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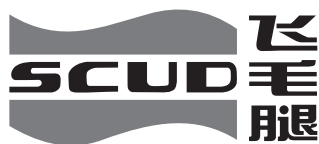
If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult appropriate independent advisers.

If you have sold or transferred all your shares in SCUD Group Limited, you should at once hand this circular to the purchaser or the transferee or to the bank manager, the licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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**SCUD GROUP LIMITED**

**飛毛腿集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1399)**

**DISCLOSEABLE TRANSACTION AND  
CONNECTED TRANSACTION**

**Independent Financial Adviser  
to the Independent Board Committee and the Shareholders**



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\* For identification purposes only

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## DEFINITIONS

*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“Announcement”	the announcement dated 20 December 2007 issued by the Company
“Acquisition”	the proposed acquisition by the Purchaser of the Sale Interest and the Sale Assets pursuant to the Agreement
“Agreement”	the sale and purchase agreement dated 12 December 2007 entered into by the Company and the Vendor in respect of the Sale Interest and the Sale Assets
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday) on which banks are open for business in Hong Kong
“CLTE”	Chaolitong Electronics Company Limited (深圳市超力通電子有限公司), a company incorporated in the PRC
“CLTT”	Chaolitong Technology Company Limited (深圳市超力通科技有限公司), a company incorporated in the PRC
“CLTT Approval Date”	The date on which the Company receives all relevant approvals required from Chinese regulatory authorities for the purchase of the Sale Interest by the Purchaser from an Independent Third Party (or such later date as the parties may agree)
“CLTT Completion Date”	the date on which all the conditions to the Agreement are fulfilled (or waived, as the case may be) and the acquisition of the Sale Interest and Sale Assets are completed
“Company”	SCUD Group Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Consideration”	the aggregate consideration of approximately RMB245 million (equivalent to approximately HK\$257.91 million) payable by the Group for the Sale Interest and the Sale Assets under the Agreement
“Consideration Shares”	Up to 60 million Shares to be allotted and issued at the price of HK\$2.05 per Share, credited as fully paid, to the Vendor if the relevant profit targets are met

## DEFINITIONS

“Directors”	Directors of the Company
“EGM”	Extraordinary general meeting of the Shareholders to be convened by the Company to consider, and if thought fit, to approve the Acquisition;
“FY2005”	financial year ended 31 December 2005
“FY2006”	financial year ended 31 December 2006
“FY2008”	financial year ending 31 December 2008
“FY2009”	financial year ending 31 December 2009
“FY2010”	financial year ending 31 December 2010
“General Mandate”	the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and deal with shares of the Company up to 20% of the issued share capital of the Company pursuant to the ordinary resolution of the Shareholders passed in the annual general meeting of the Company held on 10 May 2007
“Group”	the Company and its subsidiaries, and following CLTT Completion Date, would include CLTT
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“IFRS”	International Financial Reporting Standard
“Independent Board Committee”	the board committee comprising Mr. Heng Kwoo Seng, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang, all independent non-executive Directors, appointed to advise the Shareholders in respect of the Acquisition
“Independent Financial Adviser”	Access Capital Limited, a licensed corporation under the SFO which engages in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Shareholders in respect of the Acquisition
“Independent Third Party”	Third parties independent of the Company and connected persons of the Company
“Latest Practicable Date”	8 January 2008, being the latest practicable date for the purpose of ascertaining certain information contained in this circular

## DEFINITIONS

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Ma”	Ma Yuk Sang, a Hong Kong resident and a connected person of the Company by way of his 30% interest in the Purchaser
“NPAT Targets”	the net profit after tax targets for FY2008, FY2009 and FY2010
“Original Shareholders”	Zheng Zhenjian (鄭鎮堅), Ma Jie (馬杰) and Zheng Wei (鄭偉) who together own the entire equity interest in CLTE and CLTT as at the date of the Agreement
“PRC”	the People’s Republic of China
“Purchaser”	Joint Smart Holdings Limited, a company incorporated in Hong Kong and which the share capital is owned by the Company and the Vendor as to 70% and 30% respectively
“Sale Assets”	the production equipment, inventory and intellectual property rights of CLTE
“Sale Interest”	entire equity interest in CLTT
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	shares(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Mr. Ma
“RMB”	Renminbi, the lawful currency of Hong Kong
“sq.m.”	square metre
“%”	per cent.

Unless otherwise specified, this circular contains translations between RMB and HK\$ at the rate of RMB1.00 = HK\$1.0527. The translation should not be taken as a representation that the relevant currency could actually be converted into HK\$ at that rate or at all.

## LETTER FROM THE BOARD



### SCUD GROUP LIMITED

飛毛腿集團有限公司\*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1399)

*Executive Directors:*

Mr. Fang Jin (*Chairman*)  
Mr. Lin Chao  
Mr. Guo Quan Zeng  
Mr. Li Hui Qiu

*Non-executive Directors:*

Mr. Ho Man

*Independent Non-executive Directors:*

Mr. Heng Kwoo Seng  
Mr. Wang Jing Zhong  
Mr. Wang Jian Zhang

*Registered Office:*

Codan Trust Company (Cayman) Limited  
Cricket Square, Hutchins Drive  
P.O. Box 2681 GT  
Grand Cayman  
KY1-111  
Cayman Islands

*Place of business in Hong Kong:*

Room 5505, 55/F., Central Plaza  
18 Harbour Road  
Wanchai  
Hong Kong

11 January 2008

*To the Shareholders*

Dear Sir or Madam,

### DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION

#### INTRODUCTION

By an announcement dated 20 December 2007, the Board announced that on 12 December 2007, the Company entered into the Agreement with the Vendor pursuant to which the Vendor agreed to procure the sale of the Sale Interest (being 100% equity interest in CLTT) to the Purchaser and the sale of the Sale Assets to CLTT. The purpose of this circular is to provide the Shareholders with further information on the terms of the Agreement.

The Purchaser is ultimately owned as to 70% by the Company and 30% by the Vendor. The Sale Assets, related senior management and employees who are expected to join CLTT as from the CLTT Completion Date have previously been responsible for managing the manufacture and sale of rechargeable battery packs for mobile phones under the “*Chaolitong* 超力通” brand in China. “*Chaolitong* 超力通” is one of the largest rivals to the “*SCUD* 飛毛腿” brand of rechargeable battery packs for mobile phones in China.

\* For identification purposes only

## LETTER FROM THE BOARD

As the relevant percentage ratios for the 5 tests set out in Rule 14.07 of the Listing Rules for all the transactions contemplated under the Agreement exceed 5% but are less than 25%, the entering into the Agreement constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Further due to the Vendor being a 30% shareholder of the Purchaser, the Acquisition constitutes a connected transaction (as defined in the Listing Rules) under Chapter 14A of the Listing Rules.

### THE ACQUISITION

#### The Agreement

##### *Parties:*

Vendor: Mr. Ma Yuk Sang.

He is the 30% shareholder of the Purchaser, a 70% indirect subsidiary of the Company. As a substantial shareholder of an indirect subsidiary of the Company, Mr. Ma is a connected person of the Company.

Purchaser: The Company.

#### Subject Matter of the Agreement

Pursuant to the Agreement, the Vendor has agreed to procure the sale of the Sale Interest (being 100% equity interest in CLTT) to the Purchaser and the sale of the Sale Assets to CLTT. In light of the fact that the Sale Assets will constitute a new production line after the Acquisition, as a commercial decision, the Company decided to purchase the Sale Assets via CLTT, a company that is not currently engaged in any business activities and not part of the Group prior to the Acquisition. If it had invested through an existing subsidiary of the Company, then those existing businesses would be subject to the potential risks of the new business. The Purchaser is ultimately owned as to 70% by the Company and 30% by the Vendor. The Vendor does not and will not (save through his 30% stake in the Purchaser) on implementation of the Acquisition, own the Sale Assets. Accordingly he has not and will not have incurred any “purchase cost” for the Sale Assets before the acquisition by the Group. The Sale Assets, related senior management and employees who are expected to join CLTT as from the CLTT Completion Date have previously been responsible for managing the manufacture and sale of rechargeable battery packs for mobile phones under the “*Chaolitong* 超力通” brand in China. “*Chaolitong* 超力通” is one of the largest rivals to the “*SCUD* 飛毛腿” brand of rechargeable battery packs for mobile phones in China. The Sale Assets do not represent all assets of CLTE. The Sale Assets only represent some of the assets of CLTE such as fixed assets and intellectual property rights. It does not include CLTE’s account receivables, interest in real properties and that part of the inventory which the Group may not acquire.

The Group does not intend to acquire such other assets of CLTE or assume its liabilities.

## LETTER FROM THE BOARD

### Consideration

The Company has agreed to pay up to RMB245 million as the total consideration payable pursuant to the Agreement as follows:–

- (i) RMB37 million to be injected into CLTT through the Purchaser to fund the purchase of the Sale Interest from CLTE as well as to ultimately pay CLTE not more than RMB36.5 million for the Sale Assets. The Sale Assets (excluding the raw materials which is the subject of the adjustment detailed below and the intellectual property rights which were not the subject of the valuation report referred to below), amount to RMB11,476,845 based on a valuation report dated 10 December 2007 prepared in the PRC and its book value is RMB11,617,981 based on audited accounts for the nine months ended 30 September 2007 prepared in accordance with PRC GAAP. Such funds would be advanced by the Company to the Purchaser (a 70% subsidiary of the Company) on the CLTT Approval Date and, subject to compliance with the relevant Chinese regulatory requirements, CLTT would then complete the purchase of the Sale Interest and the Sale Assets on the CLTT Completion Date; and
- (ii) up to RMB208 million to the Vendor, of which RMB91 million is to be paid in cash in HK\$ on the CLTT Completion Date to the Vendor and the balance of RMB117 million is to be satisfied by the issue of an aggregate of 30 million Consideration Shares to the Vendor at HK\$2.05 (based on the 20 day average closing price immediately preceding 12 December 2007) per Share three months after the CLTT Completion Date, and of up to an additional 30 million Consideration Shares at HK\$2.05 per Share in three tranches to the Vendor if CLTT achieves or exceeds the specified NPAT Targets for FY2008, FY2009 and FY2010 as described below. Therefore, if the NPAT Targets for any of those years is not met, the maximum number of Consideration Shares will not be issued to the Vendor and the total consideration payable pursuant to the Agreement will be reduced accordingly.

The Vendor has confirmed that as part of his arrangements with the Original Shareholders, assuming the Original Shareholders comply with the agreed terms, he will be entitled to 0.5% of the Consideration. If the Original Shareholders do not abide by their undertakings and/or the NPAT Targets are not met, the Original Shareholders entitlement to the Consideration will be accordingly reduced.

