SCUD GROUP LIMITED

飛毛腿集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1399)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2007

FINAL RESULTS HIGHLIGHTS

Business Highlights

- Successfully achieved a turnaround after the serious fire at the Group's production plant in Fuzhou in May last year.
- Annual production capacity increased by 20 % to 48 million units.
- Entered into an agreement for the acquisition of the principal operating assets of Chaolitong Electronics Company Limited, one of the largest competitors of the Company. Upon completion, the Company is expected to benefit in terms of its expanded sales network, production capacity increase, product variety increase and R&D capability enhancement.

Financial Highlights

	2007	2006
	(RMB'000)	*(RMB'000)*
• Turnover	960,921	936,305
• Net Profit	15,517	160,191
• Earnings per share		
Basic (cents)	1.58	26.35
Diluted (cents)	1.58	24.93
• Proposed final dividend per share (HKD cents)	2.0	Nil
• Cash position	497,858	610,982
• Gross profit margin	25.3%	25.7%
• Current ratio (times)	5.4	3.3

The board of directors of SCUD Group Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2007 together with the comparative figures for the year ended 31 December 2006, as follows:

* *For identification purpose only*

CONSOLIDATED INCOME STATEMENT

	Note	For the year ended 31 December **2007** *RMB'000*	2006 *RMB'000*
Turnover	*4*	**960,921**	936,305
Cost of sales		**(717,412)**	(695,825)
Gross profit		**243,509**	240,480
Other revenue	*5*	**28,718**	24,535
Selling and distribution expenses		**(29,116)**	(15,623)
Administrative expenses		**(59,700)**	(55,268)
Other operating expenses		**(393)**	–
Convertible bonds issue expenses		**–**	(2,240)
Change in fair value of convertible bonds designated as at fair value through profit or loss		**–**	(8,495)
Profit from operations	*6*	**183,018**	183,389
Losses from fire	*7*	**(164,581)**	–
Finance costs	*8*	**(2,491)**	(8,487)
Profit before taxation		**15,946**	174,902
Taxation	*9*	**(429)**	(14,711)
Profit for the year		**15,517**	160,191
Attributable to:–			
Equity holders of the Company		**15,513**	160,191
Minority interests		**4**	–
		15,517	160,191
Dividends	*10*	**37,789**	30,744
Earnings per share			
– basic (RMB cents)	*11*	**1.58**	26.35
– diluted (RMB cents)	*11*	**1.58**	24.93

CONSOLIDATED BALANCE SHEET

		31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Property, plant and equipment	*12*	**168,195**	79,487
Prepaid lease payments – non-current portion		**12,243**	12,131
Intangible assets		**3,109**	1,807
Deferred tax assets		**1,675**	1,675
Deposit for purchases of property, plant and equipment		**–**	657
		185,222	95,757
Current assets			
Due from a related party		**1,126**	960
Inventories	*13*	**149,114**	94,908
Trade and notes receivables	*14*	**191,499**	227,573
Prepaid lease payments – current portion		**258**	251
Prepayments, deposits and other receivables		**125,590**	126,408
Current tax recoverable		**2,403**	–
Pledged bank deposits		**29,375**	124,045
Bank balances and cash		**468,483**	486,937
		967,848	1,061,082
Current liabilities			
Due to related parties		**–**	2,354
Trade and notes payables	*15*	**133,408**	94,801
Provision for warranty		**2,225**	2,572
Other payables, receipt in advance and accrued charges		**30,735**	62,238
Bank loans – current portion		**13,444**	76,362
Convertible bonds		**–**	78,410
Current tax payable		**–**	2,973
		179,812	319,710
Net current assets		**788,036**	741,372
Total assets less current liabilities		**973,258**	837,129
Capital and reserves			
Share capital	*16*	**99,503**	86,404
Reserves		**872,793**	749,319
Total equity attributable to equity holders of the Company		**972,296**	835,723
Non-current liabilities			
Bank loans – non-current portion		**962**	1,406
Total equity and non-current liabilities		**973,258**	837,129

NOTES

1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands on 20 July 2006 as an exempted company with limited liability and its shares have been listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 21 December 2006. The Group is principally engaged in the manufacture and sale of rechargeable battery packs and related accessories for mobile phones, notebook computers, digital cameras and other electrical appliances.

2. BASIS OF PREPARATION

The consolidated financial statements for the year ended 31 December 2007 (the "Financial Statements") have been prepared under the historical cost convention except for certain financial instruments which are measured at fair values. In addition, the Financial Statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and the Hong Kong Companies Ordinance. The principal accounting policies and methods of computation used in the preparation of the Financial Statements are consistent with those adopted in the financial statements for the year ended 31 December 2006, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") as explained in note 3 below.

3. PRINCIPAL ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRSs, which collectively include all applicable individual IFRSs, International Accounting Standards ("IASs") issued by the International Accounting Standards Board (the "IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB.

During the current year, the Group has adopted the following amendment to IFRSs, new standards and interpretations which are effective for accounting periods commencing on or after 1 January 2007:–

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of the above has had no material impact on the accounting policies of the Group and the methods of computation in the Group's Financial Statements.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

The Group's business comprises two segments, namely, own-brand business and original equipment manufacturer ("OEM") business. The directors of the Company regard these segments as the primary source of the Group's risks and returns.

