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 2009

INTERIM RESULTS HIGHLIGHTS

Financial Highlights	**Six months ended 30 June**	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
♦ Turnover	**587,994**	600,125
♦ Profit from Operations	**17,101**	94,606
♦ Profit Attributable to Equity Holders of the Company	**16,428**	87,541
♦ Earnings per share		
Basic (RMB cents)	**1.60**	8.82
Diluted (RMB cents)	**1.58**	8.73
♦ Current ratio (times)	**3.0**	3.1
♦ Cash position	**478,454**	457,118
♦ Cash flows from Operations	**73,805**	65,601

* *for identification purpose only*

INTERIM RESULTS

The board ("Board") of directors ("Directors") 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 2009 (the "Review Period"), together with the comparative figures for the corresponding period of 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	*4*	**587,994**	600,125
Cost of sales		**(482,430)**	(456,852)
Gross profit		**105,564**	143,273
Other revenue		**3,330**	6,657
Selling and distribution expenses		**(35,317)**	(16,220)
Administrative expenses		**(39,807)**	(36,100)
Impairment loss on intangible assets	*10, 14*	**(16,594)**	–
Other operating expenses		**(75)**	(3,004)
Profit from operations	*5*	**17,101**	94,606
Finance costs		**(120)**	(476)
Profit before taxation		**16,981**	94,130
Taxation	*6*	**(4,540)**	(4,117)
Profit for the period		**12,441**	90,013
Attributable to:–			
Equity holders of the Company		**16,428**	87,541
Non-controlling interests		**(3,987)**	2,472
		12,441	90,013
Dividends	*7*	**–**	–
Earnings per share			
– basic (RMB cents)	*8*	**1.60**	8.82
– diluted (RMB cents)	*8*	**1.58**	8.73

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit for the period	**12,441**	90,013
Other comprehensive income for the period		
Exchange differences arising on translation of the financial statements of foreign subsidiaries	**(62)**	(2,906)
Total comprehensive income for the period	**12,379**	87,107
Total comprehensive income attributable to:		
Equity holders of the Company	**16,361**	84,635
Non-controlling interests	**(3,982)**	2,472
	12,379	87,107

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2009

	Note	**30.6.2009**	31.12.2008
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Non-current assets			
Property, plant and equipment	*9*	**296,199**	276,186
Prepaid lease payments – non current portion		**11,856**	11,985
Intangible assets	*10, 14*	**203,193**	224,983
Deferred tax assets		**1,675**	1,675
		512,923	514,829
Current assets			
Due from a related party		**2,340**	938
Inventories		**215,857**	178,025
Trade and notes receivables	*11*	**257,390**	318,781
Prepaid lease payments – current portion		**258**	258
Prepayments, deposits and other receivables		**92,628**	61,466
Current tax recoverable		**6,089**	6,450
Pledged bank deposits		**126,935**	105,942
Bank balances and cash		**351,519**	351,176
		1,053,016	1,023,036
Current liabilities			
Due to a related party		**1,450**	3,877
Trade and notes payables	*12*	**269,605**	257,642
Provision for warranty		**3,767**	3,683
Other payables, receipt in advance and accrued charges		**38,794**	44,184
Current tax payable		**1,326**	–
Bank loans – current portion		**34,276**	7,279
		349,218	316,665
Net current assets		**703,798**	706,371
Total assets less current liabilities		**1,216,721**	1,221,200
Capital and reserves			
Share capital	*13*	**103,014**	102,134
Reserves		**1,033,655**	1,035,710
Equity attributable to equity holders of the Company		**1,136,669**	1,137,844
Non-controlling interests		**78,856**	82,838
Total equity		**1,215,525**	1,220,682
Non-current liabilities			
Bank loans – non-current portion		**296**	518
Deferred tax liabilities		**900**	–
		1,196	518
Total equity and non-current liabilities		**1,216,721**	1,221,200

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

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 Main Board 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 2009 (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 2008, except for the adoption of the following interpretations:–

IAS 1(Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 32 & IAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Share-Based Payment – Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation

On 1 January 2009, the Group adopted the revised IAS 1 "Presentation of Financial Statements". The adoption of this revised standard has no effect on the results reported in the Group's interim condensed consolidated financial statements. It does, however, result in certain presentational changes in the Group's primary financial statements, including:

– the adoption of the revised title "Statement of financial position" for the "Balance sheet"; and

– the presentation of all items of income and expenditure in two financial statements, the "Income statement" and "Statement of comprehensive income".