There are four tranches of Consideration Shares to be issued to the Vendor. Save for the first tranche which will be issued three months after the CLTT Completion Date, the number of Consideration Shares to be issued in the remaining three tranches will be issued by the Company at the end of the relevant financial years subject to the NPAT Targets being met.



## LETTER FROM THE BOARD

The NPAT Targets for FY2008, FY2009 and FY2010 and the number of Consideration Shares to be issued if each NPAT Target is met or exceeded is set out below:–

<b>Maximum number of shares to be issued in each tranche</b>	<b>NPAT Target</b>
10,000,000	RMB50 million (approximately HK\$52.6 million) for FY2008
10,000,000	RMB55 million (approximately HK\$57.9 million) for FY2009
10,000,000	RMB60 million (approximately HK\$63.2 million) for FY2010

If any of the NPAT Targets is not met, the corresponding Consideration Shares will not be issued to the Vendor and the consideration payable pursuant to the Agreement will be reduced accordingly. Should the NPAT be met or exceeded, the Company will issue the above Shares as soon as practicable following receipt of confirmation of the relevant audited NPAT results for the relevant financial year.

The issue price per Consideration Share is HK\$2.05. It represents a 13.5% discount to the closing price of the Shares on 11 December 2007 of HK\$2.37 and a 7.66% discount to the average closing price of the Shares for the 5 trading days ended on 11 December 2007 of HK\$2.22, being the last trading day prior to the suspension in trading of the Shares on 12 December 2007. Based on the last closing price of the Shares on 11 December 2007 of HK\$2.37, the maximum number of Consideration Shares is valued at HK\$142.2 million.

The Company will make further announcement(s) in accordance with Rule 14A.57 of the Listing Rules if any of the NPAT Targets are not met.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor with reference to the past sales and financial performance of the “*Chaolitong 超力通*” business (see “Information on the Vendor, CLTT, CLTE and the “*Chaolitong 超力通*” Business” below), the registered capital of CLTT (RMB2 million) and an agreed valuation of the Sale Assets (subject to adjustment described below), details of which adjustment which will be agreed prior to the CLTT Completion Date.

The Company also took into account the synergies and benefits that are expected to accrue to the Group as a result of such acquisition (see “Reasons for the Acquisition” below) and the undertakings from the Vendor in respect of the NPAT Targets. The maximum Consideration of RMB245 million is 7 times, 6.4 times and 5.8 times the NPAT Target for FY 2008, FY2009 and FY2010 respectively; and the minimum cash Consideration of RMB128 million (assuming that none of

## LETTER FROM THE BOARD

the NPAT Targets are met) is 6.7 times the FY2006 net profit after taxation of CLTE. By way of illustration only, bearing in mind the differences in time periods and taking into account the highest and lowest traded price of the Shares prior to the fire in May 2007 (further details of which are set out in the Company's announcement dated 1 June 2007) of HK\$3.73 (approximately RMB3.91 based on the December 2006 exchange rate of HK\$1 to RMB1.047) per Share and HK\$2.69 (approximately RMB2.82 based on the December 2006 exchange rate of HK\$1 to RMB1.047) per Share and the Group's net profit after tax of approximately RMB160 million for FY 2006, the price to earnings ratio would range from 10.69 to 14.82. Taking into account the fact that (i) the Sales Assets are to be deployed for the same product type (albeit under different brands) as the principal products of the Group; (ii) the price/earnings multiple of the Shares of 8.8 times and 9.3 times (based on the HK\$2.22 (approximately RMB2.32 based on the December 2006 exchange rate of HK\$1 to RMB1.047), being the 5 day average closing price per Share disclosed above and (i) the FY2006 basic earnings per share of RMB26.35 cents, and (ii) diluted earnings per share of RMB24.93 cents (assuming all share options issued under the Company's pre-IPO share option scheme, the overallotment option exercised as per the Company's announcement dated 8 January 2007 and conversion of the convertible bond issued by the Company to Neng Liang Limited have been exercised, respectively); and (iii) other factors referred to above, the Directors (including the independent non-executive Directors) consider the Consideration fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The revenue and net profit before and after taxation and extraordinary items of CLTE are set out as follows:

	<b>9 months ended 30 September 2007</b>	<b>FY2006</b>	<b>FY2005</b>
Revenue	RMB148.3 million	RMB154.1 million	RMB172.4 million
Net profit before taxation and extraordinary items	RMB31.0 million	RMB29.6 million	RMB39.6 million
Net profit after taxation and extraordinary items	RMB26.3 million	RMB27.4 million	RMB36.3 million

The unaudited revenue, net profit before and after taxation and extraordinary items of CLTE for the year ended 31 December 2007 are approximately RMB222.4 million, RMB45 million and RMB38.2 million respectively.

The Company expects to fund the cash component of the Consideration partly through its working capital and partly through the initial public offering proceeds as an intended use. It is stated in the Company's prospectus dated 11 December

## LETTER FROM THE BOARD

2006 that part of the proceeds from the initial public offering would be used for the purpose of expanding its sales network including through the acquisition of an established business of the Group's competitors.

The Consideration Shares are not subject to any lock-up.

### General Mandate

The Consideration Shares will be allotted and issued under the General Mandate which was granted to the Directors pursuant to an ordinary resolution of the Company passed at its annual general meeting on 10 May 2007 to allot and issue up to 198,400,249 new Shares, representing 20% of the aggregate nominal amount of the share capital of the Company in issue on that date. The General Mandate has not previously been utilised prior to the entering into of the Agreement. Application will be made by the Company to the Stock Exchange for the grant of the listing of and the permission to deal in the Consideration Shares on the Stock Exchange. The issue price per Consideration Shares is HK\$2.05. The maximum number of Consideration Shares which may be issued represents 6.05% of the total issued share capital of the Company as at the Latest Practicable Date and 5.70% of the total issued share capital as enlarged by such issue.

### CLTT Completion Date

The CLTT Completion Date is when the purchase of the Sale Interest and Sale Assets are completed.

The Vendor has undertaken to procure that after the CLTT Completion Date, CLTE and related previous management would not compete with the Group under the “*Chaolitong* 超力通” brand or otherwise.

Apart from certain agreed key personnel previously involved in the “*Chaolitong* 超力通” business who are also required to enter into employment contracts with CLTT, CLTT will employ such other staff as it considers necessary.

### Adjustment to the Consideration

The final price for the purchase of the Sale Assets will not exceed RMB36.5 million but is to be fixed after the details of the Sale Assets are finalized by the Purchaser, including verification by the Purchaser that certain raw materials are in acceptable condition. The Purchaser will make its determination by reference to factors such as the audited value (as at 31 December 2007) of the raw materials available on that date, the age and utility of such raw materials. To the extent that the Purchaser elects to accept delivery of raw materials which when aggregated with the agreed value of the other Sale Assets is less than RMB36.5 million, the Vendor has undertaken to procure that CLTE refunds the difference to CLTT in cash on a dollar-to-dollar basis. The total amount of raw materials as of 30 September 2007 was approximately RMB36.5 million based on CLTE's audited accounts prepared in accordance with PRC GAAP for the nine month period ended 30 September 2007.

## LETTER FROM THE BOARD

The Directors (including the independent non-executive Directors) consider the terms of the Agreement are fair and reasonable and in the interests of the Company and Shareholders as a whole.

### Conditions precedent

Completion of the Acquisition is conditional upon the satisfaction or waiver of the following conditions, among others:

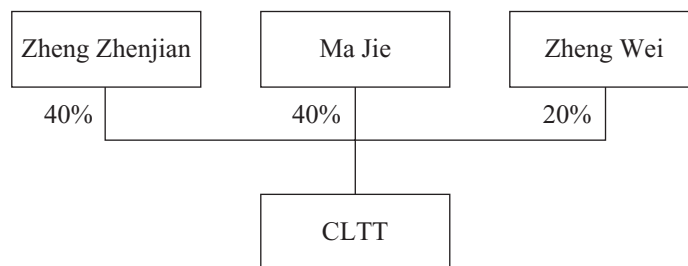
- (i) the due diligence review of, among other things, the business, operations and financial positions of CLTE and CLTT having been completed to the satisfaction of the Group;
- (ii) a PRC legal opinion from the Group's PRC legal advisers in such form as satisfactory to the Company, in relation to, among other things, the due incorporation of CLTT and the relevant approvals for the transfer of the Sale Interest;
- (iii) all approvals, consents and permits in relation to the transaction have been obtained, including but not limited to the listing approval of the Consideration Shares from the Stock Exchange; and
- (iv) CLTE and CLTT having entered into the asset transfer agreement in the agreed form.

### SHAREHOLDING STRUCTURE OF CLTT AND CLTE

The following diagrams illustrate the shareholding structure of CLTT and CLTE immediately before and after Completion.

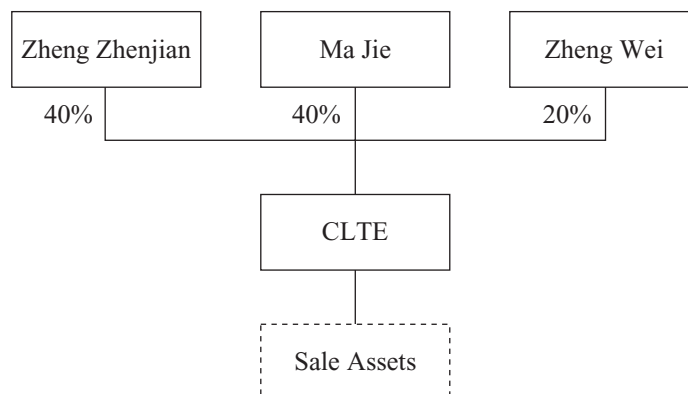
#### Immediately before CLTT Completion Date and as at the Latest Practicable Date

##### *CLTT*

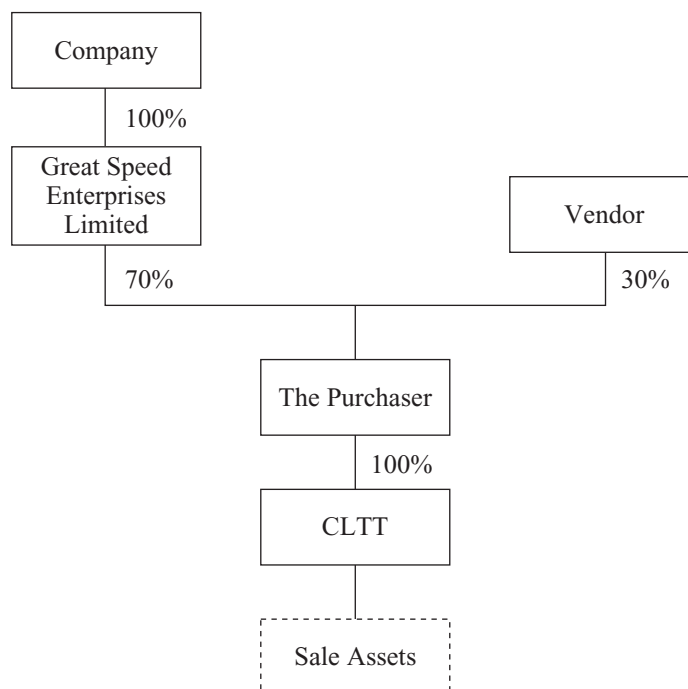


## LETTER FROM THE BOARD

### *CLTE*



### **Immediately after the CLTT Completion Date**



### **Lease agreement**

It is expected that after the date of the Agreement, CLTT and CLTE may enter into a lease agreement whereby CLTT will lease the factory and office premises from CLTE in Shenzhen. The annual rental payable is expected to be approximately RMB3.6 million subject to final agreement. The Original Shareholders are also expected to become directors of CLTT upon the CLTT Approval Date and which, by then, CLTT will have become an indirect subsidiary of the Company. If such lease is entered into, the lease may be a continuing connected transaction for the Group as CLTE and the Original Shareholders could be considered as associates (as defined in the Listing Rules) of the Vendor, being a

## LETTER FROM THE BOARD

substantial shareholder of one of the Company's subsidiaries, namely, the Purchaser. Further announcement and related compliance with the Listing Rules will be made as and when required.

