SCUD GROUP LIMITED
飛毛腿集團有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01399)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

FINAL RESULTS HIGHLIGHTS

Financial Highlights

(RMB thousand except where otherwise stated)

		2009	2008
•	Turnover	**1,264,869**	1,252,693
•	Profit attributable to equity holders	**46,837**	131,954
•	EBITDA	**152,261**	199,128
•	Earnings per share		
	– Basic (RMB cents)	**4.55**	13.18
	– Diluted (RMB cents)	**4.51**	13.01
•	Proposed final dividend per share (HKD cents)	**2.0**	2.0
•	Cash position	**481,795**	457,118
•	Gross profit margin (%)	**18.1**	21.1
•	Current ratio (times)	**4.0**	3.2
•	Total debt to equity ratio (%)	**0.9**	0.6

* *For identification purpose only*

The board of directors (the "Board") of SCUD Group Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2009, together with the comparative figures for the year ended 31 December 2008 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2009

	Note	**2009** *RMB'000*	2008 *RMB'000*
Turnover	*4*	**1,264,869**	1,252,693
Cost of sales		**(1,035,755)**	(988,853)
Gross profit		**229,114**	263,840
Other revenue	*5*	**6,731**	19,206
Selling and distribution expenses		**(77,571)**	(43,398)
Administrative expenses		**(100,016)**	(90,175)
Other operating expenses		**(1,954)**	(6,286)
Profit from operations	*6*	**56,304**	143,187
Finance costs	*7*	**(1,390)**	(830)
Profit before taxation		**54,914**	142,357
Taxation	*8*	**(8,996)**	(72)
Profit for the year		**45,918**	142,285
Attributable to:			
Equity holders of the Company		**46,837**	131,954
Non-controlling interests		**(919)**	10,331
		45,918	142,285
Dividends	*9*	**18,173**	18,026
Earnings per share			
– basic (RMB cents)	*10*	**4.55**	13.18
– diluted (RMB cents)	*10*	**4.51**	13.01

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	2008
	RMB'000	*RMB'000*
Profit for the year	**45,918**	142,285
Other comprehensive income for the year		
Exchange differences arising on translation of the financial statement of foreign subsidiaries	**(314)**	(15,012)
Total comprehensive income for the year	**45,604**	127,273
Total comprehensive income attributable to:		
Equity holders of the Company	**46,504**	116,909
Non-controlling interests	**(900)**	10,364
	45,604	127,273

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Note	2009 RMB'000	2008 RMB'000
Non-current assets			
Property, plant and equipment	11	**258,148**	276,186
Prepaid lease payments – non-current portion		**11,727**	11,985
Intangible assets	12	**187,577**	224,983
Deferred tax assets		**572**	1,675
		458,024	514,829
Current assets			
Due from a related party		**2,335**	938
Inventories	13	**159,117**	178,025
Trade and notes receivables	14	**278,238**	318,781
Prepaid lease payments – current portion		**258**	258
Prepayments, deposits and other receivables	15	**111,726**	61,466
Current tax recoverable		**7,146**	6,450
Pledged bank deposits		**90,911**	105,942
Bank balances and cash		**390,884**	351,176
		1,040,615	1,023,036
Current liabilities			
Due to a related party		**–**	3,877
Trade and notes payables	16	**198,777**	257,642
Provision for warranty		**4,166**	3,683
Other payables, receipts in advance and accrued charges	17	**43,959**	44,184
Current tax payable		**1,187**	–
Bank loans – current portion		**10,444**	7,279
		258,533	316,665
Net current assets		**782,082**	706,371
Total assets less current liabilities		**1,240,106**	1,221,200
Capital and reserves			
Share capital	18	**103,014**	102,134
Reserves		**1,053,180**	1,035,710
Equity attributable to equity holders of the Company		**1,156,194**	1,137,844
Non-controlling interests		**81,938**	82,838
Total equity		**1,238,132**	1,220,682
Non-current liabilities			
Bank loans – non-current portion		**74**	518
Deferred tax liabilities		**1,900**	–
		1,974	518
Total equity and non-current liabilities		**1,240,106**	1,221,200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

1. GENERAL

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 were listed on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange") on 21 December 2006.

The consolidated financial statements are presented in Chinese Renminbi ("RMB"), which is the same as the functional currency of the Company.

The Company's principal activity is investment holding. The principal activities of the Company's subsidiaries are 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 PRESENTATION

The consolidated financial statements for the year ended 31 December 2009 (the "Financial Statements") have been prepared under the historical cost convention. In addition, the consolidated 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 (Chapter 32 of the Laws of Hong Kong). The principal accounting policies and methods of computation used in the preparation of the Financial Statements are consistent with those adopted in the consolidated financial statements for the year ended 31 December 2008, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs") as explained in note 3 below.

3. PRINCIPAL ACCOUNTING POLICIES

The Financial Statements have been prepared in accordance with IFRSs, which collective term 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 and the disclosure requirements of the Hong Kong Companies Ordinance.

The Group has adopted the following new and revised IFRSs and IFRIC interpretations for the Financial Statements which are effective for accounting periods commencing on or after 1 January 2009. Except for in certain cases, giving rise to the new and revised accounting policies and additional disclosures, the adoption of these new interpretations and amendments has had no effect on these financial statements.

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 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 Group has adopted IFRS 8 Operating Segments with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to segments and to assess their performance. In contrast, the predecessor Standard (IAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as starting point for the identification of such segments.

4. SEGMENT INFORMATION

(a) Reportable segments

The Group is currently engaged in the businesses of the Group's own brand "SCUD飛毛腿" brand and "Chaolitong超力通" brand as well as original equipment manufacturing ("OEM business") and the chief operating decision makers (i.e. the Company's directors) also review the segment information of these businesses and based on it to allocate resources to segments and to assess their performance. The application of IFRS 8 has resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14, which are set out below:-

Own-brand "SCUD飛毛腿" brand – Manufacturing and sale of "SCUD飛毛腿" brand rechargeable battery packs, chargers and related accessories for mobile phones, notebook computers, digital cameras and other electronic appliances.