Segment information about these businesses is presented as follows:–

Segment revenue and results

	2007				2006		
	Own-brand business	**OEM business**	**Others**	**Total**	Own-brand business	OEM business	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**616,022**	**325,185**	**19,714**	**960,921**	620,132	316,173	936,305
Segment results	**172,969**	**70,063**	**477**	**243,509**	174,188	66,292	240,480
Unallocated income				**28,718**			24,535
Unallocated expenses				**(89,209)**			(70,891)
Change in fair value of convertible bonds designated as at fair value through profit and loss				**–**			(8,495)
Convertible bonds issue expenses				**–**			(2,240)
Losses from fire				**(164,581)**			–
Finance costs				**(2,491)**			(8,487)
Profit before taxation				**15,946**			174,902
Taxation				**(429)**			(14,711)
Profit for the year				**15,517**			160,191

Assets and liabilities

	2007				2006		
	Own-brand business	**OEM business**	**Others**	**Total**	Own-brand business	OEM business	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**251,666**	**140,618**	**–**	**392,284**	144,943	149,467	294,410
Unallocated corporate assets				**760,786**			862,429
Consolidated total assets				**1,153,070**			1,156,839
Unallocated corporate liabilities and consolidated total liabilities				**180,774**			321,116

Geographical segments

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of segment assets and additions to property, plant and equipment and intangibles by geographical market have not been presented as they are substantially generated from or situated in the People's Republic of China ("PRC").

5. OTHER REVENUE

	2007	2006
	RMB'000	*RMB'000*
Interest income	**12,493**	12,078
Foreign exchange gain	**6,755**	3,596
Gain on disposal of short term investment	**7,663**	–
Processing income	**759**	4,559
Sale of scrap materials	**–**	2,048
Sundry income	**1,048**	2,254
	28,718	24,535

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:–

	2007	2006
	RMB'000	*RMB'000*
Auditors' remuneration		
– current year provision	**1,701**	1,750
– prior year underprovision	**197**	–
Amortisation		
– intangible assets	**247**	179
– prepaid lease payments	**257**	146
Allowance for bad and doubtful debts	**318**	650
Cost of inventories recognized as expense	**717,412**	695,825
Depreciation (net of depreciation included in research and development costs of RMB2,779,000 (2006: RMB2,598,000))	**18,604**	11,671
Impairment loss on property, plant and equipment	**–**	526
Listing expenses	**–**	7,699
Operating lease rentals		
– office premises	**5,266**	4,161
Research and development costs (net of government grant of RMB1,820,000 (2006: RMB1,273,000))	**12,473**	12,635
Write-off of receivables	**–**	1,995
Staff costs	**48,477**	41,376

7. LOSSES FROM FIRE

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

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

	RMB'000
Loss on inventories	
Raw materials	**174,235**
Work in progress	**7,690**
Finished goods	**17,469**
	199,394
Loss on property, plant and equipment	**10,458**
Estimated costs for reconstruction of the rented premises being damaged in the fire	**8,285**
	218,137
Less: Compensation received from the insurers in November 2007	**(52,490)**
Receipts from sales of scrap materials damaged	**(1,066)**
Net losses	**164,581**

8. FINANCE COSTS

	2007	2006
	RMB'000	*RMB'000*
Interest on bank borrowings	**1,352**	3,733
Interest on discounted notes receivable (without recourse)	**195**	94
Effective interest on convertible bonds	**891**	4,660
Other finance costs	**53**	–
	2,491	8,487

9. TAXATION

Details of the (credit)/charge in the consolidated income statement are as follows:–

	2007	2006
	RMB'000	*RMB'000*
Current tax-PRC Enterprise Income Tax		
Tax for the year	**–**	15,052
Underprovision in prior years	**429**	58
	429	15,110
Deferred tax		
Origination/reversal of temporary differences	**–**	(399)
Taxation	**429**	14,711

No provision for taxation has been made by the Company as it is not subject to tax in the Cayman Islands or elsewhere in other jurisdictions.

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

10. DIVIDENDS

An interim dividend of RMB19,211,000 was declared and paid to the shareholders during the year ended 31 December 2007.

A final dividend for the year ended 31 December 2007 of HK$0.02 per share, amounting to a total dividend of RMB18,578,000 is to be proposed at the forthcoming annual general meeting of the Company. These financial statements do not reflect this dividend payable.

For the year ended 31 December 2006, dividends of RMB30,744,000 were declared and paid to the then shareholders prior to the Group recognisation.

11. EARNINGS PER SHARE

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

	2007	2006
	RMB'000	*RMB'000*
Earnings for the purposes of basic earnings per share (profit for the year attributable to the equity holders of the Company)	**15,513**	160,191
Effect of dilutive potential ordinary shares (effective interest on convertible bonds)	**–**	4,660
Change in fair value of convertible bonds designated as fair value through profit and loss	**–**	8,495
	15,513	173,346

	Number of ordinary shares	
	2007	2006
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**981,826**	607,835
Effect of dilutive potential ordinary shares		
– convertible bonds	**–**	87,395
– share options	**215**	167
	215	87,562
Weighed average number of ordinary shares for the purposes of diluted earnings per share	**982,041**	695,397

12. PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment, furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Plant and machinery *RMB'000*	Moulds *RMB'000*	Construction in progress *RMB'000*	Leasehold improve- ments *RMB'000*	Total *RMB'000*
Cost							
1 January 2006	38,757	2,065	13,615	15,102	6,364	–	75,903
Additions	1,276	4,079	23,395	3,482	4,602	–	36,834
Transfer	406	–	8,060	1,500	(9,966)	–	–
31 December 2006	40,439	6,144	45,070	20,084	1,000	–	112,737
Exchange adjustment	(9)	–	–	–	–	–	(9)
Additions	15,624	2,586	45,545	2,382	54,977	395	121,509
Transfer	796	351	–	9,818	(11,856)	891	–
Disposals	(7,824)	(900)	(12,966)	–	–	–	(21,690)
31 December 2007	49,026	8,181	77,649	32,284	44,121	1,286	212,547
Depreciation							
1 January 2006	9,437	1,263	5,457	2,298	–	–	18,455
Charge for the year	7,287	549	3,065	3,368	–	–	14,269
Impairment loss recognised	–	–	–	526	–	–	526
31 December 2006	16,724	1,812	8,522	6,192	–	–	33,250
Exchange adjustment	(2)	–	–	–	–	–	(2)
Charge for the year	8,516	895	6,313	5,571	–	88	21,383
On disposals	(3,377)	(623)	(6,279)	–	–	–	(10,279)
31 December 2007	21,861	2,084	8,556	11,763	–	88	44,352
Net book value							
31 December 2007	**27,165**	**6,097**	**69,093**	**20,521**	**44,121**	**1,198**	**168,195**
31 December 2006	23,715	4,332	36,548	13,892	1,000	–	79,487

13. Inventories

	2007	2006
	RMB'000	*RMB'000*
Raw materials	**88,197**	94,908
Work in progress	**58,240**	–
Finished goods	**2,677**	–
	149,114	94,908

All inventories were stated at cost.

14. Trade and notes receivables

An aged analysis of trade and notes receivables as at the balance sheet date, based on the invoice date and net of allowance, is as follows:–

	2007	2006
	RMB'000	*RMB'000*
0 to 60 days	**162,942**	168,524
61 to 180 days	**26,169**	55,103
181 to 365 days	**1,943**	3,808
1 to 2 years	**438**	138
2 to 3 years	**7**	–
	191,499	227,573

The average credit period granted on sale of goods ranged from 60 to 90 days.

15. Trade and notes payables

An aged analysis of trade and notes payables at the balance sheet date is as follows:–

	2007	2006
	RMB'000	*RMB'000*
0 to 60 days	**76,731**	86,790
61 to 180 days	**49,068**	6,589
181 to 365 days	**5,962**	1,229
1 to 2 years	**1,456**	146
2 to 3 years	**144**	–
Over 3 years	**47**	47
	133,408	94,801

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

16. Share capital

	2007	2006
	RMB'000	*RMB'000*
Authorised:–		
5,000,000,000 ordinary shares of HK$0.10 each	**502,350**	502,350
Issued and fully paid:–		
992,001,246 ordinary shares (2006: 860,000,000 ordinary shares)	**99,503**	86,404

On 8 January 2007, the Company issued and allotted 39,000,000 ordinary shares of HK$0.10 each at HK$2.02 each upon the exercise of the over-allotment option pursuant to the Company's prospectus for a total consideration of approximately HK$78,780,000.

On 7 February 2007, the holder of the convertible bonds in issue has exercised its right to convert all the convertible bonds totalling US$10,000,000 into an aggregate of 93,001,246 ordinary shares of HK$0.10 each in the Company.

17. Post balance sheet events

On 12 December 2007, the Company entered into an agreement (the "Agreement") with Mr. Ma Yuk Sang ("the Vendor"), the 30% shareholder of a 70% indirect subsidiary (the "Purchaser") of the Company whereby the Vendor agreed to procure the sale of entire equity interest ("Sale Interest") in Chaolitong Technology Company Limited ("CLTT") to the Purchaser and the sale of the production equipment, inventory and intellectual property rights ("Sale Assets") of Chaolitong Electronics Company Limited ("CLTE") to CLTT. The Sale Assets, related senior management and employees who are expected to join CLTT as from the completion date of the aforesaid transaction (that is, 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) 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 the PRC.

The total consideration for the acquisition of Sale Interest and Sale Assets is up to RMB245 million, whereby RMB37 million will be paid for the purchase of the Sale Interest and the Sale Assets and the balance of up to RMB208 million to the Vendor. The RMB208 million consists of RMB91 million in cash and up to RMB117 million to be satisfied by the issue of at least 30 million and no more than 60 million consideration shares at HK$2.05 each if the net profit after tax targets are met or exceeded for the financial years ending 31 December 2008, 2009 and 2010.

As at the date of this announcement, this transaction has not been completed. The Company will issue a further announcement at the time of completion.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

In 2007 the Chinese economy continued its fast development and led to an increase in per capita average income. This brought unlimited opportunities and potentials to telecommunication and electronic products related industry. The number of mobile phone users in the PRC also continued to increase. According to the "Statistics Report on the Development of the Telecommunication Industry in the PRC in 2007" published by the Ministry of Information Industry, the number of mobile phone users reached approximately 540,000,000 at the end of 2007, an increase of approximately 20% from approximately 460,000,000 last year. The coverage increased from approximately 35.3 mobile phones per 100 persons to approximately 41.6 mobile phones per 100 persons. With the increase in personal consumption and the continuous rise of living standard, the demand for new models and models with multi-media functions also increased. These factors greatly stimulated the demand for high quality, high safety and high capacity batteries by mobile phone users in the PRC and created vast opportunities in the rechargeable battery market. It is believed that the development of medium and high end rechargeable branded batteries will be facilitated. It is also expected that more mobile phone users in the PRC will buy spare rechargeable batteries.

During the year, the Group actively maintained its market leader position. Its market share in the market of branded mobile phone rechargeable batteries was approximately 12%. Driven by the fast development of the Chinese economy, the implementation of "Communication Projects in Rural Areas" as promoted by the Chinese government and the expectation of the grant of 3G mobile phone licenses by the Chinese government in the near future, it is believed that the coverage of mobile phone users will be further increased. Suppliers of rechargeable batteries with competitiveness will be provided with more room for development. It is expected that the popularity of mobile phones will greatly increase the demand for medium to low end branded rechargeable batteries and mobile phone accessories in second-tier and third-tier cities, towns and rural areas.