### INFORMATION ON THE VENDOR, CLTT, CLTE AND THE “CHAOLITONG 超力通” BUSINESS

CLTT was incorporated in China with limited liability and is not currently engaged in any business activities. Its total registered capital is RMB2 million, which has been fully paid. CLTE was incorporated in China with limited liability and is one of the Group's largest rivals which principally engaged in the manufacture and sale of rechargeable battery packs in China for mobile phones under the “*Chaoliton*g 超力通” brand. The Sale Assets represent the principal operating assets of CLTE. CLTE has a total registered capital of RMB20 million which has been fully paid. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the ultimate beneficial owners of each of CLTT and CLTE, being the Original Shareholders, is not a connected person of the Company (other than as a result of them being involved in the Acquisition in the manner stated in this circular).

Based on the Chinese audited accounts for FY2005 and FY2006 prepared under PRC GAAP provided to the Company, the net profit before and after taxation and extraordinary items attributable to CLTE which operates the “*Chaoliton*g 超力通” brand business were as follows:

	Net profit before taxation and extraordinary items	Net profit after taxation and extraordinary items
FY2005	RMB39.6 million	RMB36.3 million
FY2006	RMB29.6 million	RMB27.4 million

### Arrangements between the Vendor and the Original Shareholders

Save for the connected person relationship of the Vendor by way of its 30% interest in the Purchaser, the Vendor has no other interests in the other operations of the Group. As at the date of the Agreement, the Vendor does not own the Sale Interest or the Sale Assets. The Company was informed by the Original Shareholders during negotiations that they have delegated the negotiations and contractual arrangements relating to the Acquisition to the Vendor and that the Company should primarily deal with the Original Shareholders via the Vendor. The Original Shareholders are the owners of CLTE. At the start of negotiations with the Group, the Company was directed by them to discuss with the Vendor due to initial sensitivities of negotiations between industry competitors. The Group had, prior to signing the Agreement, engaged a Chinese law firm for legal due diligence, a Chinese accounting firm for financial due diligence and relied on its own due diligence for business due diligence since CLTE and the Group are in the same industry. As discussions progressed, it also became apparent that CLTE had other assets, businesses and liabilities that the Group would not be interested in. Once the details of the Acquisition had been finalised and also

## LETTER FROM THE BOARD

involved the Consideration Shares, the Original Shareholders found that it would be convenient to nominate a Hong Kong resident to open a securities account in Hong Kong and hold the Consideration Shares. The Original Shareholders and Vendor therefore agreed that the Vendor would be a party to the contract with the Company. The Company has been informed that for his role in the negotiations with the Group, the Vendor and the Original Shareholders also came to agree private commercial arrangements among themselves. The Vendor has confirmed that as part of his arrangements with the Original Shareholders, assuming the Original Shareholders comply with the agreed terms, he will be entitled to 0.5% of the Consideration. If the Original Shareholders do not abide by their undertakings and/or the NPAT Targets are not met, the Original Shareholders entitlement to the Consideration will be accordingly reduced. These arrangements were to ensure that the Vendor would minimise any risk to himself under the Agreement in case the Original Shareholders did not abide by their agreement to join CLTT and manage the business. The Group is not party to such arrangements (if any). The structure of the transaction is designed to ensure (i) that the Group acquires the Assets without associated liabilities (including taxation liabilities) in an efficient and lawful manner; (ii) accountability and alignment with the Group of interests of the Vendor for the successful implementation of the transaction; and (iii) retention of existing key management on terms which is compliant with PRC laws.

So as to safeguard the Group's interest in the cash flows involved in this Acquisition, a loan of RMB37 million would only be made to the Purchaser (a 70% subsidiary of the Company) upon the CLTT Approval Date and, subject to compliance with the relevant Chinese regulatory requirements, the Purchaser would remit the relevant funds to CLTT. Once such funds have been injected into CLTT (and not before) payment to CLTE would only be made on the CLTT Completion Date with the simultaneous completion of the purchase of the Sale Interest and the Sale Assets. Until such time that funds are paid to CLTE, only the Group's authorised signatories (not the Vendor nor the Original Shareholders) are permitted to deal in such funds. The balance of the Consideration, being up to RMB208 million in cash and Consideration Shares, will only be paid and/or issued after CLTT Completion Date when the transfer of the Sale Assets to CLTT has been completed.

### REASONS FOR THE ACQUISITION

The Group is a market leader in the sales and marketing of self-manufactured rechargeable battery packs for mobile phones in the PRC under its own “SCUD 飛毛腿” brand. For more information, please visit the Group's website at <http://www.scudcn.com>. The Directors believe that with the acquisition of the Sale Interest, the Sale Assets and employment of certain previous management of CLTE, the Group will benefit from the following main factors:

- (i) the “Chaoliton 超力通” brand has a solid sales network covering second, third-tier cities, towns and villages in the PRC, thus complementing the Group's lack of sales coverage in these areas whilst increasing the Group's market share both under the “SCUD 飛毛腿” and “Chaoliton 超力通” brands within a short period of time;

## LETTER FROM THE BOARD

- (ii) the Group's product variety will be expanded and the rate of its research and development will improve;
- (iii) both of the Group's production capacity and efficiency will be increased, thus reducing costs of production and sourcing of raw materials; and
- (iv) the level of market competition against the Group will decrease by way of consolidating two of the largest mobile phone battery pack manufacturers in China since the "*Chaolitong* 超力通" brand is one of the largest rivals to the "*SCUD* 飛毛腿" brand of battery packs in China. As a result market prices will become more stable and the overall margin of the Group's products will improve.

For the first nine months ended 30 September 2007, CLTE had revenue of approximately RMB148.3 million whilst the revenue for the full year of 2006 amounted to RMB154.1 million. Net profit before taxation and extraordinary items of CLTE amounted to RMB31.0 million for the nine months ended 30 September 2007 whilst it was RMB29.6 million for the full year of 2006.

### CERTAIN EFFECTS OF THE ACQUISITION

The following table illustrates the shareholding details of the Company before and after the Acquisition:

Name of shareholders	Shareholding before Acquisition (as at the Latest Practicable Date)	Shareholding after Acquisition (assuming NPAT Targets not met and minimum 30 million Consideration Shares issued)	Shareholding after Acquisition (assuming all NPAT Targets met and maximum 60 million Consideration Shares issued)
Swift Joy Holdings Limited	402,000,000 (40.52%)	402,000,000 (39.33%)	402,000,000 (38.21%)
Right Grand Holdings Limited	180,000,000 (18.15%)	180,000,000 (17.61%)	180,000,000 (17.11%)
Cheer View Holdings Limited	18,000,000 (1.81%)	18,000,000 (1.76%)	18,000,000 (1.71%)
Public	392,001,246 (39.52%)	392,001,246 (38.36%)	392,001,246 (37.27%)
Vendor	N/A	30,000,000 (2.94%)	60,000,000 (5.70%)



## LETTER FROM THE BOARD

Upon completion of the acquisition of CLTT, it will be accounted for as a subsidiary of the Company and its results, assets and liabilities will be consolidated in the Group's financial statements. On completion of the purchase by CLTT of the Sale Assets, they will become assets of CLTT and be accounted for accordingly. As the maximum number of Consideration Shares represent 5.70% of the enlarged issued share capital of the Company, there will not be a change of control as a result of such issue of Consideration Shares to the Vendor.

As at the Latest Practicable Date, the authorised share capital of the Company is HK\$500,000,000, all fully paid up with nominal value of HK\$0.10 per Share.

The Group expects the earnings of the Group will increase as a result of the Acquisition in light of the fact that a new production line will be operated by CLTT and managed by the relevant senior management and employees of CLTE upon CLTT Completion Date. As the Acquisition involves only the acquisition of assets but not liabilities of CLTE, there is no material impact on the book value of the assets of the Group as the increase in the book value of the Group's assets is set off by the corresponding decrease in cash in the Group's accounts.

### **FUND RAISING ACTIVITIES INVOLVING ISSUE OF SECURITIES IN THE PAST 12 MONTHS**

Save for the listing proceeds raised by the Company pursuant to its listing on the Stock Exchange on 21 December 2006 (and the exercise of the over-allotment option as announced in the Company's announcement dated 8 January 2007), the Company had not carried out any fund raising exercise issuing any equity securities in the 12-month period immediately preceding the Latest Practicable Date.

The net proceeds from the Company's listing (together with the exercise of the over-allotment option) amounted to approximately HK\$604 million. Throughout the past 12 months, the Company applied approximately HK\$78 million and approximately HK\$195 million as capital injection to Scud (Fujian) Electronics Co. Ltd. and Scud (Fujian) Battery Co. Ltd. respectively (which was subsequently utilized as intended to construct new factories, funded the establishment of new production lines, promotion and advertising and repayment of bank borrowing). The Group has also applied (as intended) a further approximately HK\$20 million for the construction of new factories. The unutilised proceeds are held as deposits with commercial banks in Hong Kong and are expected to be utilised as stated in the Company's prospectus dated 11 December 2006.

### **LISTING RULES IMPLICATIONS**

As at the date of the Agreement, the Vendor was interested in 30% of the total issued share capital of the Purchaser and therefore a substantial shareholder of the Company's subsidiary. The Vendor is thus a connected person of the Company. By virtue of the Vendor's interest in the Purchaser, the transactions contemplated under the Agreement constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Given certain of the applicable percentage ratios exceed 5% but are less than 25%, the Acquisition constitutes discloseable transactions of the Company under the Listing Rules.