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 Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

IFRS 1 (Amendment)	Additional Exemption for First-time Adoptors[1]
IFRS 2 (Amendment)	Group Cash-Settled Share-based payment Transactions[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS 39 (Amendment)	Eligible Hedged Items[2]
IFRS 3 (Revised)	Business Combinations[2]
IFRIC 17	Distributions of Non-Cash Assets to Owners[2]
IFRIC 18	Transfers of Assets from Customers[3]

1 Effective for annual periods beginning on or after 1 January 2010
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for transfers 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 revenues and results about these businesses are presented as follows:

For the six months ended 30 June 2009

	Own-brand business *RMB'000*	**OEM business** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenues (revenues from external customers)	416,476	134,503	37,015	587,994
Segment results	46,118	(4,049)	46	42,115
Unallocated income				1,183
Unallocated expenses				(26,197)
Finance costs				(120)
Profit before taxation				16,981
Taxation				(4,540)
Profit for the period				12,441

For the six months ended 30 June 2008

	Own-brand business *RMB'000*	**OEM business** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenues (revenues from external customers)	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

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	
	2009	2008
	RMB'000	*RMB'000*
Profit from operations is arrived at after charging (crediting): –		
Operating lease rentals – office premises	**4,771**	3,582
Depreciation of property, plant and equipment	**19,164**	15,381
Amortisation of sales counter decoration	**21,895**	3,925
Amortisation of intangible assets	**5,196**	126
Impairment loss on intangible assets	**16,594**	–
Research and development costs	**10,762**	7,948
(Reversal of allowance)/allowance for bad and doubtful debts	**(182)**	3,488
Allowance for prepayments	**450**	–
Foreign exchange (gain)/loss	**(126)**	1,520
Interest income	**(2,612)**	(2,643)

6. TAXATION

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax		
Tax for the period	**3,640**	4,117
Deferred tax		
Origination of temporary differences in respect of deferred tax assets	**900**	–
	4,540	4,117

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 has decided not to recommend any interim dividend to preserve cash for the working capital requirement of the business. No dividend was declared for the six months period ended 30 June 2008.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
Earnings for the purpose of basic earnings per share (Profit for the period attributable to the equity holders of the Company)	**16,428**	87,541
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,025,371,412**	992,001,246
Effect of dilutive potential ordinary shares		
– share option	**7,041,000**	7,149,000
– consideration shares to be issued for the acquisition of a subsidiary	**6,629,834**	3,934,426
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,039,042,246**	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 RMB185,000 (six months ended 30.6.2008: RMB13,973,000), electronic equipment, furniture and fixtures at a cost of approximately RMB1,126,000 (six months ended 30.6.2008: RMB6,417,000), motor vehicles at a cost of approximately RMB741,000 (six months ended 30.6.2008: RMB439,000), moulds at a cost of approximately RMB39,000 (six months ended 30.6.2008: RMB4,755,000), leasehold improvements at a cost of approximately RMB36,031,000 (six months ended 30.6.2008: RMB27,744,000) and additions to construction in progress of approximately RMB23,016,000 (six months ended 30.6.2008: RMB23,745,000).

10. INTANGIBLE ASSETS

Intangible assets mainly comprise goodwill, trade names and patents, distribution network and other intangible assets arising from the acquisition of a subsidiary, Chaolitong Technology Company Limited ("CLTT") (see note 14 below for details).

As at 30 June 2009, goodwill arising from the acquisition with net carrying amount of approximately RMB16,649,000 (31.12.2008: RMB22,849,000) is attributable to CLTT's anticipated revenue growth, profitability, future market development and the anticipated future operating synergies from the combination. During the Review Period, an impairment loss on goodwill of RMB6,200,000 was charged to the current period income statement.

As at 30 June 2009, the net carrying amount attributable to trade names and patents is approximately RMB95,788,000 (31.12.2008: RMB106,182,000) comprised 7 trade names and 3 patents owned by CLTT. 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. During the Review Period, an impairment loss on trade names and patents of RMB10,394,000 was charged to the current period income statement.

As at 30 June 2009, distribution network with net carrying amount of approximately RMB87,898,000 (31.12.2008: RMB92,781,000) represents the strong sales network of CLTT, covering second tier and third tier cities, towns and villages in the PRC. It is expected that CLTT's distribution network will offer positive growth prospect for the Group and augment the present insufficiency of the Group's distribution channels in such regions.

As at 30 June 2009, other intangible assets arising from the acquisition comprised non-compete agreements with net carrying amount of approximately RMB175,000 (31.12.2008: RMB262,000), employee contracts with net carrying amount of approximately RMB35,000 (31.12.2008: RMB47,000) and domain names with net carrying amount of approximately RMB50,000 (31.12.2008: RMB62,000).