BUSINESS REVIEW

Management of the Group has been facing various opportunities and challenges in the market with a positive attitude, striving to maintain its market leader position with a target of maximizing the benefits and value to shareholders.

The serious fire at the Fuzhou plant in May 2007 destroyed a majority of the Group's inventory and affected the turnover and net profit of the Group in the first half of 2007. In the first half of 2007, the Group for the first time recorded a loss of approximately RMB125.3 million. Nevertheless, the Group worked very hard to recover from the loss and was successful in turning the loss to profit in the second half of 2007. The Group's turnover, gross profit and profit attributable to equity holders of the Company for the year were RMB960.9 million, RMB243.5 million and RMB15.5 million respectively. The turnover and gross profit increased 2.6% and 1.3% respectively from the previous year, while the profit attributable to equity holders of the Company decreased 90.3%. Profit attributable to equity holders of the Company for the year included net loss due to the fire of approximately RMB164.6 million (net of insurance compensation of approximately RMB52.5 million). Gross profit margin for the year was not materially affected by the fire and was maintained at 25.3% (2006: 25.7%), while net profit margin decreased 15.5 percent points to 1.6%.

Own brand business

The "SCUD飛毛腿" brand is well-known and popularly recognized by the consumers in the PRC. In 2007, the Group accounted for approximately 12% of the branded mobile phone rechargeable batteries market share in the PRC. Approximately 64.1% of the Group's products were sold in the PRC market under the "SCUD飛毛腿" brand. The turnover and gross profit for the year ended 31 December 2007 were approximately RMB616.0 million and approximately RMB173.0 million respectively. In 2007, the sales volume of medium and high end branded batteries (including the Business series (商務系列) and the Gold series (金品系列)) of the Group increased 28.3% from 2006. During the past five years, the sales volume of the Group's own brand batteries achieved substantial increase. The sales volume in 2007 was approximately 25,000,000 units which is about 6.6 times of the 2003 figure (approximately 3,800,000 units), reflecting the rapid growth of the Group and the popularity of its brand.

The quality of mobile phone batteries in the PRC vary greatly. However, since the establishment of the Group, it has placed safety and quality as the top priority and set strict standards in areas such as raw materials purchase, production workflow and quality control. In December last year, the "SCUD飛毛腿" brand Li-ion battery was awarded a Certificate of Exemption from Government Inspection ("國家免檢產品") by the General Administration of Quality Supervision, Inspection and Quarantine of PRC ("AQSIQ"). The Group is the first and only domestic producer of Li-ion batteries that has been awarded such Certificate of Exemption. The confirmation on the "SCUD飛毛腿" brand by the AQSIQ further manifests the competitiveness of the Group's products in the aspects of quality, safety and brand value, and strengthens the confidence of consumers in the "SCUD飛毛腿" brand. Stringent quality control and brand awareness, both inter-related, form one of the core competitive advantages of the Group.

The Group possesses strong research and development capabilities which enable it to cater for the demand from the ever-changing mobile phone models in the market and to maintain its market competitiveness. During the year, the Group invested approximately RMB12.5 million in research and development with the focus on new moulds development and quality inspection. The research and development expenses accounted for approximately 1.3% of total turnover in 2007. As at 31 December 2007, the products of the own "SCUD飛毛腿" brand of the Group include approximately 2,800 models of mobile phone rechargeable batteries which are compatible to 3,100 models of mobile phones. The Group will continue to follow closely the market demand and develop more product types and models to satisfy the need of various customers. Furthermore, the Group will endeavour to develop the medium and high end market with higher gross profit margin, aiming to increase the overall profitability of the Group.

With technologies ever-changing, various types of portable electronic products are invented. In order to capitalize on such vast opportunities, the Group, in addition to mobile phone rechargeable battery packs, also supplied small quantities of battery packs for digital products, chargers and other peripherals which accounted for approximately RMB58.2 million, RMB25.2 million and RMB33.9 million of the Group's total turnover respectively. As at the date of this announcement, the Group has developed approximately 250 models of rechargeable battery packs compatible to major popular models of digital cameras and camcorders and approximately 300 models of chargers, aiming at the provision of more diversified product types to increase sources of income. In the future, the Group expects to strengthen its research and development capabilities to provide rechargeable battery packs which will be compatible to more portable electronic products and gradually increase their sales proportion in accordance with the progress of market development.

Sales network

The sales network of the Group mainly comprises distributors and terminal points of sales, forming an extensive coverage. As at 31 December 2007, the number of first tier distributors of the Group has exceeded 360, at least over 180 of which were exclusive distributors. The number of points of sales exceeded 35,000, basically covering first-tier and second-tier cities with high consumption power. During the year, in addition to the existing network, the Group made effort to explore points of sales in Guangdong, Hubei and Hunan and attained satisfactory performance.

In order to further enhance the brand image, the Group has carried out enhancement to the network and renovation of its display counters since last year to build a unified and more outstanding brand image. As at 31 December 2007, the renovation of more than 2,000 display counters had been completed. The Group plans to complete the renovation of approximately 4,000 display counters in phases in 2008 and 2009.

