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SCUD GROUP LIMITED

飛毛腿集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 1399)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

FINAL RESULTS HIGHLIGHTS

Business Highlights

- The operating results of Chaolitong Technology Company Limited ("CLTT") had been consolidated into the Group's operating results from 7 June 2008.
- Market share of own brand mobile phone rechargeable battery packs in the PRC rose to approximately 20.3% (2007: 12.0%). Extended market coverage from first and second-tier markets to rural markets.
- Established a comprehensive sales & distribution network with more than 570 distributors and 49,000 point of sales.

Financial Highlights

	2008	2007
	(RMB'000)	*(RMB'000)*
• Turnover	**1,252,693**	960,921
• Profit attributable to equity holders	**131,954**	15,513
• EBITDA	**199,128**	40,324
• Earnings per share		
– Basic (RMB cents)	**13.18**	1.58
– Diluted (RMB cents)	**13.01**	1.58
• Proposed final dividend per share (HKD cents)	**2.0**	2.0
• Cash position	**457,118**	497,858
• Gross profit margin (%)	**21.1**	25.3
• Current ratio (times)	**3.2**	5.4
• Total debt to equity ratio (%)	**0.6**	1.5

* *For identification purpose only*

The board of directors (the "Board") 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 2008, together with the comparative figures for the year ended 31 December 2007 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2008** *RMB'000*	2007 *RMB'000*
Turnover	*4*	**1,252,693**	960,921
Cost of sales		**(988,853)**	(717,412)
Gross profit		**263,840**	243,509
Other revenue	*5*	**19,206**	28,718
Selling and distribution expenses		**(43,398)**	(29,116)
Administrative expenses		**(90,175)**	(59,700)
Other operating expenses		**(6,286)**	(393)
Profit from operations	*6*	**143,187**	183,018
Losses from fire		**–**	(164,581)
Finance costs	*7*	**(830)**	(2,491)
Profit before taxation		**142,357**	15,946
Taxation	*8*	**(72)**	(429)
Profit for the year		**142,285**	15,517
Attributable to:			
Equity holders of the Company		**131,954**	15,513
Minority interests		**10,331**	4
		142,285	15,517
Dividends	*9*	**18,026**	37,789
Earnings per share			
– basic (RMB cents)	*10*	**13.18**	1.58
– diluted (RMB cents)	*10*	**13.01**	1.58

CONSOLIDATED BALANCE SHEET

	Note	**2008** **RMB'000**	2007 RMB'000
Non-current assets			
Property, plant and equipment	*11*	**276,186**	168,195
Prepaid lease payments – non-current portion		**11,985**	12,243
Intangible assets	*12*	**224,983**	3,109
Deferred tax assets		**1,675**	1,675
		514,829	185,222
Current assets			
Due from a related party		**938**	1,126
Inventories	*13*	**178,025**	149,114
Trade and notes receivables	*14*	**318,781**	191,499
Prepaid lease payments – current portion		**258**	258
Prepayments, deposits and other receivables		**61,466**	125,590
Current tax recoverable		**6,450**	2,403
Pledged bank deposits		**105,942**	29,375
Bank balances and cash		**351,176**	468,483
		1,023,036	967,848
Current liabilities			
Due to a related party		**3,877**	–
Trade and notes payables	*15*	**257,642**	133,408
Provision for warranty		**3,683**	2,225
Other payables, receipt in advance and accrued charges		**44,184**	30,735
Bank loans – current portion		**7,279**	13,444
		316,665	179,812
Net current assets		**706,371**	788,036
Total assets less current liabilities		**1,221,200**	973,258
Capital and reserves			
Share capital	*16*	**102,134**	99,503
Reserves		**1,035,710**	872,786
Equity attributable to equity holders of the Company		**1,137,844**	972,289
Minority interests		**82,838**	7
Total equity		**1,220,682**	972,296
Non-current liabilities			
Bank loans – non-current portion		**518**	962
Total equity and non-current liabilities		**1,221,200**	973,258

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 Main Board 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 2008 (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 (Cap. 32). The principal accounting policies and methods of computation used in the preparation of the Financial Statements for the year ended 31 December 2008 are consistent with those adopted in the financial statements for the year ended 31 December 2007, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") as explained in note 3 below.

