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SCUD GROUP LIMITED

飛毛腿集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01399)

**KEY FINDINGS OF INDEPENDENT INVESTIGATION
RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE**

Reference is made to the Announcements since 24 April 2015 in connection with the Audit Issue and the establishment of the Independent Board Committee to commence an investigation into the Audit Issue.

Further to a Board meeting convened to receive and discuss the key findings of Grant Thornton's investigation results, the Board announces such key findings and recommendations from the Independent Board Committee as set out below.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules and the Inside Information Provisions (as defined under the Listing Rules) under Part XIVA of the SFO.

Reference is made to the Announcements of the Company since 24 April 2015 in relation to, inter alia, the Audit Issue as referred to in the Letter of Resignation of Moore Stephens and the establishment of the Independent Board Committee to commence an investigation into the Audit Issue.

As stated in the Announcements, Grant Thornton has been engaged to assist in an independent investigation to be conducted on the Audit Issue. Grant Thornton has issued the final draft of its investigation report (the "**Final Draft Report**") to the Independent Board Committee and, based on which, the Independent Board Committee reported the findings in the Final Draft Report to the Board and made recommendations of improvement.

* For identification purpose only

The Board hereby announces (i) the background of the Audit Issue set out in the Final Draft Report; (ii) summary of key findings set out in the Final Draft Report; (iii) the actions that have been taken by the Company; (iv) recommendation of the Independent Board Committee; and (v) future actions to be taken by the Company.

All financial information of the Group set out below has not been audited by auditors nor reviewed by the audit committee of the Company.

BACKGROUND OF THE AUDIT ISSUE SET OUT IN THE FINAL DRAFT REPORT

On 25 March 2015, the Company was informed by Moore Stephens that based on preliminary observations there were several inconsistencies in the financial data of the Group while they were carrying out the annual audit for the Group for FY2014, and that since the investigation and verification of the inconsistencies might go beyond the scope of work of general audit, it requested the Company to perform other additional procedures, including but not limited to engaging an independent third party to investigate the Audit Issue that it has observed. On 2 April 2015, Moore Stephens resigned as auditor of the Group and, in its Letter of Resignation, it stated the inconsistencies observed while carrying out the audit for the Group for FY2014 as follows (the “**Matters**”):

- (i) unable to verify all VAT invoices tested in the sales transaction test through the online verification system;
- (ii) unable to verify a late adjustment debiting accounts receivable and crediting bank balances. The bank balances as at 31 December 2014 after putting through that adjustment was inconsistent with the balances shown on the bank confirmations that was obtained from the banks during the audit; and
- (iii) unable to verify a late adjustment debiting sales, income tax payable, VAT payable and crediting bank balances and intercompany current account. That adjustment was inconsistent with the tax returns, tax payment advice and bank confirmations obtained and the sales ledger made available for their testing during the audit.

In May 2015, the Board resolved that the Independent Board Committee be established to investigate the Matters. Grant Thornton was later appointed to assist in the investigation of the Matters.

SUMMARY OF KEY FINDINGS SET OUT IN THE FINAL DRAFT REPORT

According to the Final Draft Report, the cause of the incident was mainly that SCUD Battery, which was a subsidiary of the Group engaging in the Own-brand Business, had excess recall and incurred a significant loss in connection with such excess recall when it implemented the Own-Brand Battery Recall Plan in FY2013.

Based on investigation and the statements of the interviewees, it was discovered that the financial data of SCUD Battery for FY2013 and FY2014 contained misstatements. In respect of this, the Group conducted a preliminary internal review and made adjustments to the revenue, interest income, cost of sales, income tax expenses, accounts receivable, bank deposits, deferred tax assets, income tax payable, VAT payable, other taxes payable and inventories accounts of SCUD Battery. The Group also revised such Late Adjustments previously provided to Moore Stephens. Grant Thornton (through its investigation work) verified the entries of the Post Accounting Adjustments prepared by the Group after the preliminary internal review. According to the findings of the independent investigation and the statements of the interviewees, the above misstatements of financial data of SCUD Battery were attributed to the Senior Management Involved, namely the Then General Manager of SCUD Battery and the Then Finance Control Director of SCUD Battery respectively, who concealed the significant loss of recalled products arising from the Own-Brand Battery Recall Plan organized by the Then General Manager of SCUD Battery during the period between FY2012 and FY2013. The Then Finance Control Director of SCUD Battery admitted that she has omitted to declare VAT and income tax of SCUD Battery during the period between FY2013 and FY2014. None of the Senior Management Involved was a director of the Company.