In addition, intangible assets include software with net carrying amount of approximately RMB2,598,000 as at 30 June 2009 (31.12.2008: RMB2,800,000).

The Group carries out 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.

The accumulated amortisation and impairment losses for intangible assets totalled approximately RMB27,684,000 as at 30 June 2009 (31.12.2008: RMB5,893,000).

11. TRADE AND NOTES RECEIVABLES

	30.6.2009	31.12.2008
	RMB'000	*RMB'000*
Trade receivables	**244,930**	301,218
Notes receivables	**16,244**	37,017
	261,174	338,235
Less: Allowance for bad and doubtful debts	**(3,784)**	(19,454)
	257,390	318,781

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

	30.6.2009	31.12.2008
	RMB'000	*RMB'000*
0 to 60 days	**203,177**	200,344
61 to 180 days	**49,228**	116,995
181 to 365 days	**4,698**	1,441
1 to 2 years	**287**	1
	257,390	318,781

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

12. TRADE AND NOTES PAYABLES

	30.6.2009	31.12.2008
	RMB'000	*RMB'000*
Trade payables	**107,216**	123,148
Notes payables	**162,389**	134,494
	269,605	257,642

An aged analysis of trade and notes payables as at the reporting date is as follows:-

	30.6.2009	31.12.2008
	RMB'000	*RMB'000*
0 to 60 days	**134,985**	120,863
61 to 180 days	**113,564**	118,701
181 to 365 days	**8,519**	9,931
1 to 2 years	**10,861**	8,040
2 to 3 years	**1,630**	87
Over 3 years	**46**	20
	269,605	257,642

Trade and notes payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases ranged from 45 to 90 days.

13. SHARE CAPITAL

	30.6.2009	31.12.2008
	RMB'000	*RMB'000*
Authorised:-		
5,000,000,000 ordinary shares of HK$0.10 each	**502,350**	502,350
Issued and fully paid:-		
1,032,001,246 ordinary shares (31.12.2008: 1,022,001,246 ordinary shares)	**103,014**	102,134

14. ACQUISITION OF A SUBSIDIARY

Acquisition of Chaolitong Technology Company Limited ("CLTT")

	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**
Non-controlling interests	**(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 Chaolitong Electronics Company Limited ("CLTE") to CLTT. The purchaser is a company ultimately owned as to 70% by the Company and 30% by the Vendor. The total consideration ("Consideration") for the acquisition of Sale Interest and Sale Assets is an amount up to RMB245,000,000.

During 2008, approximately RMB37,230,000 and approximately RMB36,339,000 have been paid for the purchase of the Sale Interest and the Sale Assets respectively. 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 in cash as part of the consideration pursuant to the Agreement. The remaining balance of up to RMB116,770,000 will be satisfied by the issue of at least 30 million and no more than 60 million consideration shares at HK$2.05 per share (the "Consideration Shares") if the net profit after taxation ("NPAT") 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. On 29 April 2009, the Company received the audited accounts of CLTT for the year ended 31 December 2008 reporting the NPAT for the financial year ended 31 December 2008 was approximately RMB52.2 million, exceeding RMB50 million being the NPAT target of CLTT for the financial year ended 31 December 2008. Pursuant to the Agreement, the Company issued and allotted 10 million Consideration Shares to the Vendor on 30 April 2009 at HK$2.05 per share. 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.

Since 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 with net carrying amount of approximately RMB16,649,000 (31.12.2008: RMB22,849,000) which is attributable to CLTT's 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 RMB8,300,000 to the Group's profit for the Review Period (six months ended 30.6.2008: RMB5,374,000).

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW AND DEVELOPMENT

In the first half of 2009, the world economy continued to be affected by the global financial crisis. With declining consumer confidence and purchasing power, the operating environment became more challenging. The fierce competition in the industry led to substantial pressure on the gross margin of our products, affecting the overall performance of the Group during the Review Period.

Beginning from mid-2009, signs of recovery were witnessed and the global economy started rebounding from the trough, particularly the economy of the People's Republic of China ("China" or "PRC"). According to preliminary data from the National Bureau of Statistics, the gross domestic product ("GDP") of China increased 7.9% in the second quarter of 2009, representing an increase of 1.8% from the first quarter of 2009. The rebound of the GDP is a good indicator that the recovery of the economy is underway. In addition, the Chinese government launched a major economic stimulus package which should be a key driver for growth across a broad range of industries, including the telecommunication industry.