## LETTER FROM THE BOARD

Pursuant to the Listing Rules, the Acquisition is conditional on the approval by independent shareholders. However, where no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the connected transaction, a written resolution from the shareholders of a closely allied group of shareholders who together hold more than 50% in normal value of the Shares to approve the connected transaction is sufficient. As far as the Directors are aware having made all reasonable enquiries, no Shareholder has a material interest in the Acquisition. As such, no Shareholder is required under the Listing Rules to abstain from voting on the Acquisition. As no Shareholder is required to be abstained from voting on the Acquisition, the Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from the requirement to hold a physical shareholders' meeting to approve the Acquisition and instead, this Acquisition will be approved by way of a written resolution from its controlling shareholders, being Swift Joy Holdings Limited, Right Grand Holdings Limited and Cheer View Holdings Limited, who together hold more than 50% Shares in the Company. Swift Joy Holdings Limited, Right Grand Holdings Limited and Cheer View Holdings Limited are wholly owned companies of Mr. Fang Jin, Mr. Lin Chao and Mr. Guo Quan Zeng respectively, all of whom are directors of the Company. As at the Latest Practicable Date, Swift Joy Holdings Limited, Right Grand Holdings Limited and Cheer View Holdings Limited held 402,000,000 Shares, 180,000,000 Shares and 18,000,000 Shares respectively, representing in aggregate approximately 60.48% of the total issued share capital of the Company as of the Latest Practicable Date. The written resolutions were passed on 18 December 2007.

### ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the additional information set out in the Appendices to this circular.

For and on behalf of the Board of  
**SCUD Group Limited**  
**Fang Jin**  
*Chairman*

**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**



**SCUD GROUP LIMITED**

**飛毛腿集團有限公司\***

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 1399)**

11 January 2008

*To the Shareholders*

Dear Sir or Madam,

**DISCLOSABLE TRANSACTION  
AND  
CONNECTED TRANSACTION**

We have been appointed as the Independent Board Committee to advise you in connection with the Acquisition, details of which are set out in the Letter from the Board contained in the circular to the Shareholders dated 11 January 2008 (the “Circular”), of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context otherwise requires.

Having considered the Acquisition and the advice and opinion of the Independent Financial Adviser in relation thereto as set out on pages 18 to 40 of the Circular, we are of the opinion that the terms of the Acquisition are fair and reasonable and are entered into on normal commercial terms so far as the Shareholders are concerned and the Acquisition is in the interests of the Company and the Shareholders as a whole.

Yours faithfully,

**Mr. Heng Kwo Seng**  
*Independent non-executive  
Director*

**Mr. Wang Jing Zhong**  
*Independent non-executive  
Director*

**Mr. Wang Jian Zhang**  
*Independent non-executive  
Director*

\* For identification purposes only

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*The following is the full text of the letter of advice to the Independent Board Committee and the Shareholders from Access Capital Limited prepared for the purpose of incorporation in this circular.*



Suite 606, 6th Floor  
Bank of America Tower  
12 Harcourt Road  
Central  
Hong Kong

11 January 2008

*To: The Independent Board Committee and the Shareholders of SCUD Group Limited*

Dear Sirs,

### **DISCLOSEABLE TRANSACTION AND CONNECTED TRANSACTION**

#### **I. INTRODUCTION**

We refer to our appointment as independent financial adviser to advise the Independent Board Committee and the Shareholders with regard to the terms of the Acquisition. Details of the Acquisition are contained in the “Letter from the Board” of the circular to the Shareholders dated 11 January 2008 (the “Circular”), of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise specifies.

On 20 December 2007, the Board announced that on 12 December 2007, the Company entered into the Agreement with the Vendor pursuant to which the Vendor agreed to procure the sale of the Sale Interest (being 100% equity interest in CLTT) to the Purchaser and the sale of the Sale Assets to CLTT.

The Purchaser is ultimately owned as to 70% by the Company and 30% by the Vendor. The Sale Assets, related senior management and employees who are expected to join CLTT as from the CLTT Completion Date have previously been responsible for managing the manufacture and sale of rechargeable battery packs for mobile phones under the “*Chaolitong* 超力通” brand in the PRC. “*Chaolitong* 超力通” is one of the largest rivals to the “*SCUD* 飛毛腿” brand of rechargeable battery packs for mobile phones in the PRC.

## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

As the relevant percentage ratios for the 5 tests set out in Rule 14.07 of the Listing Rules for all the transactions contemplated under the Agreement exceed 5% but are less than 25%, the entering into the Agreement constitutes a discloseable transaction for the Company under Rule 14.06(2) of the Listing Rules. Further due to the Vendor being a 30% shareholder of the Purchaser, the Acquisition constitutes a connected transaction (as defined in the Listing Rules) under Chapter 14A of the Listing Rules.

Pursuant to the Listing Rules, the Acquisition is conditional on the approval by independent shareholders. However, where no Shareholder is required to abstain from voting if the Company was to convene a general meeting for the approval of the connected transaction, a written resolution from a closely allied group of shareholders who together hold more than 50% in normal value of the Shares to approve the connected transaction is sufficient. As no Shareholder is required to be abstained from voting on the Acquisition, the Company has applied to the Stock Exchange for a waiver from the requirement to hold a physical shareholders' meeting to approve the Acquisition and, instead, this Acquisition will be approved by way of a written resolution from its controlling shareholders, being Swift Joy Holdings Limited, Right Grand Holdings Limited and Cheer View Holdings Limited, who together hold more than 50% Shares in the Company. Swift Joy Holdings Limited, Right Grand Holdings Limited and Cheer View Holdings Limited are wholly owned companies of Mr. Fang Jin, Mr. Lin Chao and Mr. Guo Quan Zeng respectively, all of whom are directors of the Company.

As at the Latest Practicable Date, Swift Joy Holdings Limited, Right Grand Holdings Limited and Cheer View Holdings Limited held 402,000,000 Shares, 180,000,000 Shares and 18,000,000 Shares respectively, representing in aggregate approximately 60.48% of the total issued share capital of the Company. The written resolutions were passed on 18 December 2007.

## **II. THE INDEPENDENT BOARD COMMITTEE**

The Board currently consists of four executive Directors, namely Mr. Fang Jin (Chairman), Mr. Lin Chao, Mr. Guo Quan Zeng and Mr. Li Hui Qiu; one non-executive Director, namely Mr. Ho Man and three independent non-executive Directors, namely Mr. Heng Kwoo Seng, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang.

We have been appointed to advise the Independent Board Committee and the Shareholders as to whether the terms of the Acquisition were agreed on normal commercial terms and are fair and reasonable so far as the Shareholders are concerned and in the interests of the Company and the Shareholders as a whole and to give our opinion in relation to the terms of the Acquisition for their consideration when making their recommendation to the Shareholders.

## **LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

### **III. BASIS AND ASSUMPTIONS OF THE ADVICE**

In formulating our advice, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information, expectations, and representations provided to us by the Company and/or its senior management staff and/or the Directors. We have assumed that all such statements, information, expectations, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Company and/or its senior management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the senior management staff of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or its senior management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries.

#### **IV. PRINCIPAL FACTORS AND REASONS CONSIDERED**

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

##### **1. Background to and rationales of the Acquisition**

###### *1.1 Principal business of the Group*

The Group is a market leader in the sales and marketing of self-manufactured rechargeable battery packs for mobile phones in the PRC under its own “SCUD 飛毛腿” brand.

###### *1.2 Financial performance of the Group*

###### Historical financial performance

As stated in the Group’s 2006 annual report, the Group achieved turnover of approximately RMB936.3 million (approximately HK\$986.0 million), representing an increase of approximately 32.4% from a turnover of approximately RMB707.0 million (approximately HK\$744.3 million) for the preceding year, due to the growing demand of rechargeable battery packs and peripherals for mobile phones and other portable electronic devices in the PRC. As explained in the 2006 annual report, the increase in the Group’s turnover was mainly attributable to the increase in both the Group’s own brand and OEM businesses.

Moreover, profit attributable to equity holders amounted to approximately RMB160.2 million (approximately HK\$168.6 million) for the year ended 31 December 2006, as compared to approximately RMB86.3 million (approximately HK\$90.8 million) for the year ended 31 December 2005. For the year ended 31 December 2006, the gross profit of the Group increased significantly to approximately RMB240.5 million (approximately HK\$253.2 million) from approximately RMB147.3 million (approximately HK\$155.1 million) in 2005, 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.

As stated in the interim report of the Group for the six months ended 30 June 2007 (the “2007 Interim Report”), the Group recorded an unaudited turnover of approximately RMB542.8 million (approximately HK\$571.4 million), representing an increase of approximately 12.5% for the six months ended 30 June 2006. For the six months ended 30 June 2007, the gross profit of the Group increased to approximately RMB141.6 million (approximately HK\$149.1 million) from approximately RMB126.0 million (approximately HK\$132.67 million) for the six months ended 30 June 2006, representing an increase of approximately 12.3%.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

However, the Group recorded an unaudited loss attributable to shareholders of the Company of approximately RMB125.3 million (approximately HK\$131.9 million) for the six months ended 30 June 2007 as compared to the audited profit attributable to shareholders of the Company of approximately RMB79.7 million (approximately HK\$83.9 million) for the six months ended 30 June 2006. As explained in the 2007 Interim Report, due to the serious fire at its production plant in Fuzhou on 31 May 2007, most of the Group's inventory had been destroyed and the Group's production had been significantly disrupted. As a result, the Group incurred losses from inventory and fixed assets caused by the fire of approximately RMB220.2 million (approximately HK\$231.8 million) before taking account of approximately RMB52.2 million (approximately HK\$54.9 million) in respect of the agreed compensation from insurers. As stated in the 2007 Interim Report, it will take time for the production facilities to fully resume their normal operations, and the results for the third quarter of 2007 was expected to be challenging, whereas the results in the fourth quarter of 2007 should improve and the Directors anticipated a full resumption of normal operations of the Group in early 2008.

### General outlook of the Group's business

Based on the "Statistic 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% from 393 million as compared with 2005. According to the China Statistical Yearbook 2006 (中國統計年鑑2006) compiled by the National Bureau of Statistic of China (中華人民共和國國家統計局), the total population in the PRC amounted to 1.31 billion at the year end of 2005 with an average annual compound growth rate of approximately 0.8% over the years from 1995 to 2005. Based on the above, the penetration rate is approximately 35.2 mobile phones users for every 100 people, a relatively low penetration rate with significant growth potential in the rural market particularly.

In addition, according to the "Existing Development and Trend of the Mobile Phone Battery Industry of China Mainland, 2006-2007" issued by FPDisplay Research Centre, the demand for replacement rechargeable batteries reached 183 million pieces in 2006 and is expected to increase to 205 million pieces in 2007.

