



SCUD GROUP LIMITED

飛毛腿集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1399)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2008

INTERIM RESULTS HIGHLIGHTS

Business Highlights

- The interim profit attributable to the shareholders increased to a record high of approximately RMB90.0 million.
- Sale of notebook computer batteries achieved strong growth and brought about increased income and profit contribution to the Group, with sales of approximately RMB67.6 million, up by approximately 245.7% compared to the same period last year.
- The operating results of Chaolitong Technology Company Limited (“CLTT”) had been consolidated into the Group’s operating results from 7 June 2008 (the “Acquisition Date”).
- Market share of own brand mobile phone rechargeable battery packs in the PRC rose to approximately 20.6%, up by approximately 8.6% from the Acquisition Date.
- Annual production capacity as at 30 June 2008 increased by approximately 56.3% to approximately 75 million units compared to 31 December 2007.

* *for identification purpose only*

Financial Highlights

	2008 (RMB'000)	2007 (RMB'000)
◆ Turnover	600,125	542,802
◆ Net Profit (Loss)	90,013	(125,257)
◆ Earnings (Loss) per share		
Basic (RMB cents)	8.82	(12.89)
Diluted (RMB cents)	8.73	N/A
◆ Gross profit margin	23.9%	26.1%
◆ Net profit (loss) margin	15.0%	(23.1%)
◆ Current ratio (times)	3.1	5.4
◆ Cash position	372,203	497,858

The Board of SCUD Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (together the “Group”) for the six months ended 30 June 2008, together with the comparative figures for the corresponding period of 2007 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended 30 June	
		2008	2007
	Note	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Turnover		600,125	542,802
Cost of sales		(456,852)	(401,226)
Gross profit		143,273	141,576
Other revenue		6,657	9,821
Selling and distribution expenses		(16,220)	(17,652)
Administrative expenses		(36,100)	(36,567)
Other operating expenses		(3,004)	(8,439)
Profit from operations	5	94,606	88,739
Losses from fire		—	(220,222)
Finance costs		(476)	(2,156)

		Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
	<i>Note</i>	(Unaudited)	(Unaudited)
Profit (Loss) before taxation		94,130	(133,639)
Taxation	6	(4,117)	8,382
		<hr/>	<hr/>
Profit (Loss) for the period		90,013	(125,257)
		<hr/>	<hr/>
Attributable to:–			
Equity holders of the Company		87,541	(125,257)
Minority interests		2,472	–
		<hr/>	<hr/>
		90,013	(125,257)
		<hr/>	<hr/>
Dividends	7	–	19,332
		<hr/>	<hr/>
Earnings (Loss) per share			
– basic (RMB cents)	8	8.82	(12.89)
		<hr/>	<hr/>
– diluted (RMB cents)	8	8.73	–
		<hr/>	<hr/>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	<i>Note</i>	30.6.2008 RMB'000 (Unaudited)	31.12.2007 <i>RMB'000</i> (Audited)
Non-current assets			
Property, plant and equipment	9	229,880	168,195
Prepaid lease payments – non current portion		12,114	12,243
Intangible assets	10	168,760	3,109
Deferred tax assets		1,675	1,675
		412,429	185,222
Current assets			
Due from a related party		1,362	1,126
Inventories		214,475	149,114
Trade and notes receivables	11	288,224	191,499
Prepaid lease payments – current portion		258	258
Prepayments, deposits and other receivables		70,911	125,590
Current tax recoverable		1,162	2,403
Pledged bank deposits		36,139	29,375
Bank balances and cash		336,064	468,483
		948,595	967,848
Current liabilities			
Due to a related party		281	–
Due to shareholders	12	10,550	–
Trade and notes payables	13	190,584	133,408
Provision for warranty		3,546	2,225
Other payables, receipt in advance and accrued charges		85,853	30,735
Bank loans – current portion		15,803	13,444
		306,617	179,812
Net current assets		641,978	788,036
Total assets less current liabilities		1,054,407	973,258
Capital and reserves			
Share capital	14	99,503	99,503
Reserves		941,232	872,786
Equity attributable to equity holders of the Company		1,040,735	972,289
Minority interests		12,932	7
Non-current liabilities			
Bank loans – non-current portion		740	962
Total equity and non-current liabilities		1,054,407	973,258

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. GENERAL INFORMATION

The Company is a public limited company incorporated in the Cayman Islands on 20 July 2006 as an exempted company and its shares were listed on the Mainboard of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 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 electronic appliances.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2008 (the “Financial Statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with International Accounting Standard 34 “Interim Financial Reporting” issued by International Accounting Standards Board.

3. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2007, except for the adoption of the following interpretations:–

IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction

The adoption of the above interpretations has had no material impact on the accounting policies of the Group and the methods of computation in the Group’s financial statements in the current period or prior periods.