According to the statistics on the operations of the telecommunication industry in China published by the Ministry of Industry and Information Technology of China in June 2009, the development of the entire telecommunication industry was steady; the accumulated business volume of the telecommunication industry in China was RMB1,224.03 billion, representing an increase of 11.8% as compared to the same period last year; the accumulated income from the core business of telecommunication was RMB405.59 billion, representing an increase of 2.3% as compared to the same period last year. Meanwhile, the Ministry of Industry and Information Technology of China also published the penetration rate of mobile phones in different provinces. The statistics show that Shanghai has the highest penetration rate, with 107.5 units per one hundred people, meaning that every person had one handset on average, some even used more than one handset. Beijing followed with 104.4 units per one hundred people and the number in Guangdong Province was 88.8 units per one hundred people. It reflected the trend of significant increase in the popularity of mobile phones. In the first half of 2009, the income from voice and data communications in China increased 10.8% and 6.7% respectively when compared with the corresponding period in 2008. The steady increase in mobile phones sales in China has also boosted the sales of rechargeable batteries.

Among the Top 100 Enterprises in Electronic Information announced at the 23rd Industry Conference in 2009 ("Conference"), the top-tier enterprises on the list of 100 companies, such as Huawei and Lenovo, are also major OEM customers of the Company. At the Conference, it was pointed out that the effects and benefits from the Chinese government's subsidies on electronic home appliances for rural areas as well as the development of the 3G network have emerged, leading to positive changes to the telecommunication industry.

According to the Chinese government's forecast, it is expected that total subsidies on electronic home appliances for rural areas are likely to grow to RMB15 billion in 2009 from RMB9 billion in 2008, which is likely to translate into approximately RMB100 billion in total domestic demands. The Ministry of Finance is improving the policy of subsidizing electronic home appliances to rural areas. The price ceiling on products adopted currently will be replaced by the maximum amount of the subsidy granted. As such, rural consumers can also apply for government subsidies when purchasing high-end electronic home appliances, which should stimulate substantial growth in demand.

Furthermore, the issuance of 3G licenses has promoted demand for mobile phones and notebook computers. According to the 24th China Internet Development Statistics Report by the Ministry of Industry and Information Technology of China in August 2009, the number of people who used their mobile phone to access the Internet increased 32.1% to 155 million in the first six months of 2009 and accounted for 46% of all Internet users in China. During the first half of 2009, investment in 3G made by the three major telecommunications enterprises in China amounted to approximately RMB80 billion. According to the Report of the Operations of the Telecommunication Industry in China from January to June of 2009, the total investment in 3G will amount to approximately RMB170 billion for 2009. Companies have also accelerated the development of the 3G network, significantly expanding the overall network coverage. In China, there are currently 661 cities and a majority of them are now covered by the network. The rapid development of 3G provides tremendous growth potential for mobile phone and notebook computer related businesses.

To adjust and revitalize the comprehensive development of the electronic information industry in China, the Chinese government has introduced a number of key policies, including:

1. Implement measures to boost domestic demand: Leveraging on the building of national economy and social information as well as the implementation of policies on electronic home appliances for rural areas and plans on the restructuring and revitalization of other key industries, to further expand the development of electronic information sector, support the construction of the 3G network, drive the development of electronic information products and related services and lead the enterprises in China to supplement each other.

2. Increase the central government's involvement: The new investment by the central government will shift toward the electronic information sector, to increase and guide the capital investment and implement key projects, including TD-SCDMA and 3G and increase the investment in information technology.

3. Further expand into the international market: continuously and moderately increase the export tax rebate for most electronic information products and provide additional support, particularly export credit, to SMEs in the electronic information sector.

To conclude, under the combined effect of global economic recovery, increase in popularity of mobile phones, the "subsidies on electronic home appliances for rural areas" policy, rapid development of the 3G network, adjustment for the electronic information industry and revitalization planning, the usage of mobile phones and the demand for rechargeable batteries have increased, thus creating significant business opportunities for SCUD, the largest mobile phone rechargeable batteries manufacturer in China.

BUSINESS REVIEW

Although the economic downturn led to short-term interruption to our business, it did accelerate the consolidation of the industry as smaller operators are being forced out of business, creating further growth potentials for the Group. As the leading mobile phone rechargeable batteries manufacturer in China, our competitive edge forms the strongest foundation for the future development of our business. Our key competitive advantages can be summarised as follows:

1. **Leading position in the industry**

   Since the acquisition of "Chaolitong超力通", the scope of our own-brand business has expanded further from mid/high-end market to include rural areas of high growth potential. Following the acquisition, our market share increased from 12% to 20%, and the Group plans to increase that further to above 30% within three years.