Own-brand "Chaolitong超力通" brand – Manufacturing and sale of "Chaolitong超力通" brand rechargeable battery packs, chargers and related accessories for mobile phones, digital cameras and other electronic appliances.

OEM – Manufacturing and sale of rechargeable battery packs, chargers and related accessories for mobile phones for branded mobile phone manufacturers within and outside China by way of OEM.

Others – Sales of raw materials.

Segment information about these businesses are presented as follows:

Segment revenue and results

	2009					2008				
	Own-brand business					Own-brand business				
	SCUD brand	**Chaolitong brand**	**OEM business**	**Others**	**Total**	SCUD brand	Chaolitong brand	OEM business	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**696,001**	**202,399**	**297,190**	**69,279**	**1,264,869**	625,679	219,376	342,171	65,467	1,252,693
Segment results	**66,327**	**(3,070)**	**(7,458)**	**(693)**	**55,106**	109,495	33,369	(4,665)	(5,994)	132,205
Unallocated income					**1,770**					19,206
Unallocated expenses					**(6,637)**					(8,224)
Finance costs					**(1,390)**					(830)
Profit before taxation					**48,849**					142,357
Taxation					**(2,931)**					(72)
Profit for the year					**45,918**					142,285

Assets and liabilities

	2009					2008				
	Own-brand business					Own-brand business				
	SCUD brand	**Chaolitong brand**	**OEM business**	**Others**	**Total**	SCUD brand	Chaolitong brand	OEM business	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment assets	**418,923**	**308,286**	**129,568**	**–**	**856,777**	394,457	361,430	200,043	–	955,930
Unallocated corporate assets										
– Current tax recoverable					**7,146**					6,450
– Pledged bank deposits					**90,911**					105,942
– Bank balances and cash					**390,884**					351,176
– Others					**152,921**					118,367
Consolidated total assets					**1,498,639**					1,537,865
Segment liabilities	**62,413**	**62,395**	**2,839**	**–**	**127,647**	80,088	125,967	246	–	206,301
Unallocated corporate liabilities					**132,860**					110,882
Consolidated total liabilities					**260,507**					317,183

Other information

	2009					2008				
	Own-brand business					Own-brand business				
	SCUD brand	Chaolitong brand	OEM business	Others	Total	SCUD brand	Chaolitong brand	OEM business	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Additions to property, plant and equipment	**27,636**	**381**	**623**	**4,565**	**33,205**	32,943	11,430	40,753	9,781	94,907
Additions to sales counter decoration (included in leasehold improvement)	**35,972**	**–**	**–**	**–**	**35,972**	66,214	–	–	–	66,214
Additions to intangible assets *(Note)*	**–**	**–**	**–**	**25**	**25**	–	227,257	–	–	227,257
Depreciation of property, plant and equipment	**11,212**	**1,460**	**8,436**	**16,752**	**37,860**	10,654	845	4,788	16,983	33,270
Amortisation of sales counter decoration (included in leasehold improvement)	**47,462**	**–**	**–**	**–**	**47,462**	17,030	–	–	–	17,030
Amortisation of intangible assets *(Note)*	**–**	**10,378**	**–**	**–**	**10,378**	–	5,383	–	–	5,383
Impairment loss on intangible assets *(Note)*	**–**	**16,594**	**–**	**–**	**16,594**	–	–	–	–	–

Note: Mainly include goodwill and other intangible assets arising from the acquisition of Chaolitong (see also note 19 for details).

(b) Geographical information

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

	2009	2008
	RMB'000	*RMB'000*
Interest income	**4,724**	4,705
Foreign exchange gain	**330**	9,567
Processing income	**1,545**	624
Investment tax refund	**–**	3,625
Sundry income	**132**	685
	6,731	19,206

6. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging (crediting):

	2009	2008
	RMB'000	*RMB'000*
Auditors' remuneration:		
– current year provision	**1,662**	2,097
– prior year underprovision/(overprovision)	**635**	(779)
Depreciation of property, plant and equipment (excluding depreciation capitalised in research and development costs of RMB6,611,000 (2008: RMB3,621,000))	**31,249**	29,649
Amortisation:		
– sales counter decoration (included in leasehold improvements)	**47,462**	17,030
– intangible assets	**10,378**	5,383
– prepaid lease payments	**258**	258
Impairment loss recognised on trade and notes receivables, prepayments, deposits and other receivables	**59**	16,772
Reversal of impairment loss recognised on trade and notes receivables, prepayments, deposits and other receivables	**(594)**	–
Loss on disposals of property, plant and equipment	**1,845**	–
Cost of inventories recognised as expenses	**1,035,755**	988,853
Operating lease rentals – office premises	**9,554**	8,282
*Impairment loss recognised on:		
– goodwill	**6,200**	–
– intangible assets	**10,394**	–
Research and development costs (net of government grant of RMB1,190,000 (2008: RMB1,440,000))	**23,551**	17,138
Staff costs	**65,948**	64,111

* *The impairment losses recognised on goodwill and intangible assets are included in "Administrative expenses" in the consolidated income statement.*

7. FINANCE COSTS

	2009	2008
	RMB'000	*RMB'000*
Interest on bank borrowings	**1,390**	443
Other finance costs	**–**	387
	1,390	830

8. TAXATION

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

	2009	2008
	RMB'000	*RMB'000*
Current tax – PRC Enterprise Income Tax		
Tax for the year	**6,065**	72
Overprovision for previous year	**(72)**	–
Deferred tax	**3,003**	–
Taxation	**8,996**	72

No provision for taxation has been made by the Company as it is not subject to tax in the Cayman Islands or 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 purposes at the rate of taxation applicable for the period.