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRSs, which collectively includes 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 new and revised IFRSs and IFRIC interpretations for the current year's Financial Statements which are effective for accounting periods commencing on or after 1 January 2008:–

IAS 39 and IFRS7 (Amendments)	Amendments to IAS39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction

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. SEGMENT INFORMATION

Business segments

The Group's business comprises two segments, namely, own-brand business and original equipment manufacturer ("OEM") business. The directors of the Company ("Directors") 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

	2008				2007			
	Own-brand business	**OEM business**	**Others**	**Total**	Own-brand business	OEM business	Others	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**845,055**	**342,171**	**65,467**	**1,252,693**	616,022	325,185	19,714	960,921
Segment results	**204,672**	**65,162**	**(5,994)**	**263,840**	172,969	70,063	477	243,509
Unallocated income				**19,206**				28,718
Unallocated expenses				**(139,859)**				(89,209)
Losses from fire				–				(164,581)
Finance costs				**(830)**				(2,491)
Profit before taxation				**142,357**				15,946
Taxation				**(72)**				(429)
Profit for the year				**142,285**				15,517

Assets and liabilities

	2008				2007			
	Own-brand business	**OEM business**	**Others**	**Total**	Own-brand business	OEM business	Others	Total
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**533,422**	200,043	–	**733,465**	251,666	140,618	–	392,284
Unallocated corporate assets				**804,400**				760,786
Consolidated total assets				**1,537,865**				1,153,070
Unallocated corporate liabilities and consolidated total liabilities				**317,183**				180,774

Geographical segments

Analysis of the Group's turnover and results as well as analysis of the Group's carrying amount of each relevant segment's 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

	2008	2007
	RMB'000	*RMB'000*
Interest income	**4,705**	12,493
Foreign exchange gain	**9,567**	6,755
Gain on disposal of short term investment	**–**	7,663
Processing income	**624**	759
Investment tax refund	**3,625**	–
Sundry income	**685**	1,048
	19,206	28,718

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	2008	2007
	RMB'000	*RMB'000*
Auditors' remuneration		
– current year provision	**2,097**	1,701
– prior year (overprovision)/underprovision	**(779)**	197
Amortisation		
– intangible assets	**5,383**	247
– prepaid lease payments	**258**	257
Allowance for bad and doubtful debts	**16,772**	318
Cost of inventories recognized as expenses	**988,853**	717,412
Depreciation (net of depreciation included in research and development costs of RMB3,621,000 (2007: RMB2,779,000))	**46,679**	18,604
Operating lease rentals – office premises	**8,282**	5,266
Research and development costs (net of government grant of RMB1,440,000 (2007: RMB1,820,000))	**17,138**	12,473
Staff costs	**64,111**	48,477

7. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interest on bank borrowings	**443**	1,352
Interest on discounted notes receivable (without recourse)	**–**	195
Effective interest on convertible bonds	**–**	891
Other finance costs	**387**	53
	830	2,491

8. TAXATION

Details of the charge in the consolidated income statement are as follows:

	2008	2007
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax		
Tax for the year	**72**	–
Underprovision in prior years	**–**	429
Taxation	**72**	429

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 save for the PRC where it conducts its principal business operations.

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

The provision for PRC Enterprise Income Tax is based on the estimated taxable income for PRC taxation purpose at the rate of taxation applicable for the period. According to the PRC Enterprise Income Tax Law announced by the National People's Congress on 16 March 2007, the tax exemptions granted to the subsidiaries incorporated in the PRC can be continued until their respective expiry dates. For the subsidiaries incorporated in the PRC without tax exemptions, the applicable tax rate is 18% in 2008.

9. DIVIDENDS

A final dividend for the year ended 31 December 2008 of HK$0.02 per share, amounting to a total final dividend of approximately RMB18,026,000 is to be proposed at the forthcoming annual general meeting of the Company. These financial statements do not reflect this dividend payable.

An interim dividend for the six-month period ended 30 June 2007 of HK$0.02 per share, amounting to a total interim dividend of approximately RMB19,211,000 was 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 final dividend of approximately RMB18,578,000 was declared and paid to the shareholders during the year ended 31 December 2008.

10. 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:

	2008	2007
	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)	**131,954**	15,513

	Number of ordinary shares	
	2008	2007
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,001,453**	981,826
Effect of dilutive potential ordinary shares		
– share options	**7,146**	215
– contingent shares to be issued on acquisition of Chaolitong	**5,671**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,014,270**	982,041

11. PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment, furniture and fixtures	**Motor vehicles**	**Plant and machinery**	**Moulds**	**Construction in progress**	**Leasehold improve-ments**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Cost							
1 January 2007	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
Exchange adjustment	(9)	–	–	–	º(2,825)	–	(2,834)
Additions	13,723	679	39,159	2,278	25,295	68,658	149,792
Additions through acquisition of a subsidiary	1,143	52	7,556	2,578	–	–	11,329
Transfer	2,963	284	–	–	(17,653)	14,406	–
31 December 2008	66,846	9,196	124,364	37,140	48,938	84,350	370,834
Depreciation							
1 January 2007	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
Disposals	(3,377)	(623)	(6,279)	–	–	–	(10,279)
31 December 2007	21,861	2,084	8,556	11,763	–	88	44,352
Exchange adjustment	(4)	–	–	–	–	–	(4)
Charge for the year	9,398	1,038	9,546	7,315	–	23,003	50,300
31 December 2008	31,255	3,122	18,102	19,078	–	23,091	94,648
Net book value							
31 December 2008	35,591	6,074	106,262	18,062	48,938	61,259	276,186
31 December 2007	27,165	6,097	69,093	20,521	44,121	1,198	168,195