2. **Product quality assurance**

   The Group is highly concerned about accidents involving batteries in the market. We have put in place stringent quality assurance process to ensure the safety of our products. The quality of "Chaolitong超力通" branded products was improved by leveraging SCUD's technology, which helped to boost consumers' confidence in batteries produced domestically.

3. **Synergies between brands**

   "SCUD飛毛腿" is a renowned and popular brand in China. "SCUD飛毛腿" brand focuses on mid and high-end mobile phone batteries while "Chaolitong超力通" targets the mid to low-end range. The combination of the two brands allows our production lines to focus on manufacturing certain types of batteries, avoid duplication of resources, achieve economies of scale as well as greater bargaining power when sourcing materials. This demonstrates the synergies on operating efficiency realized from the combination of the two major brands.

4. **Extensive sales network**

   The sales network of the Group is comprised mainly of distributors and point of sales. As at 30 June 2009, the Group had a total of over 500 first tier distributors, with more than 50,000 points of sales. Through optimising its sales network continuously, the Group has enhanced its operating efficiency significantly and established an excellent brand image. Our network has also been extended to rural areas, where penetration of mobile phones is still low.

   As the entry barrier for low-end market is low, competition in the market is fierce. As such, the Group actively expanded its coverage on high-end products and expedited the integration of the "SCUD飛毛腿" brand into the "Chaolitong超力通" network, enabling our products to expand into different market segments within the shortest timeframe.

5. Stable supply of key material

Battery cells are the core components in the production of notebook computer batteries. The demand for notebook computers has been continuously growing in recent years, spurring the demand for batteries used in notebooks. During the Review Period, the Group continued its cooperation with Sanyo Corporation of Japan, the largest manufacturer of lithium batteries in the world, in supplying lithium battery cells to the Group for the production of batteries for notebook computers, which secures a stable supply of battery cell to the Group.

OUTLOOK AND PROSPECTS

Although the operating environment has been adversely affected by the global financial crisis, the Group's business performance in the second quarter of the year improved dramatically following the gradual recovery of the domestic economy during the year. We believe our fundamental business will remain solid and our growth momentum in the second quarter will be sustained throughout the second half of 2009. In future, the Group will focus our resources on the following aspects:

1. Integrate production facilities and enhance operating efficiency

During the months after the completion of the acquisition of "Chaolitong超力通", the Group had been committed to optimising its sales network, strengthening its network capability and accelerating market integration. The expected synergies gradually realized. Going forward, we will continue to integrate our production facilities in Fuzhou and Shenzhen and readjust our product mix to further enhance operating efficiency and reduce cost.

2. Expand mid to high-end market to increase market share

Since the mid and high-end markets were able to achieve organic growth despite the economic downturn, the Group will continue to allocate additional resources to further develop these two market segments. Our plan is to gradually strengthen our marketing efforts in respect of our mid and high-end products under the "SCUD飛毛腿" brand in our low and mid-end market, which has been established through our "Chaolitong超力通" brand, within the next 5 years. Once this strategy successfully implemented, the percentage of the sales of mid and high-end products can be further increased, gross profit of the Group can be further improved, and our market share can be expected to increase to over 30% in the coming three years.

3. Enhance brand image and strengthen sales network

To establish an outstanding brand image, the Group has refurbished a total of 6,000 sales counters. This will enhance our brand name and also attract new distributors and retailers to join in. Meanwhile, the Group will strictly monitor the performance of distributors. Distributors with unsatisfactory performance will be replaced so as to strengthen our sales network.

4. Enlarge product offerings through R&D to expand revenue base

In addition to consolidating existing battery business for mobile phone, the Group will actively upgrade its research and development ("R&D") capability and develop new battery products for portable electronic devices to expand our revenue base.

5. **Upstream expansion to pave the way for future development**

The Group determined to develop the upstream battery cell business. This will not only strengthen our control in the value chain, but also will enable the Group to master and improve the core technology of battery cell production, laying a solid foundation for the Group's future development. Furthermore, moving up in the value chain can reduce the Company's dependence on suppliers, enhance flexibility in the Company's production cost control which should improve margins and strengthen the Company's overall competitiveness.

6. **Promising prospects of 3G mobile phones will drive demand for rechargeable battery**

Following the restructuring of telecommunications operators in China in mid 2008 and the issuance of 3G licences in the beginning of 2009, the 3G mobile phone market has tremendous growth potential. It is expected that the number of domestic 3G users will increase significantly after network constructions are completed. This will drive the demand for rechargeable batteries in long-run. In addition, government policies that focus on stimulating domestic growth, including "electronic home appliances for rural area" and construction of 3G network, should be beneficial to the Group.