The Group placed a great deal of emphasis in its distribution system which enables the Group to establish an extensive market coverage and a customer services network in the PRC in an effective and highly cost effective manner. In 2007, the Group has invested in its distribution network through various measures, including renovation of counters in raising brand awareness and the Group has set up new offices in various major cities and to strengthen and retain quality of the Group's expanding network of distributors.



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As stated in the 2007 Interim Report, the Directors believe that the continuing growth of the China economy will contribute to the increasing demand for communication products, computer and consumer electronics (“3C products”) and in turn will lead to the increasing demand for rechargeable battery packs to power such devices. In addition, the Directors believes that the Group will also benefit from the trend of more advanced multimedia functions of mobile phones and the higher power consumption of mobile phones. The Directors also expect that with the operation of the 3G network in the PRC in the near future, the Group will be presented with further opportunities. Accordingly, the Directors believe that it would be crucial for the Group to position itself appropriately to capture the opportunities in the expanding market.

### *1.3 Reasons for and benefits of the Acquisition*

The Directors believe that with the acquisition of the Sale Interest, the Sale Assets and employment of certain previous management of CLTE, the Group will benefit from the following main factors:

- (i) the “*Chaolitong* 超力通” brand has a solid sales network covering second, third-tier cities, towns and villages in the PRC, thus complementing the Group’s lack of sales coverage in these areas whilst increasing the Group’s market share both under the “*SCUD* 飛毛腿” and “*Chaolitong* 超力通” brands within a short period of time, which is in line with the Group’s long term strategy to expand its market coverage and product range and position the Group to capture additional market share in the highly fragmented and competitive rechargeable battery market in the PRC.

Based on the information provided by the Group, the following summarizes the scale of the distribution channels of the Group (under the “*SCUD* 飛毛腿” brand), and that of the “*Chaolitong* 超力通” brand respectively:

	<i>SCUD</i> (飛毛腿)	<i>Chaolitong</i> (超力通)
No. of Distributors	360	211
No. of provinces, municipalities and autonomous regions covered	31	31
No of cites covered	259	309
No. of sale counters in districts	32,765	1,637
No. of sale counters in town	2,273	12,674

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (ii) the Group's product variety will be expanded and the rate of its research and development will improve, thus reducing the lead time to launch new products;
- (iii) both of the Group's production capacity and efficiency will be increased, thus reducing costs of production and sourcing of raw materials and achieving economies of scale; and
- (iv) the level of market competition will reduce by way of consolidating two of the largest mobile phone battery pack manufacturers in the PRC since the "Chaolitong 超力通" brand is one of the largest rivals to the "SCUD 飛毛腿" brand of battery packs in the PRC and expand the Group's market coverage as a result of the Acquisition.

Taking into account (i) the outlook of the Group's business as outlined above; and (ii) the background to, and reasons for, the Acquisition are consistent with the Group's corporate strategy to capture a substantially larger market share of the anticipated increase in demand for rechargeable battery packs in the PRC in future, we concur with the view of the Directors that the Acquisition is consistent with the Group's business strategy with potential synergies and commercial benefit to the Group and hence, we concur with the view of the Directors that the Acquisition is in the interests of the Company and the Shareholders as a whole.

## 2. The Agreement

### 2.1 Parties

Vendor: Mr. Ma Yuk Sang.

Mr. Ma Yuk Sang is the 30% shareholder of the Purchaser, a 70% indirect subsidiary of the Company. As a substantial shareholder of an indirect subsidiary of the Company, Mr. Ma is a connected person of the Company.

Purchaser: The Company.

### 2.2 Subject Matter of the Agreement

Pursuant to the Agreement, the Vendor has agreed to procure the sale of the Sale Interest (being 100% equity interest in CLTT) to the Purchaser and the sale of the Sale Assets to CLTT. In light of the fact that the Sale Assets will constitute a new production line after the Acquisition, as a commercial decision, the Company decided to purchase the Sale Assets via CLTT (a company that is not currently engaged in any business activities and not part of the Group prior to the Acquisition) to minimise potential risks related to the new business of operating the Sale Assets.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The Purchaser is ultimately owned as to 70% by the Company and 30% by the Vendor. The Vendor does not and will not (save through his 30% stake in the Purchaser) on implementation of the Acquisition, own the Sale Assets.

The Sale Assets, related senior management and employees who are expected to join CLTT as from the CLTT Completion Date have previously been responsible for managing the manufacture and sale of rechargeable battery packs for mobile phones under the “*Chaoliton* 超力通” brand in China. “*Chaoliton* 超力通” is one of the largest rivals to the “*SCUD* 飛毛腿” brand of rechargeable battery packs for mobile phones in China. The Sale Assets do not represent all assets of CLTE. The Sale Assets only represent some of assets of CLTE such as fixed assets and intellectual property rights. It does not include CLTE’s accounts receivables, interest in real properties and that part of the inventory which the Group may not acquire.

The Group does not intend to acquire such other assets of CLTE or assume its liabilities.

As stated in the “Letter from the Board” in the Circular, the Company is not a party to any of the arrangements (if any) entered into between the Vendor and the Original Shareholders in relation to Acquisition and the consideration thereof. The Directors confirm that the Group has adopted the current structure of the transaction, which is designed to ensure (i) that the Group acquires the Sale Assets without associated liabilities (including taxation liabilities) in an efficient and lawful manner; (ii) accountability and alignment with the Group of interests of the Vendor and the successful implementation of the transaction; and (iii) retention of existing key management on terms which is compliant with the PRC laws. By acquiring the Sale Assets through the acquisition of the Sale Interest, the Group would effectively absorb the existing business operations of “*Chaoliton* 超力通” (including its distribution network and the business brands) and secure the services of its key management (including the Original Shareholders) and staff.

### *2.3 Consideration for the Acquisition Agreement and the method of settlement*

The Company has agreed to pay up to RMB245 million as the total consideration payable pursuant to the Agreement as follows:

- (i) RMB37 million to be injected into CLTT through the Purchaser to fund the purchase of the Sale Interest from CLTE as well as to ultimately pay CLTE not more than RMB36.5 million for the Sale Assets. The Sale Assets (excluding the raw materials which is the subject of the adjustment detailed below and the intellectual property rights which were not the subject of the valuation report referred to below), amount to RMB11,476,845 based on a valuation report dated 10 December 2007 prepared in the PRC and its book value is RMB11,617,981 based on audited accounts for the nine months ended 30 September 2007 prepared in accordance with PRC GAAP. Such funds would be

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

advanced by the Company to the Purchaser (a 70% subsidiary of the Company) on the CLTT Approval Date and, subject to compliance with the relevant Chinese regulatory requirements, CLTT would then complete the purchase of the Sale Interest and the Sale Assets on the CLTT Completion Date; and

- (ii) up to RMB208 million to the Vendor, of which RMB91 million is to be paid in cash in HK\$ on the CLTT Completion Date to the Vendor and the balance of RMB117 million is to be satisfied by the issue of an aggregate of 30 million Consideration Shares to the Vendor at HK\$2.05 (based on the 20 day average closing price immediately preceding suspension of trading in the Shares) per Share three months after the CLTT Completion Date, and of up to an additional 30 million consideration Shares at HK\$2.05 per Share in three tranches to the Vendor if CLTT achieves or exceeds the specified NPAT Targets for FY2008, FY2009 and FY2010 as described below. Therefore, if the NPAT Targets for any of those years is not met, the maximum number of Consideration Shares will not be issued to the Vendor and the total consideration payable pursuant to the Agreement will be reduced accordingly;

The Vendor has confirmed that as part of his arrangements with the Original Shareholders, assuming the Original Shareholders comply with the agreed terms, he will be entitled to 0.5% of the Consideration. If the Original Shareholders do not abide by their undertakings and/or the NPAT Targets are not met, the Original Shareholders entitlement to the Consideration will be accordingly reduced.

There are four tranches of Consideration Shares to be issued to the Vendor. Save for the first tranche which will be issued three months after the CLTT Completion Date, the number of Consideration Shares to be issued in the remaining three tranches will be issued by the Company at the end of the relevant financial years subject to the NPAT Targets being met.

The NPAT Targets for FY2008, FY2009 and FY2010 and the number of Consideration Shares to be issued if each NPAT Target is met or exceeded is set out below:

<b>Maximum number of shares to be issued in each tranche</b>	<b>NPAT Target</b>
10,000,000	RMB50 million (approximately HK\$52.6 million) for FY2008
10,000,000	RMB55 million (approximately HK\$57.9 million) for FY2009
10,000,000	RMB60 million (approximately HK\$63.2 million) for FY2010

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

If any of the NPAT Targets is not met, the corresponding Consideration Shares will not be issued to the Vendor and the consideration payable pursuant to the Agreement will be reduced accordingly. Should the NPAT be met or exceeded, the Company will issue the above Shares as soon as practicable following receipt of confirmation of the relevant audited NPAT results for the relevant financial year.

The issue price of HK\$2.05 per Consideration Share represents:

- (i) a discount of approximately 13.5% to the closing price of the Shares of HK\$2.37 per Share on 11 December 2007, being the last trading day prior to the suspension in trading of the Shares on 12 December 2007; and
- (ii) a discount of approximately 7.66% to the average closing price of approximately HK\$2.22 per Share for the last five (5) consecutive trading days up to and including the 11 December 2007.

Based on the last closing price of the Shares of HK\$2.37, the maximum number of Consideration Shares is valued at HK\$142.2 million.

The Consideration was arrived at after arm's length negotiations between the Company and the Vendor with reference to the past sales and financial performance of the “*Chaolitong 超力通*” business, the registered capital of CLTT (RMB2 million) and an agreed valuation of the Sale Assets (subject to adjustment described below), details of which adjustment which will be agreed prior to the CLTT Completion Date.

The Consideration Shares are not subject to any lock-up.

### 2.4 CLTT Completion Date

The CLTT Completion Date is when the purchase of the Sale Interest and Sale Assets are completed.

The Vendor has undertaken to procure that after the CLTT Completion Date, CLTE and related previous management would not compete with the Group under the “*Chaolitong 超力通*” brand or otherwise. Apart from certain agreed key personnel previously involved in the “*Chaolitong 超力通*” business who are also required to enter into employment contracts with CLTT, CLTT will employ such other staff as it considers necessary.