12. INTANGIBLE ASSETS

	Distribution network *(Note i)* *RMB'000*	Trade names and patents *(Note ii)* *RMB'000*	Domain names *RMB'000*	Employee contracts *RMB'000*	Non-compete agreements *RMB'000*	Goodwill *(Note iii)* *RMB'000*	Software *RMB'000*	Total *RMB'000*
Cost								
1 January 2007	–	–	–	–	–	–	2,070	2,070
Additions	–	–	–	–	–	–	1,549	1,549
31 December 2007	–	–	–	–	–	–	3,619	3,619
Additions	–	–	–	–	–	–	80	80
Additions through acquisition of a subisdiary	97,664	106,182	74	58	350	22,849	–	227,177
31 December 2008	97,664	106,182	74	58	350	22,849	3,699	230,876
Amortisation								
1 January 2007	–	–	–	–	–	–	263	263
Charge for the year	–	–	–	–	–	–	247	247
31 December 2007	–	–	–	–	–	–	510	510
Charge for the year	4,883	–	12	11	88	–	389	5,383
31 December 2008	4,883	–	12	11	88	–	899	5,893
Net carrying amount								
31 December 2008	92,781	106,182	62	47	262	22,849	2,800	224,983
31 December 2007	–	–	–	–	–	–	3,109	3,109

Notes:

i) Distribution network represents the sales network of the Chaolitong brand, covering second tier and third tier cities, towns and villages in the PRC.

ii) Trade names and patents comprise 7 trade names and 3 patents held by Chaolitong.

iii) Goodwill arising from the acquisition of the "Chaolitong 超力通" brand is attributable to the anticipated revenue growth, profitability, future market development and anticipated future operating synergies from the combination.

Goodwill has been allocated to the single cash generating unit ("CGU"), Chaolitong. The recoverable amount has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period which has been extrapolated using the estimated growth rate ranging from 3% to 20%. These growth rates are based on the relevant industry growth forecasts and do not exceed the average long-term growth rate for the relevant industry. The discount rate applied to the cash flow projections is 14%. Another key assumption for the value in use calculations is the budgeted gross margin, which is determined based on the CGU's past performance and management's expectations for the market development. The value in use calculated by using the discount rate is higher than the carrying amount of the CGU. As a result, there is no impairment of goodwill in the current year.

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

13. INVENTORIES

	2008	2007
	RMB'000	*RMB'000*
Raw materials	**140,799**	88,197
Work in progress	**31,626**	58,240
Finished goods	**5,600**	2,677
	178,025	149,114

All inventories were stated at cost.

14. TRADE AND NOTES RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Trade receivables	**301,218**	183,377
Notes receivables	**37,017**	13,808
	338,235	197,185
Less: Allowance for bad and doubtful debts	**(19,454)**	(5,686)
	318,781	191,499

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:

	2008	2007
	RMB'000	*RMB'000*
0 to 60 days	**200,344**	162,942
61 to 180 days	**116,995**	26,169
181 to 365 days	**1,441**	1,943
1 to 2 years	**1**	438
2 to 3 years	**–**	7
	318,781	191,499

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

15. TRADE AND NOTES PAYABLES

	2008	2007
	RMB'000	*RMB'000*
Trade payables	**123,148**	89,042
Notes payables	**134,494**	44,366
	257,642	133,408

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

	2008	2007
	RMB'000	*RMB'000*
0 to 60 days	**120,863**	76,731
61 to 180 days	**118,701**	49,068
181 to 365 days	**9,931**	5,962
1 to 2 years	**8,040**	1,456
2 to 3 years	**87**	144
Over 3 years	**20**	47
	257,642	133,408

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

	Number of ordinary shares of HK$0.10 each in Thousands	**Amount** *RMB'000*
Authorised:		
At 31 December 2007 and 2008	5,000,000	502,530
Issued and fully paid:		
At 1 January 2008	992,001	99,503
Issue of shares for acquisition of Chaolitong *(Note i)*	30,000	2,631
At 31 December 2008	1,022,001	102,134

Note:

i) On 7 September 2008, the Company issued and allotted 30,000,000 ordinary shares of HK$0.10 each at HK$1.18 each as part of the consideration for the acquisition of the Sale Interest (as defined below) of CLTT and the Sale Assets (as defined below) of Chaolitong Electronics Company Limited ("CLTE") (see also note 17 below for details).