Looking forward to the second half of 2009, leveraging its leading position in the industry, and a sound financial position, excellent product quality, brand name and a large OEM customer base, together with a good position in upstream expansion, the Group believes that it can capture opportunities arising from the improved international and domestic markets, recover rapidly from the financial crisis and create better return for shareholders of the Company ("Shareholders").

FINANCIAL REVIEW

As a result of the adverse market conditions caused by the global financial tsunami, the Group encountered a weakening demand particularly for the Group's OEM products as a result of decreased orders from customers and intensified market competition in China. The consolidated turnover of the Group for the six months ended 30 June 2009 decreased by approximately 2.0% to approximately RMB588.0 million, as compared to the six months ended 30 June 2008. Gross profit for the first half of 2009 was approximately RMB105.6 million, representing a decline of approximately 26.3% against the same period in 2008. The profit attributable to the equity holders was approximately RMB16.4 million (2008: RMB87.5 million). The Group recorded a EBITDA of approximately RMB63.5 million for the Review Period, representing a decrease of approximately 40.8% as compared to the EBITDA of approximately RMB107.3 million for the same period in 2008. Earnings per share for the Review Period was approximately RMB1.60 cents (2008: RMB8.82 cents per share).

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. During the Review Period, sales of mobile phone rechargeable batteries and notebook computer batteries has contributed sales of approximately RMB426.7 million and approximately RMB63.1 million respectively, which represents approximately 72.6% and approximately 10.7% of the Group's consolidated turnover respectively. The acceleration of the development of notebook computers in the PRC and the popularity of Netbook, provided attractive growth potentials for the Group's information technology sector.

Segment Results

For the first half of 2009, key growth in revenue still came from the Group's own-brand business. Turnover attributable to the Group's own-brand business increased by approximately 6.9% to approximately RMB416.5 million from approximately RMB389.7 million for the corresponding period of 2008.

The revenue generated from its own-brand business segment as a percentage of the Group's turnover increased to approximately 70.8% in the first half of 2009 (2008: 64.9%). The growth in own-brand business was mainly contributed by the growth in sales of mobile phone rechargeable batteries, which increased by approximately RMB16.8 million or approximately 4.7% as compared to the corresponding period of 2008. Sales volume of own-brand mobile phone rechargeable battery increased by approximately 3.4 million pieces to a total of approximately 22.8 million pieces. Approximately 82.0% (2008: 95.3%) of the Group's own-brand products were sold in the PRC market under the "SCUD 飛毛腿" brand and the remaining approximately 18.0% (2008: 4.7%) were sold under the "Chaolitong 超力通" brand. Despite the uncertain economic conditions, the "SCUD 飛毛腿" brand remains as a relatively strong market leader in the high-end business segment backed by SCUD飛毛腿's well established brand recognition and product quality. However, the low-end business segment has been continually affected by the pricing pressure in a competitive environment. Management is confident in the longer-term prospects of the Group and is laying solid foundations for future growth in the low-end market.

For the OEM business, revenue generated from the OEM segment fell by approximately 29.4% to approximately RMB134.5 million as the OEM segment was suffering from the effect of global recession and the slowdown in the global mobile phone market. During the Review Period, the Group recorded a 10.4% growth in the sale of OEM notebook computer batteries as compared with the same period in 2008. However, the sale of OEM mobile phone batteries decreased by approximately RMB70.4 million or approximately 55.9% as many exporters had scaled down their orders due to the global economic slowdown. Hence, the OEM business recorded a net loss of approximately RMB4.0 million during the Review Period as a result of the falling demand and reduced margin. The percentage of the Group's OEM business accounted for approximately 22.9% of the Group's turnover in the first half of 2009 (2008: 31.8%).

Cost of Sales

During the Review Period, the Group's cost of sales amounted to approximately RMB482.4 million (2008: RMB456.9 million), representing an increase of approximately 5.6% as compared to the corresponding period of 2008. Direct materials, direct labour and other production costs accounted for approximately 89.6% (2008: 89.9%), approximately 3.6% (2008: 3.7%) and approximately 6.8% (2008: 6.4%) of the cost of sales.

Gross Profit and Gross Margin

During the Review Period, the overall gross margin reduced by approximately 3.1% from approximately 21.1% for the year of 2008 to approximately 18.0% for the first half of 2009. Decrease in gross margin during the six months period ended 30 June 2009 was mainly due to the drop in demand for the Group's OEM products and the intensified competition in the rechargeable battery market as a result of adverse market conditions.

For the Group's own-brand business, gross margin for the Review Period was approximately 20.4%, down by approximately 3.8% against the full year of 2008.

