members of the Board for their invaluable advice and guidance, and to each and every one of our staff for their hard work and loyalty to the Group. Finally, on behalf of the Board, I would like to express our deepest gratitude to our committed colleagues for their continued support and encouragement. I would also like to thank all the customers, suppliers and intermediaries for their recognition and support and the investors for their trust. We pledge to combine all our energies and abilities to achieving our goals so that we can increase benefits to our shareholders. We strongly believe that SCUD will have a promising development in the future and continue to reward investors with profitable returns in the years to come.

By Order of the Board
Fang Jin
Chairman

Hong Kong, 30 August 2007

*As at the date of this announcement, the directors of the Company are Mr. Fang Jin, Mr. Lin Chao, Mr. Guo Quan Zeng, Mr. Li Hui Qiu, Mr. Ho Man**, Mr. Heng Kwoo Seng***, Mr. Wang Jing Zhong*** and Mr. Wang Jian Zhang***.*

** *Non-executive Director*
*** *Independent non-executive Directors*

"Please also refer to the published version of this announcement in The Standard."