During the investigation, Grant Thornton verified the entries of the Post Accounting Adjustments. The Post Accounting Adjustments relate to the financial data of SCUD Battery in FY2014 and are summarized as follows:

Accounting subject	Post Accounting Adjustments for FY2014	
	Debit <i>(RMB'000) (approximation)</i>	Credit <i>(RMB'000) (approximation)</i>
Retained earnings	183,229	
Deferred tax assets	60,394	
Income tax expenses	11,099	
Interest income	692	
Bank balances		199,414
VAT payable		23,209
Income tax payable		16,665
Accounts receivable		11,307
Business tax and surcharge		4,556
Administrative expenses		263

Furthermore, it was found in the investigation that SCUD Electronics, a subsidiary mainly engaging in ODM Business of the Group, had omitted to declare income tax in FY2013 and FY2014. The finance and treasury of SCUD Electronics were centrally managed by the Then Finance Control Director of SCUD Battery. The Then Finance Control Director of SCUD Battery admitted that she has omitted to declare income tax of SCUD Electronics during the period between FY2013 and FY2014. For the year of tax assessment 2014, SCUD Electronics omitted to declare income tax

payable of approximately RMB10,200,000 in total, of which approximately RMB1,400,000 was omitted to be declared in the year of tax assessment 2013 and approximately RMB8,800,000 was omitted to be declared in the year of tax assessment 2014.

A summary of the key findings from the investigation of the Matters in connection with the Own-Brand Battery Recall Plan of SCUD Battery is as follows:

Underestimated the quantity of recalled own-brand batteries in FY2013

- Based on Grant Thornton's investigation and statements of the interviewees, the Audit Issue originated from the Own-Brand Battery Recall Plan proposed by the Then General Manager of SCUD Battery in FY2012. The purpose of the Own-Brand Battery Recall Plan was to recall the excess and unsold battery products under the SCUD Battery brand stocked by SCUD Battery's distributors in order to ease such distributors' operating cash flow. As stated by the Then General Manager of SCUD Battery, such plan was intended to motivate the distributors to cooperate with SCUD Battery as soon as possible in expanding the power bank business that was expected to have great potential.
- The Then General Manager of SCUD Battery was responsible for planning and coordinating the Own-Brand Battery Recall Plan. According to the estimates prior to the recall action, approximately 12 million pieces of battery products would be recalled from the distributors under the Own-Brand Battery Recall Plan. The Group was expected to record a loss of not more than RMB200,000,000. Based on the recall figures estimated by the Then General Manager of SCUD Battery, the Board approved the Own-Brand Battery Recall Plan in September 2012 and the estimated loss for such Own-Brand Battery Recall Plan was approximately RMB150,000,000. SCUD Battery formally implemented the Own-Brand Battery Recall Plan in the fourth quarter of 2012 and expected it to end before 30 June 2013.
- As disclosed in the Company's annual report for FY2012, SCUD Battery made a total provision of approximately RMB152,000,000 in FY2012 for the loss of recalled products in respect of approximately 4 million pieces of batteries recalled in FY2012 and the own-brand battery expected to be recalled in FY2013. It was estimated that the battery products being recalled in the Own-Brand Battery Recall Plan had a net realizable value of approximately RMB16,900,000. Later, SCUD Battery made a further provision of approximately RMB10,700,000 for the additional loss in respect of product recall in FY2013. As disclosed in the Company's annual report for FY2013, that the entire Own-Brand Battery Recall Plan resulted in a total loss on refund of approximately RMB162,000,000 and approximately 12 million pieces of batteries were recalled.
- However, the Then General Manager of SCUD Battery underestimated the volume of batteries recalled and the loss from the return of goods of the Own-Brand Battery Recall Plan as a whole, and the Then General Manager of SCUD Battery did not keep the recall under control in time so that, ultimately, around 23 million pieces of batteries in total were actually recalled from the distributors, represented an excess of approximately 11 million pieces more than the original

estimated recall quantity, and the actual total loss caused by the Own-Brand Battery Recall Plan were up to approximately RMB410,000,000, which included approximately 11 million pieces of excess batteries recalled valued at approximately RMB228,000,000, being the additional loss from the product recall. The Then General Manager of SCUD Battery privately sought assistance from the Then Finance Control Director of SCUD Battery.