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

IAS 1 (Revised)	Presentation of Financial Statements ³
IAS 23 (Revised)	Borrowing Costs ³
IAS 27 (Revised)	Consolidated and Separate Financial Statements ⁴
IFRS 2 (Amendment)	Share-based Payment-Vesting Conditions and Cancellations ³
IFRS 3 (Revised)	Business Combinations ⁴
IFRS 8	Operating Segments ³
IFRIC 13	Customer Loyalty Programmes ¹
IFRIC 15	Agreements for the Construction of Real Estate ³
IFRIC 16	Hedges of a Net Investment in a Foreign Operation ²

¹ Effective for annual periods beginning on or after 1 July 2008

² Effective for annual periods beginning on or after 1 October 2008

³ Effective for annual periods beginning on or after 1 January 2009

⁴ Effective for annual periods beginning on or after 1 July 2009

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 turnover and results about these businesses is presented as follows:

For the six months ended 30 June 2008

	Own-brand business <i>RMB'000</i>	OEM business <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Turnover	389,672	190,557	19,896	600,125
Segment results	79,248	30,355	126	109,729
Unallocated income				6,657
Unallocated expenses				(21,780)
Finance costs				(476)
Profit before taxation				94,130
Taxation				(4,117)
Profit for the period				90,013

For the six months ended 30 June 2007

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

Geographical segments

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

5. PROFIT FROM OPERATIONS

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Profit (loss) from operations is arrived at after charging (crediting): –		
Operating lease rentals	3,582	4,222
Depreciation and amortisation of property, plant and equipment	15,381	9,227
Research and development costs	7,948	8,551
Exchange loss included under other operating expenses	1,520	6,974
Interest income	(2,643)	(5,804)
	<u> </u>	<u> </u>

6. TAXATION

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Current tax-PRC Enterprise Income Tax		
Tax for the period	4,117	428
Deferred tax		
Origination of temporary differences in respect of deferred tax assets	–	(8,810)
	<u> </u>	<u> </u>
	<u>4,117</u>	<u>(8,382)</u>

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.

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

No provision for Hong Kong Profits Tax has been made as the Group's profits were neither arisen in nor derived from Hong Kong during both periods, and all subsidiaries incorporated in Hong Kong incurred tax losses during the period.

7. DIVIDENDS

The board considered not to recommend the interim dividend to preserve the cash for working capital requirement of the business. For the six months period ended 30 June 2007, dividends of approximately RMB19,332,000 were declared and paid to the shareholders.

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Earnings (loss) for the purpose of basic earnings (loss) per share (Profit (Loss) for the period attributable to the equity holders of the Company)	87,541	(125,257)
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	992,001,246	971,481,654
Effect of dilutive potential ordinary shares		
– share option	7,149,000	
– consideration shares to be issued for the acquisition of a subsidiary	3,934,426	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,003,084,672	

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group mainly acquired plant and machinery at a cost of approximately RMB13,973,000 (2007: RMB45,545,000), electronic equipment, furniture and fixtures at a cost of approximately RMB6,417,000 (2007: RMB15,624,000), motor vehicles at a cost of approximately RMB439,000 (2007: RMB2,586,000), moulds at a cost of approximately RMB4,755,000 (2007: RMB2,382,000), leasehold improvements at a cost of approximately RMB27,744,000 (2007: RMB395,000) and addition to construction in progress of approximately RMB23,745,000 (2007: RMB54,977,000).

10. INTANGIBLE ASSETS

Intangible assets mainly comprise goodwill and other intangible assets arising from the acquisition of subsidiary (see note 14 below for details).

Goodwill arising from the acquisition amounted to approximately RMB22,849,000 which is attributable to its anticipated revenue growth, profitability, future market development and the anticipated future operating synergies from the combination.

Other intangible assets arising from the acquisition comprise trade names and patents amounted to approximately RMB74,327,000, distribution network amounted to approximately RMB68,366,000, non-compete agreements amounted to approximately RMB245,000, employee contracts amounted to approximately RMB40,000 and domain names amounted to approximately RMB52,000.

Trade names and patents amounted to approximately RMB74,327,000 comprise of 7 trade names and 3 patents possesses by Chaolitong. The trade name of “Chaolitong 超力通” is a popular brand which has obtained the general recognition of consumers in rural areas and second tier and third tier cities in the PRC.

Distribution network amounted to approximately RMB68,366,000 represent the strong sales network possesses by Chaolitong, covering second tier and third tier cities, towns and villages in the PRC. It is expected that Chaolitong's distribution network offers positive growth prospect for the Group and complements the insufficiency of the Group's distribution channels in such regions.

In addition, intangible assets include software at a cost of approximately RMB3,619,000 (31.12.2007: RMB3,619,000).

The Group carries annual impairment tests for goodwill, trade names and patents with indefinite useful lives, or more frequently if there are indications that goodwill, trade names and patents might be impaired. Distribution network, non-compete agreements, employee contracts, domain names and software are amortised on a straight-line basis over their respective estimated useful lives.

As at 30 June 2008, the accumulated amortisation and impairment losses for intangible assets totalled approximately RMB737,000 (31.12.2007: RMB510,000).

11. TRADE AND NOTES RECEIVABLES

	30.6.2008 RMB'000	31.12.2007 RMB'000
Trade receivables	237,902	183,377
Notes receivables	56,487	13,808
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	294,389	197,185
Less: Allowance for bad and doubtful debts	(6,165)	(5,686)
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	288,224	191,499
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An aged analysis of the trade and notes receivables as at the balance sheet date, based on the invoice date and net of allowance, is as follows:-

	30.6.2008 RMB'000	31.12.2007 RMB'000
0 to 60 days	234,934	162,942
61 to 180 days	47,776	26,169
181 to 365 days	5,333	1,943
1 to 2 years	132	438
2 to 3 years	49	7
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	288,224	191,499
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The average credit period granted on sale of goods ranged from 60 to 90 days.