9. DIVIDENDS

A final dividend for the year ended 31 December 2009 of HK$0.02 per share, amounting to a total final dividend of approximately RMB18,173,000 is to be proposed at the forthcoming annual general meeting of the Company. These financial statements do not reflect this dividend payable.

A final dividend for the year ended 31 December 2008 of HK$0.02 per share, amounting to a total final dividend of approximately RMB18,195,000 was paid to the shareholders during the year ended 31 December 2009.

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:

	2009	2008
	RMB'000	*RMB'000*
Earnings for the purposes of basic and diluted earnings per share (profit for the year attributable to the equity holders of the Company)	**46,837**	131,954

	Number of ordinary shares	
	2009	2008
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,028,713**	1,001,453
Effect of dilutive potential ordinary shares:		
– share options	**7,112**	7,146
– consideration shares to be issued for the acquisition of a subsidiary	**3,288**	5,671
	10,400	12,817
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,039,113**	1,014,270

11. PROPERTY, PLANT AND EQUIPMENT

	Electronic equipment, furniture and fixtures *RMB'000*	Motor vehicles *RMB'000*	Plant and machinery *RMB'000*	Moulds *RMB'000*	Construction in progress *RMB'000*	Leasehold improve–ments *RMB'000*	Total *RMB'000*
Cost							
1 January 2008	49,026	8,181	77,649	32,284	44,121	1,286	212,547
Exchange adjustment	(9)	–	–	–	(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
Additions	2,786	741	1,159	3,325	25,135	36,031	69,177
Transfer	1,697	–	224	–	(1,921)	–	–
Disposals	–	(92)	–	(7,622)	–	–	(7,714)
31 December 2009	71,329	9,845	125,747	32,843	72,152	120,381	432,297
Depreciation							
1 January 2008	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
Charge for the year	12,573	1,084	10,962	7,373	–	53,330	85,322
Transfer	(1,780)	–	1,780	–	–	–	–
Disposals	–	(28)	–	(5,793)	–	–	(5,821)
31 December 2009	42,048	4,178	30,844	20,658	–	76,421	174,149
Net book value							
31 December 2009	29,281	5,667	94,903	12,185	72,152	43,960	258,148
31 December 2008	35,591	6,074	106,262	18,062	48,938	61,259	276,186

Certain motor vehicles have been pledged by the Group in favour of a bank to secure a bank loan granted by a bank to the Group.

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 2008	–	–	–	–	–	–	3,619	3,619
Additions	–	–	–	–	–	–	80	80
Arising from acquisition of a subsidiary	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
Additions	–	–	–	–	–	–	25	25
Subsequent adjustment to the contingent consideration	–	–	–	–	–	(10,459)	–	(10,459)
31 December 2009	97,664	106,182	74	58	350	12,390	3,724	220,442
Amortisation and impairment								
1 January 2008	–	–	–	–	–	–	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
Charge for the year	9,766	–	25	23	175	–	389	10,378
Impairment loss	–	10,394	–	–	–	6,200	–	16,594
31 December 2009	14,649	10,394	37	34	263	6,200	1,288	32,865
Net carrying amount								
31 December 2009	83,015	95,788	37	24	87	6,190	2,436	187,577
31 December 2008	92,781	106,182	62	47	262	22,849	2,800	224,983

Notes:

i) Distribution network represents the sales network of the "Chaolitong超力通" brand, covering second tier and third tier cities, towns and villages in the PRC. It is expected that Chaolitong's distribution network will offer positive growth prospect for the Group and retrieved the present insufficiency of the Group's distribution channel in such region.

ii) Trade names and patents comprise 7 trade names and 3 patents held by Chaolitong. The trade name of "Chaolitong超力通" is a popular brand which has obtained the general recognition of consumers in rural areas and second tier and third tier cities in the PRC.

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.

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

	2009	2008
	RMB'000	*RMB'000*
Raw materials	**114,881**	140,799
Work in progress	**37,270**	31,626
Finished goods	**6,966**	5,600
	159,117	178,025

All inventories were stated at cost.

14. TRADE AND NOTES RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**265,969**	301,218
Notes receivables	**16,159**	37,017
	282,128	338,235
Less: Allowance for bad and doubtful debts	**(3,890)**	(19,454)
	278,238	318,781

As at 31 December 2009, no notes receivables have been pledged by the Group in favour of a bank to secure notes payables (2008: RMB15.6 million).

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

	2009	2008
	RMB'000	*RMB'000*
0 to 60 days	**212,433**	200,344
61 to 180 days	**63,539**	116,995
181 to 365 days	**1,973**	1,441
1 to 2 years	**293**	1
2 to 3 years	**–**	–
	278,238	318,781

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

The directors consider that the carrying amount of trade and notes receivables approximates their fair value.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Advance to suppliers	**55,519**	62,680
VAT receivable	**712**	–
Deposits paid for acquisition of property, plant and equipment	**53,761**	–
Refundable deposits	**392**	393
Others	**4,013**	4,677
	114,397	67,750
Less: Allowance for bad and doubtful debts	**(2,671)**	(6,284)
	111,726	61,466

The directors consider that the carrying amount of financial assets included in prepayment, deposits and other receivables approximates their fair value.

16. TRADE AND NOTES PAYABLES

	2009	2008
	RMB'000	*RMB'000*
Trade payables	**59,261**	123,148
Notes payables	**139,516**	134,494
	198,777	257,642

An aged analysis of trade and notes payables at the end of the reporting period, based on the invoice date, is as follows:

	2009	2008
	RMB'000	*RMB'000*
0 to 60 days	**122,255**	120,863
61 to 180 days	**61,885**	118,701
181 to 365 days	**11,700**	9,931
1 to 2 years	**2,790**	8,040
2 to 3 years	**147**	87
Over 3 years	**–**	20
	198,777	257,642

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.