The market for lower-end rechargeable battery products was particularly affected by the adverse market conditions caused by the global financial crisis when certain mainland OEM battery manufacturers of lower-end battery products switched from export-oriented businesses to domestic sales instead; therefore, competition in the mainland market intensified over the first six months of 2009. Since the "Chaolitong 超力通" brand mainly focuses on the development and production of low-end series rechargeable products with lower margin, the own-brand business's gross margin was inevitably declined under such competitive business environment in the PRC.

For the OEM business, in light of the fierce competition and margin erosion in the global mobile phone market, gross margin was approximately 15.2% for the first half of 2009 representing a decrease of approximately 3.8% from the full year of 2008. The decline in demand for the Group's OEM products was primarily due to the drop in sales of the export-oriented customers who were affected by the adverse market conditions caused by the global financial crisis.

Profit Attributable to Equity Holders

For the six months ended 30 June 2009, the Group recorded profit attributable to equity holders of the Company of approximately RMB16.4 million (2008: RMB87.5 million) while the margin of profit attributable to equity holders of the Company was approximately 2.8% (2008: 14.6%).

As a result of the adverse market conditions caused by the global financial tsunami, the competition in the low-end rechargeable batteries market remained fierce as the entry barrier for low-end market is low, cutting into the gross margin of "Chaolitong 超力通" products during the Review Period. As at 30 June, 2009, an impairment loss on the trade names of "Chaolitong 超力通" and the goodwill arose from the acquisition of "Chaolitong 超力通" with an aggregate amount of RMB16,594,000 was charged to the current period income statement. Hence, the significant increase in operating expenses during the Review Period was mainly contributed by the impairment loss arising from the investment in "Chaolitong 超力通".

The Group recorded administrative expenses of approximately RMB39.8 million (2008: RMB36.1 million) which accounted for approximately 6.8% of the turnover for the first half of 2009 (2008: 6.0%). Administrative expenses mainly comprises depreciation of approximately RMB19.2 million (2008: RMB15.4 million), research and development expenses of approximately RMB10.8 million (2008: RMB7.9 million) and approximately RMB5.2 million (2008: RMB0.1 million) being the amortisation of intangible assets which mainly arising from acquisition of "Chaolitong 超力通". As the acquisition was completed in June 2008, there was no such amortization for the first half of 2008.

Selling and distribution expenses of approximately RMB35.3 million (2008: RMB16.2 million) accounted for approximately 6.0% of the turnover for the first half of 2009 (2008: 2.7%). The increase in selling and distribution expenses was mainly attributable to the costs incurred on the enhancement to the Group's sales network. The Group has been renovating certain sales counters since 2007. The number of sales counters subject to renovation has been increasing over the years, leading to a gradual increase in the accumulated renovation cost. As such, amortization cost incurred in the first half of 2009 increased substantially as compared to the amount incurred in the same period of 2008. As of 30 June 2009, renovation work on 6,000 sales counters has been completed at a total cost of approximately RMB102.3 million. Hence, the selling and distribution expense, including the amortization of the renovation costs, was approximately RMB21.9 million (2008: RMB3.9 million). Furthermore, the marketing and advertising expense was approximately RMB7.2 million (2008: RMB 5.8 million).

Other revenue for current period mainly comprises bank interest income.

Liquidity and Financial Resources

Despite economic and market uncertainties, the Group continued to maintain a strong liquidity position with low gearing and healthy cash flow which enabled the Group to strengthen its competitive position. The Group generated a net cash inflow from operating activities of approximately RMB73.8 million for the six months ended 30 June 2009, compared with approximately RMB65.6 million for the corresponding period in 2008. The Group's cash and bank balances and pledged bank deposits as at 30 June 2009 amounted to approximately RMB478.5 million (as at 31 December 2008: RMB457.1 million). The Group's bank borrowings outstanding as at 30 June 2009 amounted to approximately RMB34.6 million (as at 31 December 2008: RMB7.8 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 RMB1,215.5 million (as at 31 December 2008: RMB1,220.7 million) was 2.8% as at 30 June 2009 (as at 31 December 2008: 0.6%). In addition, the Group has restricted short term bank deposits of approximately RMB127.0 million (as at 31 December 2008: RMB105.9 million).

As at 30 June 2009, the Group's current ratio was approximately 3.0 times (as at 31 December 2008: 3.2 times) based on current assets of approximately RMB1,053.0 million (as at 31 December 2008: RMB1,023.0 million) and current liabilities of approximately RMB349.2 million (as at 31 December 2008: RMB316.7 million).