12. DUE TO SHAREHOLDERS

The amounts due to shareholders are unsecured, interest-free and repayable on demand. The amounts were fully settled after the period end.

13. TRADE AND NOTES PAYABLES

	30.6.2008 RMB'000	31.12.2007 <i>RMB'000</i>
Trade payables	123,284	89,042
Notes payables	67,300	44,366
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	190,584	133,408
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An aged analysis of trade and notes payables as at the balance sheet date is as follows:-

	30.6.2008 RMB'000	31.12.2007 <i>RMB'000</i>
0 to 60 days	139,617	76,731
61 to 180 days	37,293	49,068
181 to 365 days	10,123	5,962
1 to 2 years	3,062	1,456
2 to 3 years	422	144
Over 3 years	67	47
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	190,584	133,408
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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.

14. SHARE CAPITAL

	30.6.2008 RMB'000	31.12.2007 <i>RMB'000</i>
Authorised:-		
5,000,000,000 ordinary shares of HK\$0.10 each	502,350	502,350
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Issued and fully paid:-		
992,001,246 ordinary shares	99,503	99,503
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15. ACQUISITION OF A SUBSIDIARY

Acquisition of Chaolitong Technology Company Limited (“CLTT”)

	7.6.2008 Fair Value RMB'000
Share of net assets acquired:	
Production equipment	7,931
Inventories	17,507
Bank balance and cash	623
Intangible assets:	
– Trade names and patents	74,327
– Distribution network	68,366
– Non-compete agreements	245
– Employee contracts	40
– Domain names	52
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	169,091
Goodwill on acquisition	22,849
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Total consideration	191,940
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Total consideration satisfied by:	
– Cash	128,230
– Consideration shares (60 million shares of the Company at closing price of HK\$1.18 per share on the Completion Date)	62,755
Commission payable to the Vendor	955
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	191,940
	<hr/> <hr/>
Net cash outflow arising from acquisition:	
– Cash consideration paid	128,230
– Bank balances and cash acquired	(623)
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	127,607
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On 12 December 2007, the Company entered into an agreement (the “Agreement”) with Mr. Ma Yuk Sang (the “Vendor”) pursuant to which the Vendor agreed to procure the sale of the sale interest (being 100% equity interest in CLTT, the “Sale Interest”) to the purchaser and the sale of the production equipment, inventories and intellectual property rights (“Sale Assets”) of Chaolitong Electronics Company Limited (“CLTE”) to CLTT. The purchaser is ultimately owned as to 70% by the Company and 30% by the Vendor. The total consideration for the acquisition of Sale Interest and Sale Assets is up to RMB245,000,000.

During the period under review, approximately RMB37,230,000 and approximately RMB36,339,000 have been paid for the purchase of the Sale Interest and the Sale Assets respectively and consideration of RMB91,000,000 have been paid to the Vendor in cash. On 7 June 2008, the date on which all the conditions to the Agreement have been fulfilled and the acquisition of the Sale Interest and Sale Assets have been completed (“Completion Date”), the Company paid the final instalment of RMB91,000,000 million to the Vendor as part of the consideration pursuant to the Agreement. The

remaining balance of up to RMB116,770,000 shall be satisfied by the issue of at least 30 million and no more than 60 million consideration shares at HK\$2.05 (the “Consideration Shares”) if the net profit after taxation targets are met or exceeded for the financial years ending 31 December 2008, 2009 and 2010. It is expected that 30 million Consideration Shares will be issued to the Vendor on 7 September 2008. In addition, the Vendor has confirmed that as part of his arrangements with the original shareholders of CLTE (“Original Shareholders”), assuming the Original Shareholders comply with the agreed terms pursuant to the Agreement, the Vendor will be entitled to 0.5% of the Consideration.

As from the Completion Date, related senior management and employees who 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 joined CLTT.

Goodwill arising from the acquisition amounted to approximately RMB22,849,000 which is attributable to its anticipated revenue growth, profitability, future market development and the anticipated future operating synergies from the combination. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

CLTT contributed approximately RMB5,374,000 to the Group’s profit for the period between the Completion Date and the balance sheet date.

MANAGEMENT DISCUSSION AND ANALYSIS

In the first half of 2008, the global economy continued to be shadowed by the US sub-prime mortgage crisis. Together with oil price making consecutive new highs that also resulted in food price crisis, countries around the world suffered from inflation, cost rises and weak consumer confidence. Under such operation challenges, manufacturers of a considerable scale may offset cost rises through the integration of resources, mass purchases and scale production. As the largest manufacturer of rechargeable battery packs for mobile phones in the PRC, SCUD Group leveraged its market advantages and position and effectively reduced the pressure from cost rises, and achieved satisfactory results in the period.

China continued to be the largest mobile phone market in the world. According to the statistics published by the Ministry of Industry and Information Technology, the number of mobile phone users reached 601 million in China and the call duration of mobile phones amounted to 1.42 trillion minutes, representing an increase of 33.4% when compared with the corresponding period last year. Meanwhile, pursuant to the “Completion of Major Targets in the Electronic Information Industry from January to June 2008”, the nationwide production of mobile phones was around 295 million in the first half of the year, representing an increase of 9.7% over last year.