The directors consider that the carrying amount of trade and notes payables approximates their fair value.

17. OTHER PAYABLES, RECEIPTS IN ADVANCE AND ACCRUED CHARGES

	2009	2008
	RMB'000	*RMB'000*
Deposits from customers	**7,964**	10,422
Payroll and welfare payables	**8,342**	9,491
Accrued expenses	**11,582**	3,779
Payables for acquisition of property, plant and equipment	**1,386**	–
Other taxes payable	**1,413**	7,208
Others	**13,272**	13,284
	43,959	44,184

The directors consider that the carrying amount of financial liabilities included in other payables, receipts in advance and accrued charges approximates their fair value.

18. SHARE CAPITAL

	Number of ordinary shares of HK$0.10 each *in Thousands*	Amount *RMB'000*
Authorised:		
At 31 December 2008 and 2009	5,000,000	502,530
Issued and fully paid:		
At 1 January 2008	992,001	99,503
Issue of shares for acquisition of Chaolitong	30,000	2,631
At 31 December 2008	1,022,001	102,134
Issue of shares for acquisition of Chaolitong *(Note i)*	10,000	880
At 31 December 2009	1,032,001	103,014

Note:

i) On 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 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 19 below for details).

19. 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
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 Completion 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 Chaolitong Technology Company Limited ("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 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 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 has 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 will 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 ("NPAT") targets are met or exceeded for the financial years ending 31 December 2008, 2009 and 2010. Pursuant to the Agreement, if any of the NPAT targets is not met, the corresponding Consideration Shares will not be issued to the Vendor and the consideration payable pursuant to the Agreement will be reduced accordingly. 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.

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 financial statements 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$1.18 per share. Based on the audited results of CLTT for the year ended 31 December 2009 received by the Company from its auditors in the process of preparing the consolidated audited results of the Group, the NPAT of CLTT for the financial year ended 31 December 2009 was approximately RMB23,539,000, below RMB55,000,000 being the NPAT target of CLTT pursuant to the Agreement for the financial year ended 31 December 2009. As the NPAT target pursuant to the Agreement for the financial year ended 31 December 2009 will not be met, and the corresponding Consideration Shares will therefore not be issued to the Vendor. Hence, an adjustment to the contingent consideration shares of RMB10,459,000 was made at the end of the reporting period pursuant to the relevant accounting standards which also reduced the goodwill arising from the acquisition by RMB10,459,000. The Agreement did not provide for any option to sell the Sale Interest and the Sale Assets back to the Vendor as a result of failing to meet the NPAT targets. Save for failing to meet such NPAT target, the independent non-executive directors of the Company are of the view that the Vendor has fulfilled its obligations under the Agreement.

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.

As at 31 December 2009, goodwill arising from the acquisition with carrying amount of approximately RMB6,190,000 (2008: RMB22,849,000) 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. During the year, an impairment loss on goodwill of RMB6,200,000 was charged to the consolidated income statement.

CLTT contributed approximately RMB23,539,000 to the Group's profit for the year ended 31 December 2009 (2008: RMB38,915,000).

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 19 May 2010 and the proposed final dividend will be paid on or about 7 June 2010. 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 20 May 2010 to 27 May 2010 (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 p.m. on 19 May 2010. The Shares of the Company will trade ex-dividend on 18 May 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In 2009, subject to the continuous impact from the financial tsunami, the consumption environment as a whole remained sluggish despite the gradual recovery of the global economy. The Group experienced pressure on pricing reduction and more intensive competition with its peers. During the year, its overall businesses had been faced with stringent challenges. As at 31 December 2009, turnover of the Group reached approximately RMB1,265 million, an increase of approximately 1.0% on a year-on-year basis. Gross profit and profit attributable to equity holders were approximately RMB229 million and approximately RMB46.84 million, respectively, a decrease of approximately 13.2% and approximately 64.5% on a year-on-year basis, respectively. Gross profit margin was approximately 18.1%, a decrease of three percentage points from 2008. Profit margin attributable to equity holders of the Group was approximately 3.7% (2008: 10.5%).

During the year, the Group took proactive measures to consolidate its leading position in the market, and occupied approximately 20.5% in own-brand rechargeable mobile phone batteries market in the PRC. Through its two own-brands "SCUD飛毛腿" and "Chaolitong超力通", the Group expanded its businesses of production and sales of rechargeable battery packs, chargers and related accessories in mobile phones, notebook computers, digital cameras and other electronic devices. Apart from its own-brand business, the Group also engages in the production of battery products for branded mobile phone manufacturers within and outside China and sells battery products by way of OEM business. In 2009, the OEM business was affected to a substantial extent as a result of the business environment. Orders from customers dropped significantly. Although demand was driven to increase by consumption needs when the economy recovered in the second half of 2009, price of electronics consumption products generally fell as a whole. Competition in the industry has been intense and the profit margin of low-to-middle end batteries in China fell extensively. This had affected the overall profit margin of the Group.

OWN-BRAND BUSINESS

For the year ended 31 December 2009, turnover of the Group's own-brand business reached approximately RMB898 million (2008: RMB845 million) and accounted for approximately 71.0% (2008: 67.5%) of total turnover. Our two own-brands, "SCUD飛毛腿" and "Chaolitong超力通", are specifically targeted at high-end market and second to third-tier cities as well as the rural market. During the year, the sales volume of our own-brand mobile phone rechargeable batteries increased by approximately 16.7% to approximately 50.25 million units (2008: 43.08 million units). Turnover generated from own-brand mobile phone rechargeable batteries reached approximately RMB794 million (2008: RMB709 million). Of which, approximately 76.9% of sales volume in its own-brand mobile phone rechargeable batteries were derived from the "SCUD飛毛腿" brand.