17. ACQUISITION OF A SUBSIDIARY

Acquisition of Chaolitong Technology Company Limited

	7.6.2008
	Fair Value
	RMB'000
Net assets acquired:	
Production equipment	11,329
Inventories	25,010
Bank balance and cash	891
Intangible assets:	
– Trade names and patents	106,182
– Distribution network	97,664
– Non-compete agreements	350
– Employee contracts	58
– Domain names	74
Minority interest	(72,467)
	169,091
Goodwill on acquisition	22,849
Total consideration	191,940
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 Completon Date)	62,755
Commission payable to the Vendor	955
	191,940
Net cash outflow arising from acquisition:	
– Cash consideration paid	128,230
– Bank balances and cash acquired	(623)
	127,607

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 CLTE to CLTT. The purchaser is a company 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 an amount up to RMB245,000,000.

During the year, 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 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. On 7 September 2008, the Company issued and allotted 30 million Consideration Shares to the Vendor as part of the consideration of the Agreement. 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 was attributable to its anticipated revenue growth, profitability, future market development and the anticipated future operating synergies from the combination. These benefits were not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

PROPOSED FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HK$0.02 per share to shareholders whose names appear on the register of members of the Company on 6 May 2009 and the proposed final dividend will be paid on or about 2 June 2009. The payment of dividends shall be subject to the approval of the shareholders at the forthcoming annual general meeting ("AGM").

CLOSURE OF REGISTER OF MEMBERS

The Company's register of members will be closed from 7 May 2009 to 14 May 2009 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the final proposed dividend and eligible for attending and voting at the AGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, located at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:30 pm on 6 May 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2008, the global financial turmoil triggered by the US subprime mortgage crisis has led to a downturn in the global economy and created adverse impacts and associated challenges for companies. During the second half of 2008, various industries started to feel the impact. As the biggest mobile phone rechargeable batteries manufacturer in the PRC, the Group was able to perform satisfactorily during the period in spite of the dramatic economic downturn and growing competition.

For the year ended 31 December 2008, the Group recorded a turnover of approximately RMB1,252.7 million, representing an increase of approximately 30.4% compared to the same period last year. Gross profit and profit attributable to equity holders were approximately RMB263.8 million and RMB132.0

million respectively, representing an increase of 8.3% and 750.6% compared to the same period last year. Gross profit margin was approximately 21.1%, down from 25.3% over the same period last year. Margin of profit attributable to equity holders of the Company was approximately 10.5% as compared to 1.6% a year earlier.

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 through its ownbrands, "SCUD 飛毛腿" and "Chaolitong 超力通", as well as its OEM business. The share of its own-brand business rose to 67.5% (2007: 64.1%) of the Group's total revenue after completion of the acquisition of the operating assets of "Chaolitong 超力通". Revenue contribution from the OEM business was down to 27.3% (2007: 33.8%) of total revenue as a result of the global economic downturn and slowing demand for electronic products since the second half of 2008, which led to substantial reductions in orders from OEM customers. Gross profit margin of the Group was also lower compared to last year as a result of a larger proportion of medium/low end products in the sales mix following the acquisition of the operating assets of "Chaolitong 超力通". A drop in gross profit from the OEM business in the second half of the year also led to the fall in gross profit margin.

OWN-BRAND BUSINESS

During the year under review, the sales volume of own-brand mobile phone rechargeable batteries increased by approximately 72.5% to 43.1 million units (2007: 25.0 million units) on a turnover of RMB 709.0 million (2007: 499.0 million) of which 70% of sales came from "SCUD飛毛腿", a renowned and well received brand in the PRC.

Since the acquisition of the operating assets of "Chaolitong 超力通" in June 2008, the Group has expanded its own-brand business to the rural market. The expansion is aimed at taking advantage of the business development works in rural areas by telecommunication operators. During the year under review, a total of 13.1 million units of "Chaolitong 超力通" brand's mobile phone rechargeable batteries were sold on a turnover of approximately RMB131.6 million. The acquisition further consolidated the market leadership of the Group in China. The Group's market share rose to approximately 20.3% from approximately 12.0%.

Following the acquisition, the "SCUD 飛毛腿" brand would focus on launching medium/high end mobile phone batteries while the "Chaolitong 超力通" brand would concentrate on the medium/low end market. The move is aimed at enhancing cost effectiveness by producing batteries in bulk for specific models of mobile phones and eliminating the overlapping of production by the two brands. The strategy enhances our economy of scale and increases our bargaining power over suppliers. Furthermore, it has enhanced the quality of "Chaolitong 超力通" brand products by leveraging the technology knowhow of the Group and generated trust in Chinese made products among consumers.