According to the “2007-2008 Analysis Report on Mobile Phone Market in China” published by TeleInfo Institute, China Academy of Telecommunications Research of the Ministry of Industry and Information Technology, due to the integration and crossover of the mobile phone industry, electronic information manufacturing and the internet business, as well as the constant opening up of the policy environment and the continuous improvement of living standard, the mobile phone market in China will further expand taking on the opportunities in 3G development in China. Meanwhile, due to the one-way charging policy and further reduction of tariff such as roaming fee, and the impact of 3G business development, the number of mobile phone users in China will still increase rapidly. It is expected that the number of mobile phone users in China will reach 738 million in 2010 and the coverage of mobile phones will reach 54%.

According to the “2008 Analysis Report on Consumer Behavior in China’s Mobile Phone Gaming Market” issued by IDC, 67.2% of the mobile phone users took gaming as one of the primary function of the mobile phones, which was only after calling and short messaging. 54.9% of the users stated that their duration of mobile phone game playing was from 10 to 30 minutes every play, while 18% of the users play from 30 to 60 minutes.

The Beijing Olympic Games also encouraged the consumers to use mobile phones to watch the competitions. China Mobile Communications Corporation stated that as at 19 August 2008, over 1 million of people have used their mobile phones to watch the spectacular Olympics channels through China Mobile’s network, with program hit rate up to 7 million, and accumulated broadcasting time reaching over 300,000 hours. Meanwhile, the number of visiting users of China Mobile’s website “Handheld Olympics” for 1 August to 19 August amounted to over 8 million, with visiting pages of 300 million, daily average visiting users over 1 million, daily average pages over 13 million and 30 million daily at peak time. The multimedia and multi-function of mobile phones will encourage consumers to buy a second or even more spare batteries.

Business Review

SCUD Group has been consolidating its market leadership in the rechargeable battery packs for mobile phones, and closely monitoring market development trends to enhance its competitive advantages. Based on its market leading position, the Group recovered rapidly from the severe fire occurred in May last year, with smooth production and continued sales growth in the first half of 2008. The turnover of the Group as at 30 June 2008 amounted to approximately RMB600.1 million, representing an increase of 10.6% when compared with the corresponding period last year.

The Group, operating under its own brand name of “SCUD 飛毛腿” (including the brand name “Chaolitong 超力通” since 7 June 2008), is primarily engaged in the manufacture and sale of rechargeable battery packs for mobile phones in the PRC. As at 30 June 2008, total turnover of own brand business reached RMB389.7 million, representing 64.9% of total turnover and an increase of 3.2% from 2007. Among which, turnover of own brand mobile phone battery increased from approximately RMB288.0 million in the first half of 2007 to approximately RMB354.5 million, a growth of approximately 23.1%, with sales volume increased by approximately 34.8%, reaching 19.4 million units.

In addition to its own brand, the Group also sold battery products to mobile phone manufacturers through OEM, which provided the Group with stable operation revenue and an opportunity to enhance technology. As at 30 June 2008, turnover from OEM business reached RMB190.6 million, representing 31.8% of total turnover. Major customers included Lenovo, Huawei, ZTE, UT Starcom, Sangfei, Hisense and Haier, among others. In the period, sales volume of mobile phone battery reached 6.3 million units in OEM business.

Sales network and production capacity

The sale network of the Group comprised mainly of distributors and end sales points. The wide coverage effectively enhanced the brand name of SCUD. As at 30 June 2008, the Group had a total of over 570 first tier distributors, with more than 49,000 sales points.

During the period, the Group continued to improve the sales network of “SCUD 飛毛腿” mobile phone battery, and conducted image renovation for own sales counters so as to build a consistent and fresh brand image. As at 30 June 2008, the Group completed the renovation of an aggregate of 3,141 sales counters and shops, reaching 52.4% of the target to renovate 6,000 sales counters in three years.

The acquisition of “Chaolitong 超力通” (“Chaolitong”) has been completed in early June 2008. Upon the integration of Chaolitong, the production capacity of the Group has been further enhanced. As at 30 June 2008, the annual production capacity of the Group reached approximately 75 million units, increased by approximately 56.3% compared to 31 December 2007.

In addition, our factory construction project in Fuzhou SCUD Industrial Park is proceeding as planned. After completion, our production lines in Fujian will be consolidated and centralized in order to enhance productivity and management efficiency. The new factory will also be in line with our strategy in notebook computer battery production as well as providing higher flexibility for the Group to adjust its product diversification and to launch new products according to the market changes in order to maintain our market leadership.

The integration of Chaolitong: a win-win strategy with synergy effect

Targeted at different consumption models in mobile phone battery market in China, the Group announced in the end of last year the acquisition of Chaolitong, the largest competitor of SCUD in China, and a leading brand in the rural area and second tier and third tier cities. The acquisition has completed on 7 June 2008, with market share of SCUD Group increased from around 12.0% to the present 20.6% in China. SCUD Group is the No. 1 by market share, leaving the rest far behind. The synergy resulted from the integration has been presented in the following four areas:

Optimization of product mix

The mobile phone market in China has been maturing, with mobile phones dominated by a few number of major international brands. Upon the integration of Chaolitong, the Group will also adjust its product mix and refine the past strategy of SCUD that covered nearly 3,000 mobile phone battery models. Afterwards, SCUD will concentrate on mobile phone battery of dominating brands with high sales volumes to satisfy the positioning of SCUD at the high and medium ends of the market and capture a higher profit margin in sales. Meanwhile, the medium and low end mobile phone battery will be produced and distributed by Chaolitong. Under such a model, the brand differentiation of SCUD and Chaolitong will be more obvious.