Growth in the telecommunication industry of China in future will primarily derive from the rural market, where mobile coverage remained relatively low. Mobile phone is one of the household goods that were promoted in the rural market during 2009. The consumption of mobile phones in the rural market attracted producers of mobile phones and its related accessories to enter into the rural market. However, these rural consumers are relatively price sensitive towards mobile phones and its related accessories. Almost substantially all of the consumers inclined to purchase non-bundled mobile phone batteries and their accessories of good quality and low price. Generally, these consumers in the rural market will first select mobile phone batteries and their accessories that are of well-known brands in China with good reputation. In response to such consumption preference, the Group rapidly entered into the rural market through the acquisition of the "Chaolitong超力通" that is positioned at the middle-to-low end market, and further explored its potential. Through the sales channel owned by "Chaolitong超力通" brand, the Group consolidated its positioning in the rural market, and gradually established the positioning of the "SCUD飛毛腿" brand in the rural market. With the increased usage of mobile phones in the rural market, we believe that there is substantial room in the rural market for the Group's development. During the year, the sales volume of mobile phone rechargeable batteries and chargers for the "Chaolitong超力通" brand reached approximately 11.60 million units and 30.83 million units, respectively. Turnover were approximately RMB109 million and approximately RMB92.24 million, respectively.

The Group has focused in brand building for a long time. Number of outlets will be greater at small cities and towns. Outlets at major cities that can achieve scale of economies were optimized and renovated. The Group has now formed a network that fully covered China. There were approximately 6,000 sales outlets renovated successfully with SCUD counters. This had contributed to the sales performance and brand promotion. As at 31 December 2009, the Group had carried out its retail sales via a sales network with approximately 49,000 points of sales held by 550 first-tier distributors engaged by the Group. In addition, the Group has placed much emphasis to the quality of products and after sales services. We have insisted to impose strict requirements to safety standards. Through our endeavours made, product quality has been enhanced continuously and the Group won the trust of consumers in its own-brand products.

OEM BUSINESS

As at 31 December 2009, turnover of the Group's OEM business reached approximately RMB297 million (2008: RMB342 million) and accounted for approximately 23.5% (2008: 27.3%) of total turnover. The Group maintained good business relationships with well-known brands of mobile phone manufacturers such as Huawei, ZTE and Lenovo as their rechargeable batteries supplier. During the year, the sales volume of mobile phone batteries in the Group's OEM business reached approximately 6.56 million units (2008:11.70 million units). The fall in sales volume was primarily attributable to the reduction in market demand as a result of the sluggish global economy. This, together with keen pricing competition, led to a fall in number of orders from export enterprises and the selling price in the domestic market, and affected the Group's OEM business. However, upon the recovery in the global economy and growing domestic demand in China, it is expected that the Group will achieve remarkable performance in the OEM business in 2010.

INDUSTRY OUTLOOK AND MARKET PROSPECTS

With the gradual recovery of the global economy, together with the rapid growth of domestic consumption in China and the restructuring and revamp plans for the electronics and information technology industries, the number of mobile phone users in China is expected to continue to grow. By the end of 2009, there were already more than 750 million users, with an annual increase up to 100 million users in 2009. In the meantime, the PRC government will introduce more promotion policies for the rural households to purchase household goods. Under the support of strategies by various major mobile phone manufacturers and telecommunication network operators to seek more mobile phone users from the rural market, it is likely that the usage of mobile phones in the rural market will increase. This will in turn drive demand for rechargeable batteries from the mobile phone users in the rural market.

Moreover, the emergence of 3G is the undeniable trend in the development of information technology and consumption demand. 2009 was regarded as the year of 3G for China. This new industry is attracting considerable attention in all respects. According to the information published by the Ministry of Industry and Information Technology of the People's Republic of China, as at the end of November 2009, 3G users in China reached approximately 13 million. It was expected that 3G users will be over 15 million by the end of 2009. The development of 3G technology undoubtedly accelerated the replacement cycle of mobile phones. With the popularity gained by 3G and the broad applications therewith, the sales volume of mobile phones will reach new heights. The multi function available from 3G mobile phones increase its power consumption to a substantial extent and thus shorten the standby time. The capacity of general rechargeable batteries cannot fulfill the needs of their users. It is expected the demand for replacement or back up batteries will also increase. This will bring more opportunities to the Group and greater room of development in the market. Therefore, facing this 3G saga, SCUD will not only pay attention to the movement in the sales volume of batteries, but also fulfilling the needs of its customers. During the past years, the Company specifically targets the middle-to-high end market with its own-brand "SCUD飛毛腿", and insists in pursuing product quality. On the other hand, the Company has been well prepared in the research and development as well as production of batteries for 3G mobile phones. By leveraging on its mature production technologies and strict quality control, the Group expects to capture the business opportunities arising from its 3G business, and produce

3G battery products of superior quality, extra capacity, longer standby time and high safety standard. This will serve to achieve perfect customer experience for the 3G users and the value of high speed information technology brought by 3G. The Group will achieve growth in profit from the superior quality in its products.

DEVELOPMENT DIRECTIONS AND STRATEGIES

Strengthen Product Research and Development

The Group has placed emphasis on the development of upstream bare battery cell business during 2009. Our own research and development capabilities in the Group's core technologies will further enhance if we are successful in the research and development of bare battery cell. Upstream supply will be stabilized, which in turn will control cost effectively, improve product profit margin and enhance core competitiveness. In 2009, the Group has implemented the construction of a new bare battery cell factory at its base in Fuzhou. The designed capability of the new production factory is 5 million units of bare battery cells per month. The Group has positioned in its pre-production plan the quality of its own-brand bare battery cells as applicable to most of the middle-end rechargeable battery products in China. Currently, the infrastructure is basically completed. It is expected that the new factory will formally commence production earliest by the second half of 2010.