OEM BUSINESS

In addition to its own-brand business, the Group also manufactures battery products for major domestic and overseas mobile phone makers through OEM. As at 31 December 2008, turnover of the Group's OEM business reached RMB342.2 million (2007: RMB325.2 million), representing 27.3% (2007: 33.8%)

of total revenue. Major customers included Lenovo, Huawei, ZTE, UT Starcom, Sangfei, Hisense and Haier, among others. During the year, sales volume of mobile phone batteries of the Group's OEM business reached 11.7 million units (2007: 13.3 million units).

Owing to global economic slowdown, many exporters have scaled down their orders. During the year, the OEM business of the Group was affected. Although the sales of OEM notebook grew sharply in the first three quarters of 2008, such growth in demand for notebook computers and accessories started to taper off in the fourth quarter. The sales of mobile phone batteries was also impacted as key clients who focus on overseas markets, cut back on orders as a result of the economic downturn.

SALES NETWORK

During the year, much of the sales of the Group came from the coastal regions in eastern China, and through effective marketing and sales strategies, the southern and northern regions of China also became our key markets. After the acquisition of the operating assets of "Chaolitong 超力通", the Group actively strengthened the sales network of the "Chaolitong 超力通" brand in tier two and tier three cities and rural areas in the PRC in order to reduce the risk and cost in extending to the rural area whilst it accelerates its access to the rural market. As at 31 December 2008, the Group had more than 570 first tier distributors and more than 49,000 points of sales.

In the meantime, to further enhance the efficiency of business management, the Group sought to optimize the sales network of mobile phone batteries of the "SCUD 飛毛腿" brand and upgrade the image of sales counters so as to enhance the brand image. The Group anticipates the renovation of a total of 6,000 sales counters will be completed successfully by the end of 2009 and in the meantime, the Group continues to allow consumers to choose rechargeable battery products of high quality and safety standard at the sales counters of the Group.

PARTNERSHIP AND PRODUCT RESEARCH AND DEVELOPMENT

In view of the growing popularity of notebook computers among domestic consumers, and leveraging the Group's prestigious reputation and market leading position, the Group reached a long-term supply agreement with a subsidiary of Sanyo Corporation of Japan, the largest lithium battery manufacturer in the world in 2008. Sanyo Corporation fully supported the supply of lithium bare battery cells to the Group for the production of notebook computer batteries which ensured that the Group enjoyed a stable source of income and battery supply. During the year, while keeping abreast of the notebook computer market, the Group maintained relationship with Sanyo Corporation and actively discussed the possibility of further cooperation.

In respect of research and development ("R&D"), having invested in resources for some time, the Group is currently working on the research and development of high-power batteries with leading telecommunication solution providers in the world, in order to further increase the types of branded battery products to cater for different customers. In 2008, the Group recorded R&D expenses of approximately RMB17.1 million (2007: RMB12.5 million) which accounted for 1.37% of the turnover for 2008 (2007: 1.30%). R&D expenses mainly comprised of staff cost for R&D personnel of approximately RMB4.8 million, molding expenses of approximately RMB5.8 million, depreciation of approximately RMB3.6 million and inspection fee of approximately RMB2.1 million.

OUTLOOK

Year 2009 is full of challenges with many uncertainties in the business environment. The Group will implement a number of measures and policies in order to improve its profitability and maintain its competitiveness edge.

STRENGTHEN OPERATING EFFICIENCIES BY OPTIMIZING SALES NETWORK

To avoid overlapping of regional network, the Group will adopt different marketing and sales strategies and leverage the resources and brand equity of "Chaolitong 超力通" brand. More stringent control will be implemented on distributors while adjustments will be made on those distributors with less satisfactory business performance so as to strengthen the reach of the Group's network and accelerate the integration of the "Chaolitong 超力通" brand in the market.

INCREASE MARKET SHARE BY EXPLORING THE SOUTH-WEST MARKET

The Group will allocate additional resources in the development of the south-west region of the PRC including Chongqing and Sichuan. As these cities have a larger population and the potential for development is enormous, it is believed that the rural market share of the Group will continue to have substantial room for expansion in 2009. In the coming three years, the Group expects to raise the market share in the PRC to over 30%.

CLEAR BRAND POSITIONING WITH SYNERGY EFFECT

Following the expansion of the scope of subsidy pursuant to the "Rural Household Electrical Appliances Subsidy Programme" and the issuance of 3G licences by the central government of the PRC, the demand for mobile phone batteries and notebook computer batteries are expected to receive a boost as a result. On one hand, the Group will leverage on the technology of SCUD to improve the product quality of the "Chaolitong 超力通" brand. On the other hand, the Group will focus on launching medium/high end mobile phone batteries for the "SCUD 飛毛腿" brand to meet the latest market trend. The clearer market positioning of the two brands can also raise production efficiency while accelerating the penetration of products in different levels of the consumer market.