Trade and notes receivable turnover days were approximately 89.7 days for the six months ended 30 June 2009 as compared to approximately 74.3 days for the year ended 31 December 2008. Inventory turnover days were approximately 74.7 days for the six months ended 30 June 2009 as compared to approximately 60.4 days for the year ended 31 December 2008. Trade and notes payable turnover days were approximately 100.1 days for the six months ended 30 June 2009 as compared to approximately 77.1 days for the year ended 31 December 2008.

Net Current Assets and Net Assets

The Group's net current assets as at 30 June 2009 was approximately RMB703.8 million, slightly decreased by 0.4% from the balance of approximately RMB706.3 million recorded as at 31 December 2008. Net assets as at 30 June 2009 was approximately RMB1,215.5 million, dropped by approximately RMB5.2 million over the balance as at 31 December 2008.

Pledge of Assets

As at 30 June 2009, bank loans of approximately RMB0.7 million (as at 31 December 2008: RMB1.0 million) were secured by the Group's motor vehicles with a carrying amount of approximately RMB2.5 million (as at 31 December 2008: RMB2.6 million), bank loans of USD1.0 million were secured by an equivalent amount of Chinese Renminbi and notes payable of RMB7.3 million were secured by an equivalent amount of notes receivable.

Commitments

During the Review Period, 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 2009 amounting to approximately RMB101.3 million (as at 31 December 2008: RMB137.9 million) was mainly associated with the expansion of existing capacity and the construction of the new production plant in Fuzhou.

Contingent Liabilities

As at 30 June 2009, the Group has not provided for 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 were required.

Capital Structure

During the six months period ended 30 June 2009, as part of the consideration pursuant to a sale and purchase agreement dated 12 December 2007 for the acquisition of "Chaolitong 超力通", further details of which are set out in the Company's circular to Shareholders dated 11 January 2008 and the Company's announcements dated 9 June 2008, 7 September 2008 and 29 April 2009, the Company issued and allotted 10,000,000 ordinary shares of par value HK$0.10 each at HK$1.18 each to the vendor, Mr. Ma

Yuk Sang, on 29 April 2009, since the net profit after taxation target of Chaolitong Technology Company Limited ("CLTT") had been met for the financial year ended 31 December 2008. Consequently, the issued share capital of the Company was increased by approximately HK$11.8 million (represented by 10,000,000 ordinary shares) to approximately HK$114.0 million (represented by 1,032,001,246 ordinary shares).

Foreign Exchange Exposure

For the six months ended 30 June 2009, 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 period under review. 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 30 June 2009, the Group had 3,460 full-time employees (as at 31 December 2008: 3,730). 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 30 June 2009, 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 (as at 31 December 2008: 16,429,000 shares), representing approximately 1.6% (2008: approximately 1.6%) of the shares of the Company in issue at that time. Since the adoption of the Scheme and as at 30 June 2009, no share option has been granted or exercised under such Scheme.

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 30 June 2009, the Group has utilized approximately RMB116.9 million (equivalent to approximately HK$132.6 million) on the expansion of production capacity and plant construction, approximately RMB114.2 million (equivalent to approximately HK$129.5 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 RMB86.7 million (equivalent to approximately HK$98.4 million) were mainly used as daily working capital and held as deposits with banks in the PRC.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR CONVERTIBLE BONDS

At no time during the six months ended 30 June 2009 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 has decided not to recommend any interim dividend to preserve cash for the working capital requirements of the business (2008 Interim: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

During the six months ended 30 June 2009, neither the Company nor any of its subsidiaries purchased, sold or redeemed interest in any of the Company's listed securities.

CODE ON CORPORATE GOVERNANCE PRACTICES

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 of Hong Kong Limited ("Stock Exchange") throughout the six months ended 30 June 2009.

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 Company confirmed that all Directors have complied with the required standard as set out in the Model Code throughout the six months ended 30 June 2009.

POST BALANCE SHEET DATE EVENT

Other than as stated in this announcement, there have been no material changes or important events affecting the Group since 30 June 2009.

AUDIT COMMITTEE

The Audit Committee comprises three independent non-executive Directors namely, Dr. Loke Yu, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang, and one non-executive Director, Mr. Ho Man, and reports to the Board. The Audit Committee has reviewed with management the unaudited financial information and interim results of the Company for the six months ended 30 June 2009 before they presented the same to the Board for approval.

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 Certified Public Accountants, 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.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE AND THE COMPANY

The interim report for the six months ended 30 June 2009 containing all the information as required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the website of the Stock Exchange as well as the Company's website at www.scudcn.com in due course.

ACKNOWLEDGEMENT

The Chairman of the Company would like to thank the Board, management and all members of our staff for their dedication and loyalty. The Chairman of the Company 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, 2 September 2009

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

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