The acquisition of "Chaolitong"

The Group has been striving to expand its business and to enhance its market share through various channels. Last December, the Group entered into an agreement to acquire the principal operating assets relating to the "Chaolitong超力通" brand, one of the largest competitors of the Group in the PRC, for a total consideration up to RMB245.0 million. The Group believes that by virtue of the different advantages of the two brands, the acquisition can create synergy and facilitate the Group to lower the cost of expansion in the rural market and the risk of market competition. The acquisition can also enhance the production capacity, reduce composite costs and raise efficiency of the Group. The strength of the "SCUD飛毛腿" brand lies in its research and development capabilities, quality assurance and brand advantage, while the "Chaolitong超力通" brand established its market share in rural areas and second-tier and third-tier cities by virtue of its low costs. The Group can extend its sales network into such markets with lower costs after the acquisition.

Furthermore, through the integration of the two of the largest mobile phone rechargeable battery producers in the PRC, the Group can increase its product variety and accelerate the research and development of products. Through further integration of resources of research and development, the duplication of resources can be avoided on product development. Meanwhile, bulk purchase can help reduce the costs of production and purchase of raw materials. As the production capacity increases, the Group can enjoy more bargaining power in price negotiation and in the stabilization of market prices of battery product, which facilitate the long-term growth of the Group.

OEM business

Apart from own brand business, the Group's quality products also attract domestic and foreign manufacturers of quality brand mobile phones. The Group sells original rechargeable batteries to mobile phone manufacturers in OEM form which provides stable operating income and technological upgrades to the Group. As at 31 December 2007, the turnover from OEM business amounted to approximately RMB325.2 million, representing approximately 33.8% of the total turnover. Major customers include Lenovo, Huawei, ZTE, UT Starcom, Sangfei, Hisense and Haier. The Group has established long-term stable relationships with its customers. The periods of cooperation with the majority of customers generally exceed 4 years.

Report on the fire in May

The production capacity was fully restored and resumed normal operations by the end of 2007. China Pacific Insurance (Group) Co., Ltd., the insurer of the Group completed the evaluation report on the accident in November 2007 and an agreement on the amount of the insurance claim was reached. China Pacific Insurance (Group) Co., Ltd. had paid the Group compensation amounting to approximately RMB52.5 million. Hence, the net loss resulting from the fire was approximately RMB164.6 million. In order to prevent the occurrence of similar events in the future, the Group has actively taken a number of measures. A portion of the compensation will be utilized to increase the number of fire extinguishing equipments at the plant, carry out patrol and inspection to maintain clear passageways and sufficient water supply for fire fighting, organize regular safety education and training for staff, including the provision of training to staff for handling and safekeeping inflammable goods, conduct safety fire drills, increase in investment on fire safety in the new plant to ensure sufficiency of fire fighting facilities. The Group believes that the relevant measures can effectively lower the risk of fire. The remaining portion of the compensation will be utilized to purchase supplies and to extent insurance coverage for the Group. The Group has subsequently made a more comprehensive insurance plan for the period from January 2008 to January 2009.

Prospect and outlook

Management believes that due to the continuous growth of the Chinese economy and particularly the series of incentive policies for the development of rural economy formulated, the demand for 3C products will increase rapidly. This will also lead to an increase in the demand for rechargeable battery packs as power source for relevant devices. The Group not only benefited from the increase in mobile phones in the PRC, but also from the advancement in multi-media functions of mobile phones and the substantial increase in energy consumption. Moreover, 3G technology gradually matures in foreign markets. China will also accelerate its development of 3G networks and accordingly it is expected that the introduction of 3G networks in the near future will also bring unlimited opportunities to the Group. In order to capitalize on the market, the Group has formulated development strategies for further strengthening of its market leadership and the expansion of its operation scale.

The telecommunication fees in 2007 fell by 13.6% compared with 2006, according to the Ministry of Information Industry. In February 2008, the Ministry of Information Industry and the National Development and Reform Commission jointly announced a price cut on mobile roaming service charges by between 54% and 73% depending on locality. The new policy will stimulate the use of mobile phone and the demand for rechargeable batteries, and hence expand the room of growth for the Group.

The Group plans to continue its gradual control of the number of distributors to maintain the quality of distributors and enhance loyalty and reliability. Meanwhile, leveraging on a strong and stable sales network, the Group will develop or source certain products and accessories suitable for its sales network to enrich the product variety for sales. This will maximize the advantages of fast permeation and low-cost operation and aiming to enhance the profitability of individual outlet. The Group, through its regional office, will strengthen management and training of those display counters with renovation completed but pending approval, aiming to enhance the performance and management of the distributors. Furthermore, the Group is actively exploring other cities with development potentials such as the south-west and north-west regions, and is in the process of strengthening the training of quality distributors, in an effort to expand the coverage of product distribution.

In respect of products, the Group will continue to focus on the maintenance of its market leadership of its own brand mobile phone rechargeable batteries. Meanwhile, more resources will be devoted to capitalize on the increased demand on other portable electronic devices such as rechargeable batteries for notebook computers, digital cameras and other personal electronic products, standard rechargers and stationed backup batteries, in order to broaden the Group's income and enhance its market competitiveness. In order to provide consumers with more choices of products to meet their different needs, the Group will keep abreast of the changes in the preferences of consumers and the market trend, and will launch new series of rechargeable battery products designed for various portable electronic devices on a timely basis.

In respect of research and development, the Group will further integrate with the resources of research and development of the Chaolitong and implement division of labour in order to avoid duplication and wastage of resources. The development of medium and high end series rechargeable batteries with large sales volume will be concentrated in Fuzhou, while the development and production of low end series rechargeable batteries will be concentrated in Shenzhen together with the "Chaolitong超力通" brand products. The objective is to increase the investment of the research and development of mobile phone rechargeable batteries and accelerate the research and development of products in order to supply rechargeable batteries to the non-mainstream models of mobile phone in the market. Meanwhile, the Group will strive to commence new research and development projects upon the introduction of new mobile phones so that the Group will be able to launch its new products as early as possible. The Group has developed a number of mobile phone battery rechargers of unified standard, and expects to achieve results growth in 2008. The Group will devote substantial research and development efforts in notebook computer batteries and motive batteries to maintain its technology leadership and lay the foundation for the exploration of new businesses of the Group.