EXPAND REVENUE BASE BY ENHANCING RESEARCH AND DEVELOPMENT CAPABILITY

The Group will actively enhance its research and development capability. Currently, the Group is seeking cooperation opportunities with battery cells producers in the PRC or considering setting up its own battery cells production plant, moving the business further up in the value chain. These moves will not only stabilize the supply of key raw materials and allow the Group to control its costs more efficiently, but will also enable the Group to master the core technology of battery cells production and help strengthen its research and development capability and competitiveness.

ENHANCING BRAND EQUITY BY STRENGTHENING PRODUCT MIX

The sales of branded batteries will continue to be the Group's main revenue source. The Group is still committed to diversifying its product mix with a view to launch more products under the "SCUD飛毛腿" brand apart from rechargeable batteries so as to fully utilize the value of the "SCUD飛毛腿" brand. It is expected that the move will further enhance our brand equity and broaden the revenue base.

FINANCIAL REVIEW

Despite difficult business conditions, the consolidated turnover of the Group increased by 30.4% to approximately RMB1,252.7 million, as compared to the year ended 31 December 2007. Gross profit for 2008 was approximately RMB263.8 million, representing an increase of approximately 8.3% against that of the same period in 2007. The profit attributable to the equity holders recorded an impressive growth and increased to approximately RMB132.0 million (2007: RMB15.5 million).

The operating results of CLTT had been consolidated into the Group's operating results after 7 June 2008. 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 realized with the integration process.

Turnover

Mobile phone rechargeable batteries remain the major revenue driver of the Group, while the notebook computer battery business became the Group's second major revenue contributor. The sales of mobile phone rechargeable batteries products has contributed approximately 74.6% of the Group's consolidated turnover. The sale of notebook computer batteries achieved strong growth and brought about increased income and profit contribution to the Group, with sales of approximately RMB116.0 million which represents an increase of approximately 59.7% over that of the same period in 2007. The acceleration of the development pace of notebook computers in the PRC and the popularity of Netbook/EeePC, provided sound business opportunities for the Group's information technology sector operations.

Segment Results

For 2008, main growth revenue still came from the Group's own-brand business. Turnover attributable to the Group's own-brand business increased by 37.2% to approximately RMB845.1 million for the year ended 31 December 2008 from approximately RMB616.0 million for the year ended 31 December

2007. The Group's own-brand business as a percentage of the Group's turnover was maintained at approximately 67.5% in 2008 (2007: 64.1%). The growth in own-brand business for 2008 was mainly contributed by the growth in sales of mobile phone rechargeable batteries, which increased by RMB210.2 million or 42.2% as compared with 2007. However, the sales of batteries for digital cameras was decreased by RMB30.3 million or 65.0% as compared with 2007 as a result of more batteries for digital cameras with smaller capacity and lower unit price were sold during 2008. Approximately 74.0% (2007: 100%) of the Group's own-brand products were sold in the PRC market under the "SCUD飛毛腿" brand and approximately 26.0% (2007: N/A) of the Group's own-brand products were sold under the "Chaolitong超力通" brand.

For the OEM business, due to the continuing slowdown in the global mobile phone market, most of our customers were inevitably affected. The turnover attributable to the Group's OEM business was slightly increased by approximately 5.2% from approximately RMB325.2 million to approximately RMB342.2 million and the percentage of the Group's OEM business accounted for approximately 27.3% of the Group's turnover in 2008 (2007: 33.8%). The growth in OEM business for 2008 was mainly contributed by the growth in the sale of OEM notebook computers batteries, which was increased by approximately RMB37.8 million or approximately 61.9% as compared with 2007. The sale of OEM mobile phone batteries was dropped by approximately RMB21.2 million or approximately 8.6% as many exporters had scaled down their orders owing to global economic slowdown.

Cost of Sales

The Group's cost of sales amounted to approximately RMB988.9 million in 2008 (2007: RMB717.4 million), representing an increase of 37.8% as compared to last year. Direct materials, direct labour and other production costs accounted for approximately 89.7% (2007: 89.3%), 4.4% (2007: 3.5%) and 5.9% (2007: 7.2%) of the cost of sales.

Gross Profit and Gross Profit Margin

Overall gross profit margin decreased from approximately 25.3% for 2007 to approximately 21.1% for the 2008. For the Group's own-brand business, the gross profit margin for current year was approximately 24.2%, down by 3.9 percentage points from approximately 28.1% for 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 first half of the year. Moreover, since the "Chaolitong超力通" brand focuses on the development and production of low end series rechargeable products with slightly lower margin, hence the Group's gross profit margin was reduced after the integration. However, the acquisition of the "Chaolitong超力通" brand will enhance the variety of products to cover new mobile phone models and our integration will not only help further strengthening the Group's revenue base and stabilize market prices of rechargeable battery packs, but also removing overlapping of resources which in turn would improve the overall profitability of the Group.