As to the high-end series of mobile phone rechargeable batteries of its own-brand and rechargeable batteries for notebook computers, the Group has maintained good cooperation relationship with Sanyo Corporation of Japan for many years, which is the largest lithium battery manufacturer in the world. The high-end series will continue adopt bare battery cells of quality in order to maintain superior quality, extra capacity, long standby time and high safety standard. Whilst securing a stable supply of quality imported battery cells, the Group can also demonstrate its unique competitive advantage in the rechargeable battery industry in China.

The Group recorded a research and development expense of approximately RMB23.6 million in 2009 (2008: RMB17.1 million), and accounted for approximately 1.9% of the Group's turnover in 2009 (2008: 1.4%).

Enhance market share through proactive exploration of markets

The Group will continue to devote more resources to develop its market share in cities in western China with higher population, lower market penetration and enormous potential of development. Through its "Chaolitong超力通" brand, the Group will continue to develop the rural market and enhance its market share with an aim to exceed 30% of the market.

In order to further enhance the sales volume of our products and to develop into an international brand, SCUD plans to expand overseas. The Group has conducted a series of market surveys and has preliminarily identified certain target overseas markets, namely Southeast Asia and South America. Through the establishment of overseas offices, with our newly established brand & image, the Group is ready to enter the international market.

Establish own skill training institute

People are definitely one of the most valuable assets of the Company. As such, the Group kicked off a comprehensive talent programme by starting our own training institute for developing our management and technical experts. Talents will be cultivated at the training institute and prepare then so as to be available in the pipeline to resolve the labour shortage issue faced by industry participants. After a period of training, the Group will direct labour resources directly to various departments, which will shorten the time of staff replacement and reduce labour cost. Automated production will also be implemented at different phases. Moreover, in the training process, students can comprehend the practical operation issues arising from the course of production, which will effectively enhance production efficiencies and qualities. The Group will enlist talents from the society at large and select the management and technical experts that it needs through professional and rigorous training processes. At the same time, this will also bring to the society a new generation of talents allowing the Company to fulfill its social responsibilities and contribute to the society.

OUTLOOK

It is our firm belief that we have passed the most difficult time and the year of 2010 will be filled with expectations. SCUD has always been cautious in its development. The Group will continue to consolidate its core businesses and place emphasis on its own research and development as well as nurturing talents. Competitiveness of its core business will be enhanced, thereby enhancing its profitability. Through continuous expansion in market share, the Group will secure its leading position in the industry and maintain its competitive advantages.

FINANCIAL REVIEW

For the year ended 31 December 2009, the Group recorded consolidated turnover of approximately RMB1,264.9 million (2008: RMB1,252.7 million), representing an increase of approximately 1.0% as compared to that in 2008. Gross profit and profit from operations for 2009 were approximately RMB229.1 million and approximately RMB56.3 million respectively, reduced by approximately 13.2% and approximately 60.7% respectively as compared to that in 2008. The profit attributable to equity holders of the Company for 2009 was approximately RMB46.8 million (2008: RMB132.0 million). The Group recorded EBITDA of approximately RMB152.3 million for the year, representing a decrease of approximately 23.5% as compared to EBITDA of approximately RMB199.1 million for 2008. Basic earnings per share for the year ended 31 December 2009 were approximately RMB4.55 cents (2008: RMB13.18 cents per share).

Turnover

Mobile phone rechargeable batteries remain the key revenue driver of the Group. Total sales of mobile phone batteries generated from the own-brand business segment and OEM business segment has contributed approximately 74.7% (2008: 74.6%) of the Group's turnover in 2009. In addition, total sales of notebook computer batteries generated from the own-brand business segment and OEM business segment has contributed approximately 8.9% (2008: 9.3%) of the Group's turnover in 2009. Approximately 8.5% (2008: 8.2%) of the Group's turnover in 2009 was generated from the sales of chargers.

Segment Results

In 2009, the major portion of the Group's revenue still came from the Group's own-brand business segment. Total revenue from the Group's own-brand business as a percentage of the Group's total turnover was increased to approximately 71.0% (2008: 67.5%) and the percentage of total revenue from the Group's OEM business accounted for approximately 23.5% of the Group's total turnover (2008: 27.3%) during the year ended 31 December 2009.

For the own-brand business segment, the total revenue contributed to the Group for 2009 increased by approximately 6.3% to approximately RMB898.4 million. Approximately 77.5% (2008: 74.0%) of the Group's own-brand products were sold under the "SCUD飛毛腿" brand and approximately 22.5% (2008: 26%) of the Group's own-brand products were sold under the "Chaolitong超力通" brand. As many industry players reduce prices to generate business volume, such price competition among other competitors had led to a general decrease in the average selling price for the own-brand products during the year ended 31 December 2009. The profit margins of the mid-to-low-end series products were particularly affected. Although the own-brand mobile phone batteries suffered margin drop during the year ended 31 December 2009, the sales volume of own-brand mobile phone batteries grew by 16.7%. Over the year ended 31 December 2009, the total revenue from the sales of own-brand mobile phone batteries amounted to approximately RMB794.3 million, increased by approximately RMB85.4 million or approximately 12.0% as compared with 2008. Revenue from own-brand digital batteries and notebook computer batteries amounted to approximately RMB3.3 million (2008: RMB16.3 million) and approximately RMB1.3 million (2008: RMB17.1 million), respectively, declined by approximately RMB13.0 million and approximately RMB15.8 million respectively while revenue from the sales of own-brand chargers remained relatively stable; amounted to approximately RMB98.3 million in 2009 (2008: RMB98.5 million).