The Directors have advised that the Group is in the process of finalising the relevant employment contracts with certain key personnel (including the Original Shareholders) and the non-competition undertakings from the relevant individuals. It is the intention of the Company to enter into legally binding agreements of the above before the CLTT Completion Date.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### *2.5 Adjustment to the Consideration*

The final price for the purchase of the Sale Assets will not exceed RMB36.5 million but is to be fixed after the details of the Sale Assets are finalized by the Purchaser, including verification by the Purchaser that certain raw materials are in acceptable condition. The Purchaser will make its determination by reference to factors such as the audited value (as at 31 December 2007) of the raw materials available on that date, the age and utility of such raw materials. To the extent that the Purchaser elects to accept delivery of raw materials which when aggregated with the agreed value of the other Sale Assets is less than RMB36.5 million, the Vendor has undertaken to procure that CLTE refunds the difference to CLTT in cash on a dollar-to-dollar basis. The total amount of raw materials as of 30 September 2007 was approximately RMB36.5 million based on CLTE's audited accounts prepared in accordance with PRC GAAP for the nine month period ended 30 September 2007.

### *2.6 Conditions precedent*

Completion of the Acquisition is conditional upon the satisfaction or waiver of the following conditions, among others:

- (i) the due diligence review of, among other things, the business, operations and financial positions of CLTE and CLTT having been completed to the satisfaction of the Group;
- (ii) a PRC legal opinion from the Group's PRC legal advisers in such form as satisfactory to the Company, in relation to, among other things, the due incorporation of CLTT and the relevant approvals for the transfer of the Sale Interest;
- (iii) all approvals, consents and permits in relation to the transaction have been obtained, including but not limited to the listing approval of the Consideration Shares from the Stock Exchange; and
- (iv) CLTE and CLTT having entered into the asset transfer agreement in the agreed form.

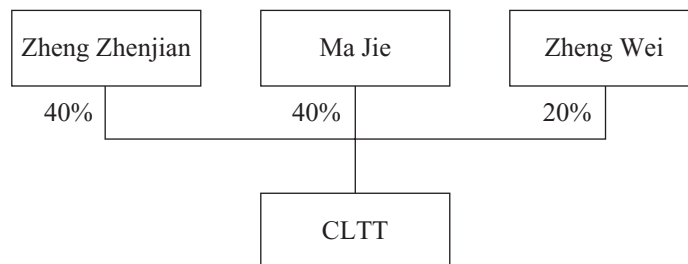
## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### 3. Shareholding structure of CLTT and CLTE

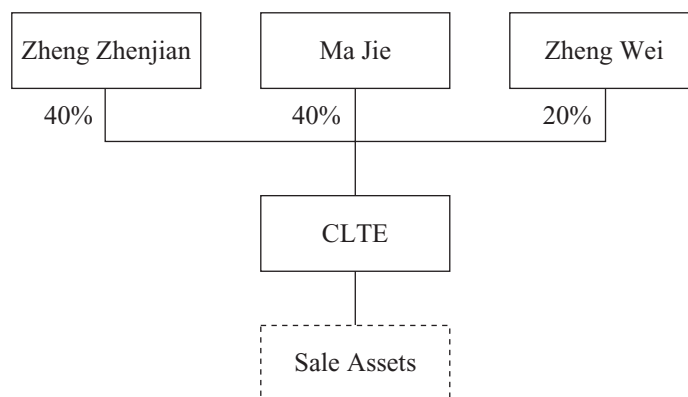
The following diagrams illustrate the shareholding structure of CLTT and CLTE immediately before and after Completion.

**Immediately before CLTT Completion Date and as at the Latest Practicable Date**

*CLTT*

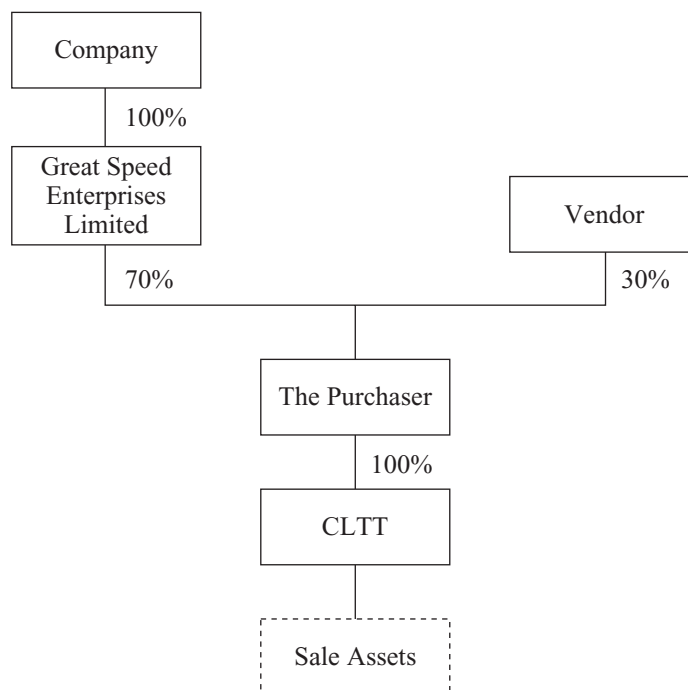


*CLTE*



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

### Immediately after the CLTT Completion Date



#### 3.1 Lease agreement

It is expected that after the date of the Agreement, CLTT and CLTE may enter into a lease agreement whereby CLTT will lease the factory and office premises from CLTE in Shenzhen. The annual rental payable is expected to be approximately RMB3.6 million subject to final agreement. The Original Shareholders are also expected to become directors of CLTT upon the CLTT Approval Date and which, by then, CLTT will have become an indirect subsidiary of the Company. If such lease is entered into, the lease may be a continuing connected transaction for the Group as CLTE and the Original Shareholders could be considered as associates (as defined in the Listing Rules) of the Vendor, being a substantial shareholder of one of the Company's subsidiaries, namely, the Purchaser. In such event, the Company will comply with the relevant provisions of the Listing Rules accordingly.

#### 4. Information on the Vendor, CLTT, CLTE and the “Chaolitong 超力通”

CLTT was incorporated in China with limited liability and is not currently engaged in any business activities. Its total registered capital is RMB2 million, which has been fully paid. CLTE was incorporated in China with limited liability and is one of the Group's largest rivals which principally engaged in the manufacture and sale of rechargeable battery packs in China for mobile phones under the “*Chaolitong* 超力通” brand. The Sale Assets represent the principal operating assets of CLTE. CLTE has a total registered capital of RMB20 million which has been fully paid. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries,



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

each of the ultimate beneficial owners of each of CLTT and CLTE, being the Original Shareholders, is not a connected person of the Company (other than as a result of them being involved in the Acquisition in the manner stated in the Circular).

Based on the Chinese financial information prepared under PRC GAAP provided to the Company, the historical revenue, net profit before and after taxation and extraordinary items attributable to CLTE (which operates the “*Chaolitong 超力通*” brand business) were as follows:

	Revenue	Net profit before taxation and extraordinary items	Net profit after taxation and extraordinary items
Year ended 31 December 2005 (Audited)	RMB172.4 million	RMB39.6 million	RMB36.3 million
Year ended 31 December 2006 (Audited)	RMB154.1 million	RMB29.6 million	RMB27.4 million
9 months ended 30 September 2007 (Audited)	RMB148.3 million	RMB31.0 million	RMB26.3 million
Year ended 31 December 2007 (Unaudited)	RMB222.4 million	RMB45.0 million	RMB38.2 million

### 5. Factors in assessing the consideration of the Acquisition

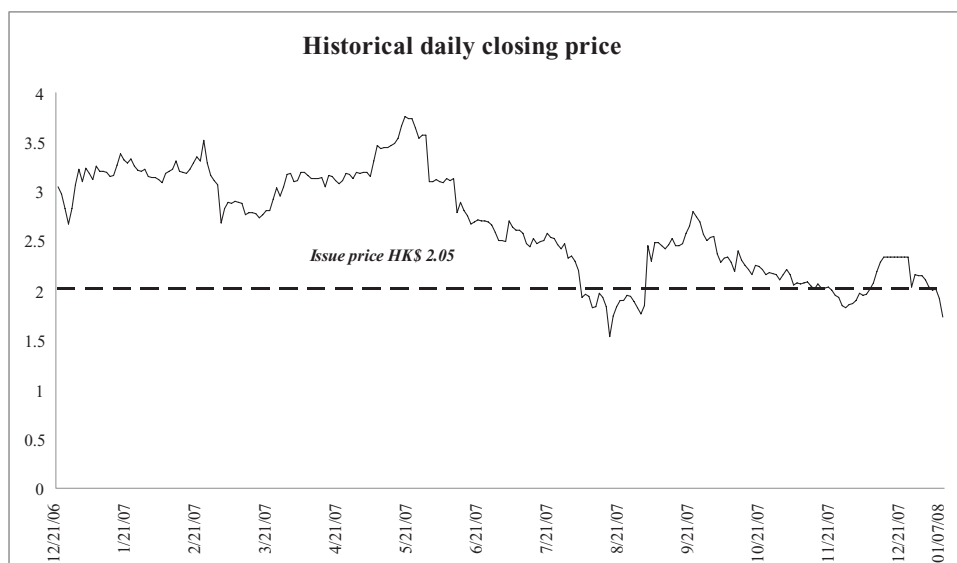
#### 5.1 Comparison with market prices of the Shares

Under the Agreement, the issue price per Consideration Share of HK\$2.05 also represents:

- (a) a premium of approximately 14.5% over the closing price of HK\$1.79 per Share as quoted on the Stock Exchange as at the Latest Practicable Date;
- (b) a discount of approximately 2.4% to the average closing price of approximately HK\$2.1 per Share for the last ten (10) consecutive trading days up to and including the 11 December 2007;
- (c) the equivalent to the average closing price of approximately HK\$2.05 per Share for the last twenty (20) consecutive trading days up to and including the 11 December 2007; and
- (d) a premium of approximately 122.8% to the latest published net asset value of approximately RMB0.874 (approximately HK\$0.92) per Share as at 30 June 2007, based on the total equity attributable to shareholders of the Company of approximately RMB867.2 million and 992,001,246 Shares in issue as set out in the 2007 Interim Report of the Group for the six months ended 30 June 2007.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We would also like to draw Shareholders' attention to the following chart, which sets out the historical closing price performance of the Shares since its flotation on the 21st December 2006 as quoted on the Stock Exchange up to the Latest Practicable Date ("Review Period"):



Source: Bloomberg

Since the Group's flotation in December 2006, the Shares have been trading above the issue price. The highest price since flotation of the Shares was noted in May 2007 at HK\$3.73. The price of the Shares subsequently declined and dropped below the issue price of HK\$2.05 in early August 2007. In mid-August, the lowest price of the Shares since flotation was recorded, HK\$1.82. In September 2007, the price of the Shares rose above the issue price of HK\$2.05. From September up to the Latest Practicable Date, the Shares have been trading within the range of HK\$1.79 to HK\$2.81.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## Trading volume

The below table sets out the highest and the lowest closing prices of the Shares as quoted on the Stock Exchange during the Review Period:

Period/ month	Highest closing price <i>HK\$</i>	Lowest closing price <i>HK\$</i>	Average closing price <i>HK\$</i>	Average daily trading volume for the period/ month <i>Shares</i>	Percentage of average daily trading volume to total no. of issued shares %
<b>2006</b>					
December	3.05	2.02	2.737	75,019,833	7.56%
<b>2007</b>					
January	3.37	3.07	3.211	11,541,682	1.16%
February	3.5	3.09	3.224	4,720,167	0.48%
March	3.17	2.7	2.895	5,100,129	0.51%
April	3.19	3.137	3.05	4,461,389	0.45%
May	3.73	3.13	3.428	4,079,857	0.41%
June	3.55	2.68	2.934	5,109,850	0.52%
July	2.72	2.45	2.555	2,178,524	0.22%
August	2.38	1.6	1.986	2,418,435	0.24%
September	2.81	2.33	2.552	3,493,105	0.35%
October	2.57	2.15	2.29	1,576,571	0.16%
November	2.25	1.88	2.051	542,000	0.05%
December	2.37	2	2.237	987,000	0.10%
<b>2008</b>					
January (up to Latest Practicable Date)	2.08	1.79	1.99	1,260,800	0.13%

As indicated from the above table, the Shares have been thinly traded and rather illiquid for the past year. Given the abovementioned thin trading volume of the Shares, we are of the view that the adoption of recently traded share price, i.e. the average closing price for the last twenty (20) consecutive trading days prior to the suspension of the Shares, as a basis for arriving at the issue price per Consideration Share for the Acquisition is fair and reasonable.