For the OEM business, in light of the keen competition and margin erosion in the global mobile phone market, the gross profit margin was approximately 19.0%, decreased by approximately 2.5% against 2007.

Profit Attributable to Equity Holders

For the current year, the Group recorded profit attributable to equity holders of the Company of approximately RMB132.0 million (2007: RMB15.5 million) while the margin of profit attributable to equity holders of the Company was increased to approximately 10.5% (2007: 1.6%).

In 2008, the Group recorded administrative expenses of approximately RMB90.2 million (2007: RMB59.7 million) which accounted for approximately 7.2% of the turnover for 2008 (2007: 6.2%). Administrative expenses mainly comprising provision for bad and doubtful debts of approximately RMB16.8 million (2007: RMB0.3 million), depreciation of approximately RMB46.7 million (2007: RMB18.6 million), research and development expenses of approximately RMB17.1 million (2007: RMB12.5 million) and approximately RMB5.0 million (2007: Nil) being amortisation of intangible assets arose from acquisition.

Selling and distribution expenses of approximately RMB43.4 million (2007: RMB29.1 million) accounted for approximately 3.5% (2007: 3.0%) of the turnover. 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 4,000 display counters up to the end of 2008. As at 31 December 2008, an accumulated amount of approximately RMB66.3 million had been invested on the renovation project. Hence, selling and distribution expenses included approximately RMB17.0 million (2007: Nil) being the amortisation of such renovation spending. Approximately RMB11.9 million (2007: RMB13.2 million) has been spent on advertising and promotion.

Other revenue of approximately RMB19.2 million comprising approximately RMB9.6 million (2007: RMB6.8 million) being foreign exchange gain during the current year and approximately RMB4.7 million (2007: RMB12.5 million) being bank interest income.

Liquidity and Financial Resources

Against economic and market uncertainties, the Group continued to maintain a strong liquidity position with low gearing and healthy cash flows which allows the Group to strengthen its competitive position. The Group generated a net cash inflow from operating activities of approximately RMB257.2 million for the year ended 31 December 2008, compared with approximately RMB18.5 million for the year ended 31 December 2007. The Group's cash and bank balances and pledged bank deposits as at 31 December 2008 amounted to approximately RMB457.1 million (31 December 2007: approximately RMB497.9 million). The Group's bank borrowings outstanding as at 31 December 2008 amounted to RMB7.8 million (2007: RMB14.4 million) were all carried at fixed interest rate and there was no particular seasonality of the Group's borrowings. The Group monitored capital using a gearing ratio, which is total debt divided by total equity of the Group. 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 RMB1,220.7 million (31 December 2007: approximately RMB972.3 million) was 0.6% as at 31 December 2008 (at 31 December 2007: 1.5%). In addition, the Group has restricted short term bank deposits of approximately RMB105.9 million (31 December 2007: approximately RMB29.4 million).

As at 31 December 2008, the Group's current ratio was 3.2 times (31 December 2007: 5.4 times) based on current assets of approximately RMB1,023.0 million (31 December 2007: RMB967.8 million) and current liabilities of approximately RMB316.7 million (31 December 2007: RMB179.8 million). The trade and notes receivables and trade and notes payable balances of the Group were increased by approximately RMB127.3 million and RMB124.2 million respectively as compared with that as of 31 December 2007. Such increases mainly resulted from the inclusion of the year end balance of trade and notes receivables of CLTT, which was approximately RMB83.5 million and the year end balance of trade and notes payables of CLTT, which was approximately RMB108.1 million.

Trade receivable turnover days were approximately 74.3 days for the year ended 31 December 2008 as compared to approximately 79.6 days for the year ended 31 December 2007. Inventory turnover days were approximately 60.4 days for the year ended 31 December 2008 as compared to approximately 62.1 days for the year ended 31 December 2007. Trade payable turnover days were approximately 77.1 days for the year ended 31 December 2008 as compared to approximately 42.8 days for the year ended 31 December 2007.

Net Current Assets and Net Assets

The Group's net current assets as at 31 December 2008 was approximately RMB706.4 million, decreased by 10.4% from the balance of approximately RMB788.0 million recorded as at 31 December 2007. Net assets rose to approximately RMB1,221.2 million, representing an increase of approximately RMB247.9 million or 25.5% over the balance as at 31 December 2007.

Pledge of Assets

At 31 December 2008, bank loans of approximately RMB1.0 million (2007: RMB1.4 million) were secured by the Group's motor vehicles with a carrying amount of approximately RMB2.6 million (2007: RMB3.0 million), bank loans of USD1.0 million were secured by an equivalent amount of Chinese Renminbi and notes payable of RMB15.6 million were secured by an equivalent amount of notes receivable.