For the OEM business segment, the total revenue contributed to the Group was decreased by approximately 13.1% from approximately RMB342.2 million in 2008 to approximately RMB297.2 million in 2009. In addition to the reduced customer orders for mobile phone batteries due to the global financial crisis, price reduction pressures from customers have also caused both revenue and profit margins to drop. The turnover of OEM mobile phone batteries dropped by approximately 33.4% to approximately RMB150.4 million in 2009, mainly due to the sales volume of OEM mobile phone batteries down by approximately 44.1% in 2009. Despite difficult business conditions, the sales volume of OEM notebook computer batteries still recorded an increase of approximately 47.8% in 2009 with revenue of approximately RMB111.2 million, representing a growth of approximately 12.5% as compared with 2008.

Cost of Sales

The Group's cost of sales amounted to approximately RMB1,035.8 million in 2009 (2008: RMB988.9 million), representing an increase of approximately 4.7% as compared to 2008. During the year ended 31 December 2009, direct materials, direct labour and other production costs accounted for approximately 90.4% (2008: 89.7%), 3.6% (2008: 4.4%) and 6.0% (2008: 5.9%) of the cost of sales.

Gross Profit and Gross Profit Margin

The overall gross profit margin of the Group declined from approximately 21.1% for 2008 to approximately 18.1% for 2009.

For the Group's own-brand business, the overall gross profit margin for 2009 was approximately 20.4%, down by 3.8 percentage points from approximately 24.2% in 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 PRC lower-end OEM battery manufacturers switched from export-oriented businesses to domestic sales. Keen price competition among peers during 2009 was another reason for the profit margin drop. The average gross profit margin for own-brand mobile phone batteries declined from approximately 25.3% in 2008 to approximately 21.6% in 2009. The gross profit margins for mobile phone batteries of "SCUD飛毛腿" brand and "Chaolitong超力通" brand in 2009 were approximately 22.4% (2008: 25.8%) and approximately 16.3% (2008: 23.1%), respectively.

For the OEM business, in light of the keen competition and margin erosion in the global mobile phone market, the overall gross profit margin in 2009 was approximately 15.6%, dropped by approximately 3.4% from 2008. The gross profit margin for OEM mobile phone batteries declined from approximately 16.8% in 2008 to approximately 15.2% in 2009 while the gross profit margin for OEM notebook computer batteries declined from approximately 13.7% in 2008 to approximately 10.8% in 2009.

Profit Attributable to Equity Holders

In 2009, the Group recorded profit attributable to equity holders of the Company of approximately RMB46.8 million (2008: RMB132.0 million) while the profit margin attributable to equity holders of the Company decreased to approximately 3.7% (2008: 10.5%).

Other revenue of approximately RMB6.7 million in 2009 is comprised of approximately RMB4.7 million (2008: RMB4.7 million) being bank interest income and approximately RMB0.3 million (2008: RMB9.6 million) being foreign exchange gain during 2009.

Selling and distribution expenses of approximately RMB77.6 million (2008: RMB43.4 million) accounted for approximately 6.1% (2008: 3.5%) of the Group's turnover in 2009. In order to upgrade the image of sales channel and enhance the brand image, the Group has been carrying out retail counters renovations since 2007. By the end of 2009, approximately 6,000 retail counters was refurbished and an accumulated amount of approximately RMB102.3 million was invested in the sales channel image enhancement.

Hence, selling and distribution expenses of 2009 comprised of approximately RMB47.5 million (2008: RMB17.0 million) being the expenses incurred for the amortisation of all renovation spending. In addition, approximately RMB14.1 million (2008: RMB12.1 million) was spent on advertising and promotion in 2009.

Administrative expenses of approximately RMB100.0 million (2008: RMB90.2 million) accounted for approximately 7.9% (2008: 7.2%) of the Group's turnover in 2009. Administrative expenses mainly comprised of research and development expenses of approximately RMB23.6 million (2008: RMB17.1 million), staff salaries of approximately RMB13.2 million (2008: RMB10.2 million), depreciation of approximately RMB8.5 million (2008: RMB8.3 million), and approximately RMB10.4 million (2008: RMB5.0 million) being amortisation of intangible assets mainly arising from acquisition of "Chaolitong超力通". Provision for bad and doubtful debts of approximately RMB16.8 million was made in 2008 and a reversal of provision for bad and doubtful debts of approximately RMB0.4 million was made in 2009. However, 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 due to low entry barrier, cutting into the gross profit margin of "Chaolitong超力通" products during 2009. An impairment loss on the trade names of "Chaolitong超力通" brand and the goodwill arose from the acquisition of "Chaolitong超力通" with an aggregate amount of approximately RMB16.6 million was charged to the income statement in 2009. Hence, the increase in administrative expenses during 2009 was mainly contributed by the impairment loss expenses.

Finance costs grew by approximately RMB0.6 million to approximately RMB1.4 million in 2009, owing to the increase in bank borrowings during 2009.

Liquidity and Financial Resources

Cash and cash equivalents held by the Group increased from approximately RMB457.1 million as at 31 December 2008 to approximately RMB481.8 million as at 31 December 2009. The Group maintained a net cash position of approximately RMB380.4 million net of bank borrowings and pledged bank deposits for banking facilities, representing an approximate increase of RMB37.0 million as compared to the net cash as at 31 December 2008. The Group continued to maintain a strong liquidity position with low gearing and healthy cash flows. The Group generated a net cash inflow from operating activities of approximately RMB108.8 million for the year ended 31 December 2009 (2008: RMB257.2 million).

The Group's bank borrowings outstanding as at 31 December 2009 amounted to approximately RMB10.5 million (at 31 December 2008: RMB7.8 million). Approximately RMB0.5 million (at 31 December 2008: RMB7.8 million) of the Group's bank borrowings were carried at fixed interest rate and approximately RMB10.0 million (at 31 December 2008: Nil) were carried at floating interest rate. There was no particular seasonality of the Group's borrowings. The Group monitored capital using a gearing ratio, which is total debt of the Group 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 RMB1,238.1 million (at 31 December 2008: RMB1,220.7 million) was approximately 0.9% as at 31 December 2009 (at 31 December 2008: 0.6%). Bank deposits pledged for banking facilities as at 31 December 2009 was approximately RMB90.9 million (at 31 December 2008: RMB105.9 million).