Reduction of inventory and enhancement of efficiency

The above mentioned differentiation may also contribute to the potential of enhancement of profit margin. The concentration of SCUD on dominating brands may reduce the inventory pressure from the past model of “More types, less production”, thus enhance the cash flow of the Group. Moreover, with economy of scale, production lines may produce a significant volume of batteries of dominant types, thus enhance production efficiency and reduce unit costs. For Chaolitong, it may acquire orders of certain non-dominant types or medium, low end batteries from SCUD. Meanwhile, the majority of repetitive products (mainly medium, low end products) previously produced by the two brands will be taken over by Chaolitong after the integration, so as to comply with the strategy of “Remove repetition, enhance differentiation”.

Central procurement to reduce costs

Since the Group announced its acquisition of Chaolitong, we have been maintaining frequent communications with each other in the past six months and increased our understanding of its daily operations. Chaolitong has competitive advantages in mid-and-low end market penetration, sales strategies and production cost control, among others, and we are confident that Chaolitong will achieve its original business and profit targets.

Expanding market shares in both the urban and rural areas

Upon the integration, SCUD Group has successfully entered into the rich urban market in China, as well as the rural market with great potential. The brands of “SCUD 飛毛腿” and “Chaolitong 超力通” will also have a more distinctive market share and positioning, and cover various sectors of the market with a product mix of high, medium and low end products.

Post integration, the Group significantly enhanced its negotiating power in purchasing of production material, and maintained the price advantages of our products in an operation environment of high inflation. We are confident about the prospects of the strong cooperation between SCUD and Chaolitong.

The integration of the two major players will improve the utilization of resources, reduce inventory pressure and production costs, enhance operation efficiency, and penetrate products of the Group into various sectors of the market so as to expand our market share.

Batteries for notebook computers: future growth driver

The continuous economic development in China has pushed the demand for various electronic products in the market, among which, a significant increase in notebook computers. With the matured and saturated desktop computer market, technology advances has gradually caused the replacement of desktop computers with notebook computers. The falling in size and weight of notebook computers in recent years makes them convenient to carry, and more welcome in the market. The proactive promotion and establishment of wireless broadband by the government and enterprises also makes notebook computers useable anytime and anywhere like mobile phones. Such changes in application environment and consumption model stimulate the strong demand from users for stand-by batteries for notebook computers.

Moreover, the falling in prices of notebook computers, together with the emerging of small notebook computers in the market in recent years, with retail prices as low as US\$300, further enhance the popularity of notebook computers. Market information company IDC estimated that many consumers would buy such small notebook computers as a second personal computer and the global sales volume could reach 9 million units in 2012.

Pursuant to the “Completion of Major Targets in the Electronic Information Industry from January to June 2008” issued by the Ministry of Industry and Information Technology in China, approximately 48 million units of notebook computers have been produced in the first half of the year, representing an increase of 33.3% compared with the same period of last year, a rate much higher than that of desktop computers (3.0%).

The notebook computer market in China was matured with low end beginner notebook computers as the market mainstream. Due to fierce competition, pricing has become the main competing method. In 2008, notebook computer of RMB3,999 and RMB2,999 continued to emerge in the market which has led to a price competition in the low price notebook computer market. Asus’ Eee PC has drawn demand in the low price notebook computer market as its mobility and small appearance attracted a lot of consumers. Low price ultra portable notebook computer has drawn up strong demand in the market.

Based on the foundation of our OEM business, the Group has enhanced technology and production capacity of notebook computer batteries, and will strive to develop own brand business and further enhance the capacity of sales networks in the future. During the period, turnover of OEM notebook computer batteries and own brand notebook computer batteries increased significantly to RMB56.0 million and RMB11.6 million respectively, with total turnover of notebook computer batteries representing 11.3% of the total turnover of the Group, and total sales volume of approximately 300,000 units, representing an increase of 202.7% compared with the same period of last year.

The Group believes that notebook computer batteries will be the next fast growing business and become the second-large source of income after mobile phone batteries. We have planned to adopt the following three strategies:

1. Integration of upstream production, to raise entrance barrier

To enhance own R&D capacity and technology on notebook computer batteries, the Group will integrate upstream production chain to add mould production facility. It will enable the Group to cope with newly launched notebook computer models in the shortest time, and launch related battery products in the market, so as to build up brand position of and customer loyalty towards “SCUD 飛毛腿” notebook computer batteries. Since notebook computer batteries have a higher standard with regard to technology, safety, craftsmanship and production procedures, only limited number of manufacturers can meet such requirements. We will develop own mould production unit to facilitate quality control, and maintain a higher profit margin in an environment of constantly rising of costs. This strategy may have a “Fortress effect”, to limit the entrance of new competitors with a high entrance barrier, and to lay a solid foundation for the Group to becoming the leader in own brand notebook computer batteries.