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 2008 amounting to approximately RMB137.9 million (2007: RMB139.8 million) was mainly associated to the expansion of existing capacity and the construction of the new production plant in Fuzhou.

Contingent Liabilities

As at 31 December 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.

Capital Structure

During the year, as part of the consideration pursuant to the Agreement for the acquisition of the operating assets of CLTE, the Company issued and allotted 30,000,000 shares of HK$0.10 each at HK$1.18 each to the Vendor on 7 September 2008. Consequently, the issued share capital of the Company was increased by approximately HK$3.0 million (represented by 30,000,000 ordinary shares) to approximately HK$102.2 million (represented by 1,022,001,246 ordinary shares). Since the net profit after taxation targets has been met for the financial year ended 31 December 2008, it is expected that 10,000,000 shares of HK$0.10 each at HK$1.18 will be issued to the Vendor as part of the consideration during 2009.

Foreign Exchange Exposure

For the year 2008, the Group conducted its business transactions principally in Renminbi ("RMB"). 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 United States Dollars, Japanese Yen and Hong Kong Dollars, their proportion to the Group's total assets is insignificant. The Directors considered that no hedging of exchange risk is required and there were no financial instruments being used for hedging purposes during the year. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures as and when it is appropriate.

Employee, Remuneration Policies and Share Option Scheme

As at 31 December 2008, the Group had 3,730 full-time employees (2007: 2,380). 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 Group ensures all levels of employees are paid competitively within the standard in the market and employees are rewarded on a performance-related basis within the framework of the Group's salary, incentives and bonus scheme. The 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 and social insurance.

As at 31 December 2008, the number of shares in respect of which options had been granted under the pre-initial public offering share option scheme (the "Scheme") adopted by the Company prior to its listing and which remained outstanding under the Scheme was 16,429,000 shares (2007: 23,830,000 shares), representing approximately 1.6% (2007: approximately 2.4%) of the shares of the Company in issue at that time. Since the adoption of the Scheme and as at 31 December 2008, no share option has been granted or exercised under such Scheme, 360,000 share options were forfeited and 7,041,000 share options expired during the year.

Use of Proceeds

The Company raised proceeds of HK$604.0 million in aggregate as a result of the initial public offering ("IPO") of the Company and net proceeds of approximately HK$568.3 million was received after the deduction of relevant IPO fees and commission incurred. Up to 31 December 2008, the Group has utilized approximately RMB96.3 million (equivalent to approximately HK$109.2 million) on the expansion of production capacity and plant construction, approximately RMB88.6 million (equivalent to approximately HK$100.4 million) on brand promotion and improvement of Group's distribution network, approximately RMB128.2 million (equivalent to approximately HK$145.4 million) on the acquisition of the Sale Assets of CLTE and the Sale Interest of CLTT, and approximately RMB55.0 million (equivalent to approximately HK$62.4 million) on repayment of bank borrowings. Remaining net proceeds of approximately RMB133.1 million (equivalent to approximately HK$150.9 million) were mainly used as daily working capital and held as deposits with banks in the PRC.

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 securities for the year ended 31 December 2008.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the year 2008, each of Mr. Ho Man, Mr. Heng Kwoo Seng and Mr. Wang Jian Zhang confirmed they would continue as Directors. However, their terms of appointment were not formalized due to an administrative oversight. For Mr. Ho Man and Mr. Wang Jian Zhang, their respective appointments have been renewed on 25 March 2009 for a term up to and including the date of the Company's 2010 annual general meeting. As Mr. Heng intends to retire after the upcoming annual general meeting of the Company, the Company and Mr. Heng will not be formalising the terms of his appointment for the period prior to his resignation.

In the opinion of the Directors, save for the above deviation from provision A.4.1 of the Code on Corporate Governance Practices regarding non-executive directors to be appointed for specific terms, 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 2008.

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 2008 to be published.

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 2008.

AUDIT COMMITTEE

An audit committee of the Company ("Audit Committee") was established by the Company to review and supervise the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's annual results of the year ended 31 December 2008. 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.

REVIEW OF FINANCIAL STATEMENTS

The Audit Committee has reviewed with the senior management of the Company the accounting principles and practices adopted by the Group, discussed auditing and financial reporting matters and has reviewed the annual results of the Group for the year ended 31 December 2008 before they presented the same to the Board 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 2008 have been agreed by the Group's auditors, Moore Stephens Certified Public Accountants ("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

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, 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.

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

Hong Kong, 25 March 2009

*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***.*

* *For identification purpose only*
** *Non-executive Director*
*** *Independent non-executive Directors*