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

## 5.2 Price earnings ratio analysis

The following table (Table A) summarized the relevant price earnings ratios (“PER”) based on the consideration amounts, the relevant NPAT Targets for the years ending 2008, 2009 and 2010 and the historical profit of CLTE for the year ended 31 December 2006 and 2007:

Table A

Year end	Total Consideration payable (assuming the relevant NPAT targets are met)		Minimum Cash Consideration and the initial 30 million Consideration Shares	
	Attributable (70%) amount of NPAT to the Group		Effective PER	
	NPAT Target (RMB million)	NPAT to the Group (RMB million)	Effective PER (times)	Effective PER (times)
31 December 2008	50.0	35.0	7.0	5.3
31 December 2009	55.0	38.5	6.4	4.8
31 December 2010	60.0	42.0	5.8	4.4
Historical figures				
31 December 2007 (unaudited)	N/A	26.7	N/A	7.0
31 December 2006	N/A	19.2	N/A	9.7

In assessing the above-mentioned range of PERs, we have compared them against the Company’s own PER multiples.

Based on the above, we observe that the historical range of PERs of the Company of between 9.7 times and 13.4 times the historical 2006 net profit of the Group recorded before the fire incident in May 2007, and the range of PERs (as set out in Table B) of between 7.4 and 8.4 times the Group’s 2006 earnings, are mostly higher than the effective PERs (“Effective PERs”) indicated in Table A.

In addition, Shareholders’ attention is also drawn to the audited net profit before taxation and extraordinary items of CLTE for the 9 months to 30 September 2007, as set out under paragraph 4 above, which reported a figure of RMB31.0 million. This amount exceeded the corresponding figure of the audited

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

figure in the year ended 31 December 2006 of RMB29.6 million. With the improvement in profitability continued for the last quarter of 2007, based on the unaudited net profit after taxation and extraordinary items of CLTE for year ended 31 December 2007 as set out under paragraph 4 above, the effective PER for the year ended 31 December 2007 is approximately 7.0 times of CLTE's earnings.

Taking into account of the above observation and recognizing that the price of the Shares represents the market multiples on the traded Shares, whereas under the Acquisition, the Group is acquiring a controlling interest in CLTT (and the underlying business of CLTE), the Directors are of the view that the imputed PERs under the Consideration to be fair and reasonable.

For illustration purpose only, taking into account the highest and lowest traded price of the Shares prior to the fire incident in May 2007 of HK\$3.73 (approximately RMB3.54 based on the exchange rate of RMB1 to HK\$1.0527) per Share and HK\$2.69 (approximately RMB2.55 based on the exchange rate of RMB1 to HK\$1.0527) per Share and the Group's net profit after tax of approximately RMB160 million for FY 2006, the price to earnings ratio would range from 9.7 to 13.4.

The following table (Table B) set out the PERs of the shares based on the price to earnings multiple of the Shares based on the 2006 historical earnings of the Group and the issue price of the Considerations Shares of HK\$2.05, and the 5 trading days average closing price of the shares price to 11 December 2007 of HK\$2.22.

Table B

	<b>Based on the FY2006 basic earnings per share of RMB26.35 cents Price to earnings ratio</b>	<b>Based on the FY2006 diluted earnings per share of RMB24.93 cents <sup>1</sup> Price to earnings ratio</b>
<b>Share price</b>		
HK\$2.22 (approximately RMB2.10 <sup>2</sup> being the 5 day average closing price per Share up to 11 December 2007)	8.0	8.4
HK\$2.05 (approximately RMB1.94 <sup>2</sup> being issue price for the Consideration Shares)	7.4	7.9

# LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

*Notes:*

1. assuming all share options issued under the Company's pre-IPO share option scheme, the over-allotment option exercised as per the Company's announcement dated 8 January 2007 and conversion of the convertible bond issued by the Company to Neng Liang Limited have been exercised.
2. based on the exchange rate of RMB1 to HK\$1.0527

In additional to the above analysis, we have also identified a population of (i) 2 companies listed on the Stock Exchange and (ii) 4 companies listed on the Taiwan Stock Exchange, NASDAQ and Singapore Stock Exchange as set out in the table below, which are engaged in the manufacturing of batteries (together the "Comparables") and we have, accordingly, compared their market statistics of the Comparables with the consideration for the Acquisition.

	Stock Exchange	Closing price as at Latest Practical Date HK\$	Historical earnings per share HK\$	Historical PER (Times)
<b>Hong Kong companies:</b>				
BYD Company Limited	HK	50.6	2.07	24.44
Coslight Technology International Group Limited	HK	4.32	0.33	12.93
<b>Outside Hong Kong companies:</b>				
China Bak Battery, Inc.	US	37.68	0.08	483.00
Dynapack International Technology Corporation	Taiwan	21.03	1.51	13.90
GP Batteries International Limited	Singapore	6.54	0.60	10.81
Simplo Technology Co., Limited	Taiwan	31.37	2.15	14.62
Minimum				10.81
Maximum				483.00

*Notes:*

- |   |  |
|---|--|
| 1. HK\$1.00 = United States dollar 0.1282 | HK = The Stock Exchange of Hong Kong Limited |
| 2. HK\$1.00 = New Taiwanese dollar 4.1597 | US = NASDAQ                                  |
| 3. HK\$1.00 = Singapore dollar 0.1834     | Taiwan = Taiwan Stock Exchange               |
|   | Singapore = Singapore Exchange Limited       |

*Source: Bloomberg and the latest annual reports of the Comparables*

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As shown in the above table, the PER of the Comparables ranges from approximately 10.81 times to 483.0 times. Excluding China Bak Battery, Inc. which has an exceptional high PER due to the substantial decrease in earnings, as compared to other companies, the PER of the remaining comparables companies ranges from 10.81 times to 24.44 times, which are higher than the Effective PERs as indicated in Table A.

### 5.3 Price to book ratio analysis

The Group reported an unaudited net tangible asset value ("NTAV") of RMB864,799,000 as at 30 June 2007, which is equivalent to the NTAV per Share of approximately RMB87.18 cents based on 992,001,246 Shares in issue. The following table (Table C) sets out the expected changes to the NTAV per Share as a result of the implementation of the Acquisition, and the fulfillment of the NPAT targets in the coming years.

Table C

	Changes to NTAV (RMB)	Cumulative NTAV (RMB)	NTAV per Share (RMB cents)	Issue of Consideration Shares	Cumulative shares in issue
As at 30 June 2007		<u>864,799,000</u>	<u>87.18</u>		<u>992,001,246</u>
<b>Adjusted by:</b>					
Cash payable for the Sale Assets	(36,500,000)				
Addition of assumed book value of the Sale Assets	36,500,000				
Cash payable to the Vendor and initial issue of 30 million Consideration Shares	<u>(91,000,000)</u>			<u>30,000,000</u>	<u>1,022,001,246</u>
		<u>773,799,000</u>	<u>75.71</u>		<u>1,022,001,246</u>
<b>Increase in attributable (70%) share of NPAT and issue of further Consideration Shares for the year ending:</b>					
31 December 2008	35,000,000	808,799,000	78.37	10,000,000	1,032,001,246
31 December 2009	38,500,000	847,299,000	81.31	10,000,000	1,042,001,246
31 December 2010	42,000,000	889,299,000	84.53	10,000,000	1,052,001,246

Based on the above calculations, the NTAV per Share of the Group would be reduced from RMB87.18 cents per Share to RMB75.71 cents per Share by the implementation of the Acquisition, represent a dilution of approximately 13.16%. In the event that the NPAT Targets are fulfilled in each of the relevant year, the resultant position in the NTAV per Share would be improved to RMB84.53 cents per Share, representing a smaller dilution of approximately 3% from the NTAV per Share position as at 30 June 2007.

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We have discussed the above-mentioned dilution calculation with the management of the Company. Their view is that the calculations have not taken into account of the value of the brand and the established distribution network of Chaoliton 超力通 which has immense strategic values to the Group. In particular, the Directors consider that it would be very costly for the Group to penetrate market presence in the various markets where Chaoliton 超力通 has already secured a stronghold. Furthermore, the Directors are satisfied with the proposed issue of further Consideration Shares upon the fulfillment of the relevant NPAT targets, which they consider will provide attractive motivation for performance. Accordingly, the Directors consider that the overall terms of the Consideration to be fair and reasonable and are in the interest of the Company as a whole.

Having considered the factors outlined above, we concur with the view of the Directors that the terms of the consideration under the Acquisition to be fair and reasonable, and is in the interest to the Company and its Shareholders.

### **6. Other effects on the Group and the Shareholders**

#### *6.1 Total assets, total liabilities and net asset value*

Upon completion of the acquisition of CLTT, it will be accounted for as a subsidiary of the Company and its results, assets and liabilities will be consolidated in the Group's financial statements. On completion of the purchase by CLTT of the Sale Assets, they will become assets of CLTT and be accounted for accordingly. The consolidation of the assets into the Group's financial statement will be partly offset by the decrease in "Bank balances and cash" for the cash portion of the Consideration.

Whilst the "Share capital and reserve" will increase as a result of the issuance of the initial 30 million Consideration Shares and a further increase of 30 million Consideration Shares if the relevant profit targets are met.

The implementation of the Acquisition is expected to give rise to goodwill. Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The extent to which any goodwill impairment provision may be required in the Group's future financial statement would depend on the assessment as whether any impairment on goodwill may be necessary.