2. Assurance of core material sources

The bare battery cell, a high-tech product, is the most important raw material for the production of notebook computer batteries. With increasing popularity of electronic products and rapid growth in demand for notebook computers, global demand for bare battery cells have been tight with short supply. Therefore, bare battery cell, a core component, may be vital to a manufacturer of notebook computer batteries. Based on the Group's prestigious reputation and its market position in China, the Group has reached a long term supply agreement with Sanyo Corporation of Japan, the largest lithium battery manufacturer in the world. Thereupon, Sanyo Corporation will strive to provide lithium bare battery cells to the Group for the production of notebook computer batteries. This will form a solid foundation for the Group to rapidly enter into the developing notebook computer batteries market in China. SCUD is one of the few companies in the own brand battery industry capable of cooperating with major bare battery cell manufacturers in the world. This has ensured a stable and quality supply of bare battery cells for the Group, which is another "fortress strategy" of the Group besides the own development of mould.

3. Direct sales and distribution to eliminate intermediaries and achieve price advantages

On the other hand, the Group will actively cooperate with renowned IT marts and wholesale centres in China to establish special stores operated directly by the Group to avoid intermediaries, reduce sales costs and enjoy retail profits. The phase one plan will concentrate on establishment of special stores in first tier cities like Beijing, Shanghai, Fuzhou and Shenzhen, among others, and closely monitor market development trends in second tier cities. We aim at establishing a solid nationwide special sales stores network in accordance with market situation.

In addition to own brand notebook computer batteries and other rechargeable products, the Group plans to provide professional maintenance services for notebook computer batteries at the stores, specifically targeting non-dominant types which the Group have not produced. As notebook computer batteries have a more stringent safety standard, the Group has already established a strict set of maintenance and inspection standards to cover inspection procedures and equipment. Only trained and qualified technicians of the Group may provide maintenance services for customers so as to protect such safety and quality creditworthiness of SCUD Group.

To further expand sales profits of notebook computer batteries, the Group will also develop e-commerce and sell notebook computer batteries on the internet directly to consumers so as to enhance profits.

Outlook and Prospects

The number of users and popularity of mobile phones will continue to grow in China in the future. According to the Ministry of Industry and Information Technology, mobile phone users will reach 738 million by 2010, with a popularity of 59.3 units per one hundred people, representing a huge potential. With the notebook computer batteries market at its initial stage of development, this business is expected to become the fastest growing market in the rechargeable battery industry in the coming years.

In accordance with the “Monthly Statistics Report, June 2008”, nationwide mobile phone communication volume reached an aggregate of 1.42 trillion minutes in the first half of 2008, representing an increase of 33.4% over last year. The increase in communication volume has also pushed for demand for rechargeable batteries.

For the strategies in mobile phone rechargeable battery market, the Group will continue to consolidate its market leadership. Starting second half of 2008, the SCUD brand name will focus on the high sales volume models of major mobile phone brand names, rationalize its products and further enhance the high quality image of SCUD in order to achieve higher profitability. Chaolitong brand will continue its efficient mid-and-low end market strategies and deepen its market penetration in rural areas.

For business in notebook computer rechargeable batteries, the Group will further invest to increase production and sales in 2008 and hereafter. The Group will establish an image of quality products and quality services so as to become a cooperation partner of consumers and notebook computer dealers, and endeavor to become the No. 1 brand in notebook computer batteries in China.

FINANCIAL REVIEW

During the period under review, the PRC mobile phone market kept expanding, which directly boosted the demand for mobile phone rechargeable batteries. Achieving strong organic growth and acquiring the operating assets of its major competitor Chaolitong, SCUD has successfully maintained its leading position in the manufacture and sale of rechargeable battery packs for mobile phones in the PRC under its own brand name of “SCUD 飛毛腿”. The Group’s rechargeable battery business continued to perform well, while the notebook computer battery business grew rapidly. The Group is optimistic about the growth of the notebook computer battery segment and it will become the Group’s second major revenue contributor. The Group’s turnover reached approximately RMB600.1 million, representing an increase of approximately 10.6% when compared with the corresponding period in 2007. The gross profit for the first half of 2008 was approximately RMB143.3 million, representing an increase of approximately 1.2% against the six months period ended 30 June 2007. The profit attributable to the equity holders recorded an impressive growth and increased to a record high of approximately RMB87.5 million, compared with the loss attributable to the equity holders of approximately RMB125.3 million recorded in the corresponding period in 2007. Earnings per share for the period was approximately RMB8.82 cents (2007: loss of RMB12.89 cents per share).

The operating results of CLTT had been consolidated into the Group's operating results after 7 June 2008 (the "Acquisition Date") and the less than one month contribution from CLTT for the six months period was insignificant. The acquisition has brought synergies to the Group in terms of shared procurement at lower cost, more efficient application of resources and achieving a much larger scale in a shorter timeframe. The Group expects the scale benefits and the synergies to the business will be realised with the integration process.

For the first half of 2008, approximately 60.2% (2007: 69.6%) of the Group's products were sold in the PRC market under the "SCUD 飛毛腿" brand and approximately 4.7% (2007: N/A) of the Group's products were sold under the "Chaolitong 超力通" brand. The percentage of the Group's OEM business accounted for approximately 31.8% and 30.4% of the Group's turnover in 2008 and 2007 respectively. The turnover for own brand business and OEM business increased approximately 3.2% and 15.3% respectively and approximately RMB480.3 million of the turnover were generated from the sales of rechargeable mobile phone batteries. The sale of notebook computer batteries achieved strong growth and brought about increased income and profit contribution to the Group, with sales of approximately RMB67.6 million, representing an increase of approximately 245.7%. The acceleration of the development pace of notebook computers in the PRC, provided sound business opportunities for the Group's IT sector operations.