Expansion of production capacity

In respect of production facilities, the Group continues to implement the production capacity expansion plans and is expected to increase 5,000 sq.m. of rented plant areas in Fuzhou in March 2008 with an increased annual production capacity of batteries by 8 million units. The Group also plans to restore the workshop destroyed in the fire by July 2008 and that will add 5,000 sq.m. of its production area with an additional annual production capacity of 7 million units. In the production base in Shenzhen, the Group also plans to lease another floor in March 2008 with a production area of approximately 1,700 sq.m. to bring an additional annual production capacity of 2 million units. After the completion of the above capacity expansion plans, the total annual production capacity of the Group will be increased by 17 million units. Together with the current production capacity (as at the end of February 2008) of 48 million units and the annual production capacity from the principal operating assets of Chaolitong to be acquired at 25 million units per year, it is expected that by mid-2008, the Group's production capacity will be increased to 90 million units per year, which is 1.9 times of the production capacity at the end of 2007 (48 million units per year).

Meanwhile, the construction of our own SCUD production plant in Fuzhou will continue and will be adjusted to match the overall business development strategy of the Group. According to the latest plan, the first self-owned plant is expected to be completed by the end of 2008 where the production lines of the Group in Fuzhou will be concentrated. The total annual production capacity of the Group will be increased to 100 million units by the end of 2008. According to the market forecast by the Group, it will meet the production requirement in 2009, 2010 and 2011. Furthermore, after the completion of the new plant, the Group still retains a piece of land of approximately 42,000 sq.m.

Looking ahead, with the advent of the 3G mobile phone era, the market leadership of the Group and its influence on the market and the enormous business opportunities presented in the market of the rechargeable batteries for 3C products in the PRC, the Group will continue to look for merger and acquisition opportunities and further expand the business. Meanwhile, the Group possesses leading position in the mobile phone rechargeable battery industry in the PRC with its nation-wide distribution network, the management of the Group firmly believe that, through implementing the strategies, the Group is in a favorable position to develop into the most preferred rechargeable battery brand for 3C products in the PRC and generate fruitful returns for its shareholders.

FINANCIAL REVIEW

Turnover

During the year under review, the overall demand of rechargeable battery packs and the peripherals for mobile phones and other portable electronic devices in the PRC market continued to experience steady growth, the market share of branded rechargeable battery packs held by SCUD brands maintained at around 12% and SCUD continued to maintain and strengthen its market leader position and competitiveness in the distribution and marketing of rechargeable battery packs for mobile phones in the PRC. The key factors driving for the demand growth of our branded products included the strong demand brought about by improved living standard and increased purchasing power in PRC and the enhancement and development of mobile phones and portable devices technology. The consolidated turnover of the Group for the year ended 31 December 2007 was approximately RMB960.9 million, representing an increase by 2.6% as compared to the amount of approximately RMB936.3 million for the year ended 31 December 2006. Presently, mobile phone rechargeable batteries remain the major revenue driver and profit contributor of the Group, accounted for approximately 74.2% of the Group's turnover (2006: 73.9%).

Segmental Information

For the Group's own brand business, owing to the serious fire at its production plant in Fuzhou on 31 May 2007, the Group's production had been significantly disrupted and the sales of its own brand products were also materially affected in the second half of 2007. Hence the turnover attributable to the Group's own brand business slightly decreased by 0.7% to approximately RMB616.0 million from approximately RMB620.1 million. The Group's own brand business as a percentage of the Group's turnover was maintained at approximately 64.1% in 2007 and approximately 66.2% in 2006 respectively.

For the Group's OEM business, the turnover attributable to the Group's OEM business maintained an increase of 2.9% from approximately RMB316.2 million to approximately RMB325.2 million as the fire has had limited impact on the OEM business. The supply of products was fully resumed within a short period of time. The Group's OEM business as a percentage of the Group's turnover was maintained at approximately 33.8% in 2007 (2006: 33.8%).

Cost of sales

The Group's cost of sales amounted to approximately RMB717.4 million in 2007, representing an increase of 3.1% as compared to last year. Direct materials, direct labour and other production cost accounted for approximately 89.3%, 3.5% and 7.2% of the Group's cost of sales. By leveraging the competitive advantages in the PRC market and cost-effective competitive strengths, as a percentage of the Group's turnover, the Group's cost of sales maintained at approximately 74.7% (2006: approximately 74.3%).

Gross profit and gross profit margin

The Group's gross profit increased 1.2% from approximately RMB240.5 million for the year 2006 to approximately RMB243.5 million for 2007, which was primarily due to the Group's strategy to continue its focus on developing high end products with higher profit margins and enhancement of production efficiency. For the Group's own brand business, gross profit amounted to approximately RMB173.0 million was recorded in 2007, slightly decreased by 0.7% from approximately RMB174.2 million in 2006 as the production in the second half of 2007 was disrupted by the fire. For the Group's OEM business, the gross profit increased by 5.6% from approximately RMB66.3 million in 2006 to approximately RMB70.0 million in 2007.