#### *6.2 Cash position and gearing*

As the cash consideration for the Acquisition will be satisfied by the internal resources of the Group, the "Bank balances and cash" classified under current assets of the consolidated balance sheet of the Group will be reduced by approximately RMB128 million in cash (subject to adjustment).



## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As the cash consideration for the Acquisition will be satisfied by the internal resources, and the CLTT and the Sale Assets do not involve borrowings, there will be no material impact on the gearing ratio of the Group as a result of the Acquisition.

### 6.3 Shareholding

The shareholding positions of the Company before and after the Acquisition are set out below:

Name of shareholders	Shareholding before Acquisition (as at the Latest Practicable Date)		Shareholding after Acquisition (assuming NPAT Targets not met and minimum 30 million Consideration Shares issued)		Shareholding after Acquisition (assuming all NPAT Targets met and maximum 60 million Consideration Shares issued)	
	Number of Shares	%	Number of Shares	%	Number of Shares	%
Swift Joy Holdings Limited	402,000,000	40.52	402,000,000	39.33	402,000,000	38.21
Right Grand Holdings Limited	180,000,000	18.15	180,000,000	17.61	180,000,000	17.11
Cheer View Holdings Limited	18,000,000	1.81	18,000,000	1.76	18,000,000	1.71
Public Shareholders	392,001,246	39.52	392,001,246	38.36	392,001,246	37.27
Vendor	N/A	N/A	30,000,000	2.94	60,000,000	5.70
	<u>992,001,246</u>	<u>100.00</u>	<u>1,022,001,246</u>	<u>100.00</u>	<u>1,052,001,246</u>	<u>100.00</u>

Immediately after the issue of the initial Consideration Shares, the Vendor will be interested in 30,000,000 Shares, representing approximately 2.94% of the enlarged issued share capital of the Company. On this basis, the interest of the existing public Shareholders will be diluted from approximately 39.52% (as at the Latest Practicable Date) to approximately 38.36% of the enlarged issued share capital of the Company following the issue of the initial 30 million Consideration Shares, representing a dilution effect of approximately 2.9%.

Assuming the relevant NPAT Targets are met, a further 30 million Consideration Shares will be issue to the Vendor and the Vendor will be interested in 60 million Shares, representing approximately 5.7% of the enlarged issued share capital of the Company. The shareholding interest of the existing public Shareholders, will as a result of the issue of the additional Consideration Shares be diluted by a further approximately 2.8% from 38.36% to 37.27%.

Taking into account the market performance of the Shares and the internal resources available to the Group, the Vendor and the Company believe that by issuing the Consideration Shares to the Vendor which, in turn, will save the Group's internal resources for deployment in the business operations in the future.

Also taking into account the other reasons and factors set out in this letter, in particular, the issue price for the Consideration Shares is (i) equivalent to the average closing price for the last twenty (20) consecutive trading days up to and

## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

including the 11 December 2007; and (ii) the liquidity of the Shares on the Stock Exchange and the possible effects on the Group and the Shareholders as a result of the Acquisition, we are of the view that the slight dilution effect to the existing public Shareholders as a result of issuing Consideration Shares is acceptable.

### RECOMMENDATION

In considering the terms of the Acquisition, we have taken into account the following factors:

- the principal activities and the financial performance of the Group as described in paragraphs 1.1 and 1.2 above;
- the reasons for and benefits of the Acquisition;
- the terms of the Agreement with regard to the basis of the consideration, and the condition precedents requiring the satisfaction of due diligence review and the fulfillment of all relevant consents /approvals.
- the other factors (namely the price performance and trading volume of the Shares, the comparison of price to the various financial ratios and) in considering the Agreement; and
- the expected financial and/or strategic impact of the Acquisition.

After having considered the above principal factors and based on the information provided and the representations made to us, we consider the terms of the Agreement to be fair and reasonable so far as the Shareholders are concerned; and that the Acquisition is in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Shareholders to vote in favour of the resolution which would have been proposed at the general meeting of the Company to approve the Acquisition.

Yours faithfully  
For and on behalf of  
**ACCESS CAPITAL LIMITED**  
**Ambrose Lam**      **Jimmy Chung**  
*Chairman*      *Executive Director*

## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## DISCLOSURE OF DIRECTORS' INTERESTS

### (i) Directors' interests and short positions in the shares, underlying shares and debentures of the Company

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), or (b) were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, were as follows:

Name of Director	Capacity	Number of ordinary shares	Number of ordinary shares subject to options granted	Percentage of the issued share capital of the Company
Fang Jin	Corporate interest (Note 1)	402,000,000	–	40.52%
	Beneficial interest	–	5,000,000	0.50%
Lin Chao	Corporate interest (Note 2)	180,000,000	–	18.15%
	Beneficial interest	–	4,000,000	0.40%
Guo Quan Zeng	Corporate interest (Note 3)	18,000,000	–	1.81%
	Beneficial interest	–	3,500,000	0.35%
Li Hui Qiu	Beneficial interest	–	2,600,000	0.28%

*Notes:*

1. These Shares are directly held by Swift Joy Holdings Limited, whose entire issued share capital is held by Fang Jin.
2. These Shares are directly held by Right Grand Holdings Limited, whose entire issued share capital is held by Lin Chao.
3. These Shares are directly held by Cheer View Holdings Limited, whose entire issued share capital is held by Guo Quan Zeng.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executives of the Company had: (a) under Divisions 7 and 8 of Part XV of the SFO, nor were they taken or deemed to have under such provisions of the SFO, any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO); (b) any interests which are required to be entered into the register kept by the Company pursuant to Section 352 of the SFO; or (c) any interests which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(ii) Interests and short positions of Shareholders discloseable under the SFO**

So far as is known to the Directors and chief executives of the Company, as at the Latest Practicable Date, the following persons (other than directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:—

Name of Shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company as at Latest Practicable Date
Swift Joy Holdings Limited	Beneficial owner	402,000,000	40.52%
Right Grand Holdings Limited	Beneficial owner	180,000,000	18.15%
Baring Asset Management Limited	Investment manager	88,844,000	8.96%
SAS Rue la Boetie	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
Credit Agricole S.A.	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%

**APPENDIX**
**GENERAL INFORMATION**

<b>Name of Shareholder</b>	<b>Capacity</b>	<b>Number of issued ordinary shares/ underlying shares held</b>	<b>Percentage of the issued share capital of the Company as at Latest Practicable Date</b>
Calyon S.A.	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
Calyon Capital Markets International SA	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
Calyon Capital Markets Asia B.V.	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
CLSA B.V.	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
CLSA Capital Partners Limited	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
CLSA Private Equity Management Limited	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
Aria Investment Partners II, L.P.	Interest through controlled corporation ( <i>Note 1</i> )	93,001,246	9.38%
Neng Liang Limited	Beneficial owner	93,001,246	9.38%
Northern Trust Fiduciary Services (Ireland) Limited	Trustee	63,082,000	6.06%
Ma Jie	Interests of a party to an agreement to acquire interests in a listed corporation	60,000,000	6.05%
Zheng Wei	Beneficial owner	60,000,000	6.05%
Zheng Zhen Jian	Beneficial owner	60,000,000	6.05%
Ma Yuk Sang	Beneficial owner (Long)	60,000,000	6.05%
	Other (Short)	60,000,000	6.05%

*Notes:*

1. Based on the disclosure of interests forms filed with the Stock Exchange, SAS Rue la Boetie has 33.3% control over Credit Agricole S.A., which in turn has 33.3% control over Calyon S.A., which in turn has 33.3% control over Calyon Capital Markets International SA, which in turn has 33.3% control over Calyon Capital Markets Asia B.V., which in turn has 33.3% control over CLSA B.V., which in turn has 33.3% control over CLSA Capital Partners Limited, which in turn has 33.3% control over CLSA Private Equity Management Limited, which in turn has 1% control over Aria Investment Partners II, L.P., which in turn has 33.3% control over Neng Liang Limited. As such, each of the above entities is deemed to be interested in the 93,001,246 shares held by Neng Liang Limited under the SFO.

Save as disclosed above, the Directors and the chief executives of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares.

**LITIGATION**

As at the Latest Practicable Date, none of the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors has a service agreement with the Company which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**DIRECTORS' INTEREST IN COMPETING BUSINESS**

None of the Directors or their respective associates are interested in any business apart from the Group's businesses which competes or is likely to compete, either directly or indirectly, with the Group's businesses as at the Latest Practicable Date.

**DIRECTORS' INTEREST IN ASSETS**

As at the Latest Practicable Date, none of the Directors have any material interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

**DIRECTORS' INTERESTS IN CONTRACTS**

No contracts of significance to which the Company was a party and in which a Director had a material interest and which is significant to the Group's business, whether directly or indirectly, subsisted at the date of this circular.

**CONSENT AND EXPERT**

The following table lists the qualification of the professional adviser who has given opinion or advice, which is contained in this circular:

<b>Name</b>	<b>Qualification</b>
Access Capital Limited	A licensed corporation under the SFO which engages in types 1 (dealing in securities), 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management)

The Independent Financial Adviser has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and/or opinions and/or the references to its name in the form and context in which it respectively appears.

As at the Latest Practicable Date, (i) the Independent Financial Adviser did not have any interest, either direct or indirect, in any assets which had been, since the date to which the latest published audited financial statements of the Company were made up acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group; and (ii) the Independent Financial Adviser did not have any shareholding interests in any member of the Group and it did not have any right, whether legally enforceable or not, to subscribe for or nominate persons to subscribe for securities of any members of the Group.

**MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse changes in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited consolidated accounts of the Group were made up.

**MISCELLANEOUS**

- a. In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.
- b. The company secretary and qualified accountant of the Company is Mr. Yeung Mun Tai (FCCA, CPA).
- c. The registered office of the Company is at Codan Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, Grand Cayman, KY1-111, Cayman Islands and the place of business in Hong Kong is at Suite 5505, 55/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

**DOCUMENTS FOR INSPECTION**

Copies of the following documents will be available for inspection at the Company's place of business in Hong Kong at Suite 5505, 55/F., Central Plaza, 18 Harbour Road, Wanchai, Hong Kong during normal business hours on any weekday (except public holidays) from the date of this circular up to and including 25 January 2008:

- (a) the letter from the Independent Board Committee, the text of which is set out on page 17 of this circular;
- (b) the letter issued by the Independent Financial Adviser, the text of which is set out on pages 18 to 40 of this circular;
- (c) the consent letter from the Independent Financial Adviser referred to in the paragraph headed "Consent and Expert" in this Appendix;
- (d) the annual report of the Group for the year ended 31 December 2006 and the interim report of the Group for the period ended 30 June 2007;
- (e) the Agreement;
- (f) the memorandum and articles of association of the Company; and
- (g) a copy of this circular.