During the period under review, the Group's cost of sales amounted to approximately RMB456.9 million, increased by approximately 13.9% compared with the corresponding period in 2007. Direct materials, direct labour and other production costs accounted for approximately 89.8% (2007: 89.5%), 3.7% (2007: 3.6%) and 6.4% (2007: 6.9%) of the cost of sales.

Overall gross profit margin decreased slightly from approximately 26.1% for the first half of 2007 to approximately 23.9% for the first half of 2008. For the Group's own brand business, the gross profit margin for the period under review was approximately 25.5%, down by 3.1 percentage points from approximately 28.6% for the corresponding period last year. For the OEM business, the gross profit margin was approximately 22.9%, increased by approximately 2.6% against the six months period ended 30 June 2007. Decrease in gross profit margin was mainly due to the increasing prices of raw materials for Li-ion battery cells and other packaging materials throughout the period under review. Moreover, since CLTT focuses on the development and production of low end series rechargeable products with slightly lower margin, hence, the Group's gross profit margin was slightly reduced after the integration. However, the acquisition of CLTT will enhance the variety of products to cover new mobile phone models and our integration not only can help to further strengthen the revenue base and stabilize market prices of rechargeable battery packs, but can also remove overlapping of resources which in turn improves the overall profitability of the Group. For the period under review, the net result of the Group turned from a loss to a profit and achieved a record high of approximately RMB90.0 million while the Group's net profit margin was maintained at a high level of approximately 15.0% (2007: net loss 23.1%).

During the period under review, the Group recorded administrative expenses of approximately RMB36.1 million (2007: RMB36.6 million) which accounted for approximately 6.0% (2007: 6.7%) of the turnover for the six months in 2008. Administrative expenses comprising research and development expenses of approximately RMB7.9 million (2007: RMB8.6 million) which accounted for approximately 1.3% (2007:

1.6%) of the turnover. Distribution costs of approximately RMB16.2 million (2007: RMB17.7 million) accounted for approximately 2.7% (2007: 3.3%) of the turnover which mainly comprised approximately RMB5.8 million (2007: RMB8.5 million) for advertising and promotion expenses. In addition, in order to enhance the brand image, the management team demonstrated their execution capability in carrying out enhancement to the Group's sales network and renovation of over 2,000 display counters in 2007. Up to 30 June 2008, an accumulated amount of approximately RMB31.7 million had been invested on the renovation and the total number of renovated display counters increased by 1,120 from 2,021 by the end of 2007 to 3,141. Hence, distribution costs included approximately RMB3.9 million being the amortization of such renovation spending.

Other revenue of approximately RMB6.7 million comprising approximately RMB3.7 million (2007: Nil) being investment tax refund received during the current period and approximately RMB2.6 million (2007: RMB5.8 million) being bank interest income.

Liquidity and Financial Resources

The overall financial strength of the Group remains strong with healthy operating cash flow and low debt level. The Group generated a net cash inflow from operating activities of approximately RMB65.7 million for the six months ended 30 June 2008, compared with approximately RMB61.3 million for the corresponding period in 2007. The Group's cash and bank balances and pledged bank deposits as at 30 June 2008 amounted to approximately RMB372.2 million (as at 31 December 2007: RMB497.9 million) including restricted short term bank deposits of approximately RMB36.1 million (as at 31 December 2007: RMB29.4 million). The net gearing, expressed as a percentage of total interest bearing loans and other borrowings to equity attributable to equity holders was approximately 1.6% as at 30 June 2008 (as at 31 December 2007: 1.5%).

As at 30 June 2008, the Group's current ratio was approximately 3.1 times (as at 31 December 2007: 5.4 times) based on current assets of approximately RMB948.6 million (as at 31 December 2007: RMB967.8 million) and current liabilities of approximately RMB306.6 million (as at 31 December 2007: RMB179.8 million).

Net Current Assets and Net Assets

The Group's net current assets as at 30 June 2008 was approximately RMB642.0 million, representing a decrease of approximately 18.5% from the balance of approximately RMB788.0 million recorded as at 31 December 2007. Net assets rose to approximately RMB1,054.4 million, representing an increase of approximately RMB81.1 million or 8.3% over the balance as at 31 December 2007.

Exposure to fluctuation in exchange rates

For the six months ended 30 June 2008, the Group conducted its business transactions principally in Renminbi. The Group has not experienced any material difficulties or negative impacts on its operations as a result of fluctuations in currency exchange rates. Although the Group has certain bank balances and short-term bank loans denominated in USD, JPY and HKD, their proportion to the Group's total assets is insignificant. The Directors consider that no hedging of exchange risk is required. Nevertheless, the

management will continue to monitor the foreign exchange exposure and will take prudent measures as and when it is appropriate.

Significant investments and acquisitions

On 12 December 2007, the Company entered into the Agreement with Mr. Ma Yuk Sang (the “Vendor”) pursuant to which the Vendor agreed to procure the sale of the sale interest (being 100% equity interest in CLTT, the “Sale Interest”) to the purchaser and the sale of the production equipment, inventories and intellectual property rights (“Sale Assets”) of Chaolitong Electronics Company Limited (“CLTE”) to CLTT. The purchaser is ultimately owned as to 70% by the Company and 30% by the Vendor.