The gross profit margin of the Group maintained at around 25.3% in 2007. Since the fire was an individual case, the gross profit margin of the Group's own brand business was not materially affected and had recorded a gross profit margin of 28.1% for 2007 (2006: 28.1%). The gross profit margin can be maintained at a high level was primarily the result of its strong brand advantages as well as the shift of product mix towards higher margin own brand products during the year. For the OEM business, the gross profit margin further improved from 21.0% to 21.5% over the year compared resulting from more stringent cost control measures implemented throughout the year.

Profit for the year

Due to the serious fire at Fuzhou Plant in May 2007, the Group recorded a reduced net profit for the year of approximately RMB15.5 million, representing a decrease of 90.3% as compared to 2006. Profit from operation was approximately RMB183.0 million, representing a slight decrease of 0.2% as compared to 2006. During the year under review, the Group recorded losses from the fire of approximately RMB164.6 million which mainly represented the net amount of the exceptional losses as a result of the fire in the Group's production plant in Fuzhou on 31 May 2007 and the insurance compensation on the fire losses. Most of the Group's inventory had been destroyed and the Group's production was materially disrupted. The losses from the fire incident comprised approximately RMB199.4 million for inventory loss, approximately RMB10.5 million for loss on property, plant and equipment and approximately RMB8.3 million estimated costs for reconstruction of the rented premises being damaged in the fire. The coverage of the Group's insurance plan was primarily for loss of inventory and products from fire and not subsequent business disruption or other losses. The loss adjusters has completed the investigation and has concluded that the compensation amount to be approximately RMB52.5 million and the Group received the compensation from the insurers in November 2007. The Group had subsequently made a more comprehensive insurance plan for the period from January 2008 to January 2009.

During the year, the Group recorded total operating expenses of approximately RMB89.2 million, comprising approximately RMB29.1 million for selling and distribution expenses and approximately RMB59.7 million for administrative expenses. Selling and distribution expenses comprised approximately RMB13.2 million for advertising and promotion expenses, approximately RMB5.8 million for salaries and allowances, and approximately RMB2.7 million for transportation fee. The selling and distribution expenses amounted to 3.0% of the Group's turnover, compared with 1.7% of the same in 2006. A higher selling and distribution expenses was incurred for the current period as we increased our advertising coverage for our branded products and further brand building by way of upgrading our distribution network.

During 2007, the Group recorded administrative expenses of approximately RMB59.7 million, comprising approximately RMB14.3 million for research and development expenses and approximately RMB10.5 million for salaries and allowances. Research and development expenses accounted for approximately 1.5% of the total turnover in 2007 (2006: 1.5%). The Group's administrative expenses accounted for approximately 6.2% of total turnover in 2007, a growth of approximately RMB4.4 million from 2006.

Other revenue amounted to approximately RMB28.7 million which mainly represented interest income on bank deposits.

For the year ended 31 December 2007, the Group recorded profit attributable to equity holders of approximately RMB15.5 million, representing a turnaround from loss attributable to equity holders of approximately RMB125.3 million for the six months ended 30 June 2007. The full year profit attributable to equity holders for 2007 is reduced by approximately RMB144.7 million as compared with the profit attributable to equity holders of approximately RMB160.2 million for 2006. The reduction recorded in current year was mainly the result of recognition of the fire losses. Basic earnings per share for 2007 was approximately RMB1.58 cents (2006: RMB26.35 cents).

An interim dividend of HK$0.02 per share for the six months ended 30 June 2007 was declared and paid (2006: Nil). A final dividend for the year ended 31 December 2007 of HK$0.02 per share, amounting to a total dividend of approximately RMB18,578,000 is to be proposed for the approval of shareholders at the forthcoming annual general meeting of the Company.

Significant investments and acquisitions

On 12 December 2007, the Company entered into the agreement to acquire the principal operating assets of Chaolitong (超力通). Further details of this transaction is set out in the paragraph headed "Post balance sheet events" of this announcement.

In addition to the above, the Group is actively exploring further opportunities including formal potential business alliances, acquisition of businesses, technology platforms or projects adjacent to its existing value chain.

Liquidity and Financial Resources

The Group generated a net cash inflow from operating activities of approximately RMB18.5 million for the year ended 31 December 2007, compared with approximately RMB50.6 million for the year ended 31 December 2006. The Group maintained a sound financial position in terms of high assets liquidity and low debt burden. The Group's cash and bank balances and pledged bank deposits as at 31 December 2007 amounted to approximately RMB497.9 million (31 December 2006: RMB611.0 million). There were no significant short and long term interest-bearing bank borrowings outstanding as at 31 December

2007. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity of approximately RMB972.3 million (31 December 2006: RMB835.7million) was 1.5% as at 31 December 2007 (at 31 December 2006: 18.7%). In addition, the Group has restricted short term bank deposits of approximately RMB29.4 million (31 December 2006: RMB124.0 million).

As at 31 December 2007, the Group's current ratio was 5.4 times (31 December 2006: 3.3 times) based on current assets of approximately RMB967.8 million (31 December 2006: RMB1,061.0 million) and current liabilities of approximately RMB179.8 million (31 December 2006: RMB319.7 million).

Accounts receivable turnover days were approximately 79.6 days for the year ended 31 December 2007 as compared to approximately 76.9 days for the year ended 31 December 2006. Inventory turnover days were approximately 62.1 days for the year ended 31 December 2007 as compared to approximately 41.5 days for the year ended 31 December 2006. Accounts payable turnover days were approximately 42.8 days for the year ended 31 December 2007 as compared to approximately 34.9 days for the year ended 31 December 2006.

Net Current Assets and Net Assets

The Group's net current assets as at 31 December 2007 was approximately RMB788.0 million, an increase of 6.3% from the balance of approximately RMB741.4 million recorded as at 31 December 2006. Net assets rose to approximately RMB972.3 million, representing an increase of approximately RMB136.6 million or 16.3% over the balance as at 31 December 2006.