As at 31 December 2009, the Group's current ratio was approximately 4.0 times (at 31 December 2008: 3.2 times) based on current assets of approximately RMB1,040.6 million (at 31 December 2008: RMB1,023.0 million) and current liabilities of approximately RMB258.5 million (at 31 December 2008: RMB316.7 million). Trade receivable turnover days were approximately 86.1 days for the year ended 31 December 2009 as compared to approximately 74.3 days for the year ended 31 December 2008. Inventory turnover days were approximately 59.4 days for the year ended 31 December 2009 as compared to approximately 60.4 days for the year ended 31 December 2008. Trade payable turnover days were approximately 86.3 days for the year ended 31 December 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 31 December 2009 were approximately RMB782.1 million, increased by approximately 10.7% from the balance of approximately RMB706.4 million recorded as at 31 December 2008. Net assets rose to approximately RMB1,240.1 million, representing an increase of approximately RMB18.9 million or 1.5% over the balance as at 31 December 2008.

Pledge of Assets

As at 31 December 2009, bank loans of approximately RMB0.5 million (at 31 December 2008: RMB1.0 million) were secured by the Group's motor vehicles with a carrying amount of approximately RMB2.3 million (at 31 December 2008: RMB2.6 million) and bank loans of RMB10.0 million was an unsecured bank loan.

Commitments

The Group's capital commitments outstanding as at 31 December 2009 amounting to approximately RMB172.7 million (at 31 December 2008: RMB137.9 million) was mainly attributed to the setup of the upstream bare battery cell production business in Fuzhou.

Contingent Liabilities

As at 31 December 2009, the Group has not provided any form of guarantee for any company outside the Group and has not 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 Chaolitong Electronic Company Limited ("CLTE"), the Company issued and allotted 10,000,000 shares of nominal value HK$0.10 each at HK$1.18 each to the Vendor on 29 April 2009. Consequently, the issued share capital of the Company was increased by HK$1.0 million (represented by 10,000,000 ordinary shares) to approximately HK$103.2 million (represented by 1,032,001,246 ordinary shares).

Foreign Exchange Exposure

For the year 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 insignificantly. The Directors considered that no hedging of exchange risk is required and there were no financial instruments being used for hedging purposes during 2009. 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 2009, the Group had 3,314 full-time employees (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 market standard 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. According to the relevant prevailing laws and regulations of the PRC, the Group has participated in the social insurance plans set up by the related local government authorities, including pension funds, medical insurance (including maternity insurance), unemployment insurance and work-related injury insurance. The Group has also participated in the mandatory provident fund scheme for its Hong Kong employees in accordance with the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong).

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 3 December 2006 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme was adopted for a period of 10 years and the Company by ordinary resolution in general meeting or the Board may at anytime terminate the Scheme without prejudice to the options granted during the life of the Scheme and which remain unexpired immediately prior to such termination. As at 31 December 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 9,388,000 shares (at 31 December 2008: 16,429,000 shares), representing approximately 0.9% (at 31 December 2008: 1.6%) of the shares of the Company in issue at that time. Since the adoption of the Scheme and as at 31 December 2009, no share option has been granted or exercised under such Scheme and 7,041,000 share options expired during the year 2009.

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 were received after the deduction of relevant IPO fees and commission incurred. Up to 31 December 2009, the Group has utilized approximately RMB177.4 million (equivalent to approximately HK$201.5 million) on the expansion of production capacity and plant construction, approximately RMB127.3 million (equivalent to approximately HK$144.6 million) on brand promotion and improvement of Group's distribution network, approximately RMB128.2 million (equivalent to approximately HK$145.6 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$62.5 million) on repayment of bank borrowings. Remaining net proceeds of approximately RMB12.4 million (equivalent to approximately HK$14.1 million) were mainly used as daily working capital and held as deposits with banks in the PRC.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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 2009.

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

During the period from 1 January 2009 to 24 March 2009 (being the relevant part of the year under review), the terms of appointment for Mr. Ho Man as Non-executive Director and each of Mr. Heng Kwoo Seng and Mr. Wang Jian Zhang as Independent Non-executive Directors, were not formalised 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 intended to retire after the 2009 annual general meeting, the Company and Mr. Heng did not formalise the terms of his appointment together with the others at the time for the period prior to his resignation. Save as the deviation from provision A.4.1 of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules ("Code") as disclosed above, the Company has complied with the Code for the year ended 31 December 2009.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). Having made specific enquiries of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code for the year ended 31 December 2009.

AUDIT COMMITTEE

The primary duties of the audit committee are mainly to review the material investment, capital operation and material financial system of the Company, to review the accounting policy, financial position and financial reporting procedures of the Company, to communicate with the external audit firm, to assess the performance of internal financial and audit personnel, and to assess the internal control of the Company. At present, the audit committee of the Company consists of three members who are Dr. Loke Yu, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang.

NOMINATION COMMITTEE AND REMUNERATION COMMITTEE

The primary duties of the nomination committee and remuneration committee 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 utilisation policy of the Company. At present, the nomination committee and the remuneration committee each consists of three members who are Dr. Loke Yu, Mr. Fang Jin and Mr. Wang Jing Zhong.

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 2009 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 2009 have been agreed by the Group's auditors, Moore Stephens Certified Public Accountants ("Moore Stephens"), to the amounts set out in the Group's 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 this announcement.

PUBLICATION OF ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report for the year containing all the relevant 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, 24 March 2010

As at the date of this announcement, the Board comprises Messrs. Fang Jin, Guo Quan Zeng, Li Hui Qiu and Ms. Huang Yan being the executive Directors, Dr. Loke Yu, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang being the independent non-executive Directors.