The total consideration for the acquisition of Sale Interest and Sale Assets is up to RMB245.0 million. During the period under review, approximately RMB37.2 million and approximately RMB36.3 million have been paid for the purchase of the Sale Interest and the Sale Assets respectively and consideration of RMB91.0 million have been paid to the Vendor in cash. On 7 June 2008, the date on which all the conditions to the Agreement have been fulfilled and the acquisition of the Sale Interest and Sale Assets have been completed (“Completion Date”), the Company paid the final instalment of RMB91.0 million to the Vendor as part of the consideration pursuant to the Agreement. The remaining balance of up to approximately RMB116.8 million shall be satisfied by the issue of at least 30 million and no more than 60 million consideration shares at HK\$2.05 (the “Consideration Shares”) if the net profit after taxation targets are met or exceeded for the financial years ending 31 December 2008, 2009 and 2010. It is expected that 30 million Consideration Shares will be issued to the Vendor three months after the Completion Date.

As from the Completion Date, related senior management and employees who 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 joined CLTT.

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

Capital Structure

During the period under review, there had been no change in the share capital of the Company. As part of the consideration pursuant to the Agreement for the acquisition of the operating assets of CLTT, it is expected that 30 million Consideration Shares will be issued to the Vendor on 7 September 2008.

Commitments

During the period under review, the Group was committed to the expansion of the Group’s existing production facilities to enhance its production capacity. The Group’s capital commitments outstanding as at 30 June 2008 amounting to approximately RMB176.0 million (as at 31 December 2007: RMB139.7 million) was mainly associated with the expansion of existing capacity and the construction of the new production plant in Fuzhou. As at 30 June 2008, 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.

Pledge of assets

As at 30 June 2008, the Group has pledged fixed assets of approximately RMB2.8 million and bank deposits of approximately RMB36.1 million to secure the bank credit facilities granted to a subsidiary of the Group (as at 31 December 2007: plant and machinery of RMB3.0 million and bank deposits of RMB29.4 million).

Use of Proceeds

The Company raised aggregate proceeds of approximately HK\$604.0 million as a result of the initial public offering (“IPO”) and net proceeds of approximately HK\$568.3 million was received after the deduction of relevant IPO fees and commission incurred. As at 30 June 2008, the Group has utilized approximately RMB94.5 million (equivalent to approximately HK\$107.5 million) on the expansion of production capacity and plant construction, approximately RMB47.7 million (equivalent to approximately HK\$54.3 million) on brand promotion and improvement of the Group’s distribution network, approximately RMB128.2 million (equivalent to approximately HK\$145.6 million) on acquisition of Chaolitong, approximately RMB55.0 million (equivalent to approximately HK\$62.6 million) on repayment of bank borrowings. Remaining net proceeds of approximately RMB174.4 million (equivalent to approximately HK\$198.3 million) were mainly used as daily working capital and held as deposits with commercial banks in China.

Employee, Remuneration Policies and Share Option Scheme

As at 30 June 2008, the total number of employees of the Group was approximately 3,420 after the integration of CLTT (as at 31 December 2007: 2,380). The Group ensures all levels of employees are paid competitively within the standard in the market and employees are rewarded on a performance-related basis within the framework of the Group’s salary, incentives and bonus scheme. Other benefits include state-managed retirement benefits scheme operated by the PRC government, mandatory provident funds in Hong Kong and year-end bonuses based on Group and individual performance.

On 30 June 2008, the number of shares in respect of which options had been granted and remained outstanding under the Company’s share option scheme was 23,520,000 (as at 31 December 2007: 23,830,000), representing approximately 2.4% (as at 31 December 2007: 2.4%) of the shares of the Company in issue at that time. The number of shares issued and to be issued in respect of which options granted and may be granted to a substantial shareholder or an independent non-executive director or any of their respective associates representing in aggregate over 0.1% of the Company’s share capital on the date of such grant or with an aggregate value in excess of HK\$5.0 million must be approved in advance by resolution of the Company’s shareholders (voting by way of poll). A consideration of HK\$1.0 is payable on the grant of an option.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

Save as disclosed above, at no time during the six months ended 30 June 2008 was the Company or any of its subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by acquiring shares in, or convertible bonds of, the Company or any other body corporate and none of the Directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

INTERIM DIVIDEND

The board considered not to recommend the interim dividend to preserve the cash for working capital requirement of the business.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

The Company has complied with all the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange throughout the six months period ended 30 June 2008.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company had adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules as the code for dealing in securities of the Company by the Directors (the "Code"). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Code throughout the six months period ended 30 June 2008.

AUDIT COMMITTEE

The Audit Committee comprises three Independent Non-Executive Directors and one Non-Executive Director and reports to the Board. The Audit Committee has reviewed with the management the unaudited financial information and interim results for the six months ended 30 June 2008.

REVIEW OF INTERIM RESULTS ANNOUNCEMENT BY INDEPENDENT AUDITORS

This condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's independent auditors, Moore Stephens, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

APPRECIATION

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

By Order of the Board

Fang Jin

Chairman

Hong Kong, 3 September 2008

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

** *Non-executive Director*

*** *Independent non-executive Directors*