Pledge of Assets

At 31 December 2007, bank loans of approximately RMB1.4 million were secured by the Group's motor vehicles with a carrying amount of approximately RMB3.0 million.

At 31 December 2006, bank loans of approximately RMB56.9 million were secured by the Group's motor vehicles with a carrying amount of approximately RMB3.3 million and the Group's bank deposits of approximately RMB124.0 million.

Commitments

During the year, the Group was committed to the expansion of the Group's existing production facilities to enhance its production capacity. The Group's capital commitments outstanding as at 31 December 2007 amounting to approximately RMB139.8 million (2006: RMB6.5 million) was mainly associated to the expansion of existing capacity and the construction of the new production plant in Fuzhou. As at 31 December 2007, the Group has not provided any form of guarantee for any company outside the Group and has not been involved in any material legal proceedings for which provision for contingent liabilities was required.

Capital structure

During the year, the Company issued and allotted 39,000,000 shares of HK$0.10 each at HK$2.02 each upon the exercise of the over-allotment option for a total consideration of approximately HK$78.8 million. In addition, the Company issued 93,001,246 shares of HK$0.10 each as a result of the conversion of the convertible bonds in the aggregate principal amount of US$10 million. Consequent to the aforesaid events, the issued share capital of the Company was increased by approximately HK$13.1 million (represented by 132,001,246 ordinary shares) to approximately HK$99.5 million (represented by 992,001,246 ordinary shares).

Foreign Exchange Exposure

For the year 2007, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchanges rates. Although the Group has certain bank balances denominated in USD, JPY and HKD, their proportion to the Group's total assets is insignificant. The directors consider no hedging of exchange risk is required. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when it is appropriate.

Employee Information, Remuneration Policies and Share Option Scheme

As at 31 December 2007, the Group had 2,380 full-time employees (2006: 2,349). The salaries of the Group's employees were determined by the personal performance, professional qualification, industry experience of the employee and relevant market trends. The management reviews the remuneration policy of the Group on a regular basis and evaluates the working performance of the employees. The remuneration of the employees includes salaries, allowances, year-end bonus, social insurance or mandatory pension etc..

As at 31 December 2007, the number of shares in respect of which options had been granted under the pre-IPO share option scheme (the "Scheme") adopted by the Company prior to its listing and remained outstanding under the Scheme was 23,830,000 shares (2006: 24,970,000 shares), representing 2.4% (2006: 2.9%) of the shares of the Company in issue at that time. Since the adoption of the Scheme and as at 31 December 2007, no share option has been granted or exercised under such Scheme and 1,140,000 share options had lapsed as a result of certain employees having left our employment during the year.

Use of Proceeds

The Company raised an aggregate of HK$604.0 million proceeds as a result of its initial public offering and a net proceed of approximately HK$568.3 million was received after the deduction of relevant IPO fees and commission incurred. Up to 31 December 2007, the Group has utilized approximately RMB68.2 million (equivalent to approximately HK$72.8 million) on expansion of production capacity and plant construction, approximately RMB10.9 million (equivalent to approximately HK$11.6 million) on brand promotion and improve distribution network, approximately RMB55.0 million (equivalent to approximately HK$58.7 million) on repayment of bank borrowings. Remaining net proceeds of approximately RMB398.2 million (equivalent to approximately HK$425.2 million) were mainly used as daily working capital and held as deposits with commercial banks.

In 2008, approximately RMB128.0 million (equivalent to approximately HK$136.7 million) is expected to be reserved for the acquisition of Sale Interest and the Sale Assets and up to approximately RMB117.0 million (equivalent to approximately HK$124.9 million) to be satisfied by the issue of at least 30 million and no more than 60 million consideration shares, further details of which are set out in the paragraph headed "Post balance sheet events" of the announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed shares for the year ended 31 December 2007.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices, as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2007.

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

Further details of the Company's compliance with the Code on Corporate Governance Practices can be found in the Company's annual report for the year 2007.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). The Directors have complied with the standards set out in the Model Code for the year ended 31 December 2007.

AUDIT COMMITTEE

An audit committee of the Company was established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The audit committee of the Company has reviewed the Group's results of the year ended 31 December 2007. The audit committee comprises three independent non-executive directors and one non-executive director of the Company.

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

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

EXECUTIVE COMMITTEE

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

REVIEW OF FINANCIAL STATEMENTS

A meeting of the audit committee was held to review the Group's annual results for the year ended 31 December 2007 before they presented the same to the board of directors of the Company for approval. The audit committee has reviewed with the senior management of the Company the accounting principles and practice adopted by the Group, discussed auditing, financial reporting matters and has reviewed the annual results for the year ended 31 December 2007 before they presented the same to the board of directors of the Company for approval.

REVIEW OF PRELIMINARY ANNOUNCEMENT BY AUDITORS

The figures in respect of this announcement containing the Group's results for the year ended 31 December 2007 have been agreed by the Group's auditors, Moore Stephens, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens on the preliminary announcement.

PUBLICATION OF FINAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

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

ACKNOWLEDGEMENT

I would like to thank the board of directors, management and all members of our staff for their dedication and loyalty. I would also like to thank our shareholders and business associates for their strong support to the Group. As at the date of this announcement, the executive directors of the Company are Mr. Fang Jin, Mr. Lin Chao, Mr. Guo Quan Zeng and Mr. Li Hui Qiu, the non-executive director is Mr. Ho Man and the independent non-executive directors are Mr. Heng Kwoo Seng, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang.

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

Hong Kong, 17 March 2008