Plan to conceal about 11 million pieces of recalled batteries

- In April 2013, the Then General Manager of SCUD Battery disclosed to the Then Finance Control Director of SCUD Battery that since there was a problem regarding a serious excess recall under the Own-Brand Battery Recall Plan, a large quantity of returned goods is expected to arrive. The Then General Manager of SCUD Battery said that he would instruct the sales department to inform the warehousing department with false information that the 11 million pieces of recalled batteries were goods of customers temporarily stored with SCUD Battery. The Then General Manager of SCUD Battery intended to sell some of the recalled batteries to make up for some of the losses before reporting the issue of excess recall to the Board.
- The Then Finance Control Director of SCUD Battery believed the significant loss of recalled products had a significant adverse impact on the financial statements and bank financing of SCUD Battery. As the Then General Manager of SCUD Battery said the recalled batteries might be sold overseas in the near future, the Then Finance Control Director of SCUD Battery consented to not recording the book value of approximately RMB228,000,000 for the approximately 11 million pieces of excess batteries recalled. Therefore, SCUD Battery recorded in its accounts a total loss of recalled products of approximately RMB162,000,000 only and approximately 12 million pieces of recalled batteries only during the period between FY2012 and FY2013.
- All the batteries recalled from the distributors were counted and accepted in batches by the relevant warehousing department. To conceal the excess recalled batteries, the then General Manager of SCUD Battery instructed the then sales manager of SCUD Battery not to issue sales return receipts for the aforesaid approximately 11 million pieces of recalled batteries, and to make a false statement that the recalled batteries with a book value of approximately RMB228,000,000 were the goods of customers temporarily stored with SCUD Battery. Therefore, the warehousing department did not issue any stock-in slip for those recalled batteries, nor did the finance department of SCUD Battery record the recall of that batch of products in FY2013.

Concealment of losses in connection with approximately 11 million pieces of recalled batteries

- In the first half of 2013, the Then General Manager of SCUD Battery was unable to find a suitable channel for selling the recalled batteries. The Then Finance Control Director of SCUD Battery having considered the accounts receivables in relation to approximately 11 million pieces of unrecorded recalled batteries, were in fact offset against the relevant recalled batteries. However, as this portion of the recalled batteries were not recorded in the accounting books,

therefore these accounts receivables that should have been offset were not deducted from the accounts receivable on the accounting books. Those portions of accounts receivable might lead to the discovery of the concealed excess recalled batteries because those accounts receivable were not recovered for a long period of time. The Then Finance Control Director of SCUD Battery sought advice from the Third Party.

- With the assistance of the Third Party, the Then Finance Control Director of SCUD Battery obtained a series of forged bank receipts and bank statements of a bank to be used for forging statement on collection of accounts receivable. The Then Finance Control Director of SCUD Battery gave the forged bank statements to the then cashier of SCUD Battery, who then forwarded the forged bank statements to the then accountant of SCUD Battery in the ordinary course of daily financial procedures so as to record a range of non-existing accounts receivable settlements during the period between May 2013 and FY2014. This resulted in a false increase of approximately RMB177,000,000 and RMB78,000,000 in SCUD Battery's bank balances on the year-end dates in FY2013 and FY2014 respectively (i.e. approximately RMB255,000,000 was accumulated in FY2014). In the course of the investigation, the Then Finance Control Director of SCUD Battery did not provide any contact information of the Third Party.

False statement of SCUD Battery's sales of approximately 12 million pieces of already recorded recalled batteries and related financial data

- The Then General Manager of SCUD Battery estimated that the recalled battery products under the Own-Brand Battery Recall Plan had a net realizable value of approximately RMB16,900,000, so the Then General Manager of SCUD Battery negotiated with another third party in FY2013 in connection with the sales of approximately 12 million pieces of the already recorded recalled batteries but failed to reach final agreement on such sales. However, the Then General Manager of SCUD Battery wanted to demonstrate to the management his ability to sell the recalled batteries under the Own-Brand Battery Recall Plan, and as such the Then General Manager of SCUD Battery arranged a salesperson to make a false report to the finance department of SCUD Battery during the period between May and October 2013 that approximately 12 million pieces of already recorded recalled batteries were sold at a consideration of approximately RMB19,400,000 (excluding VAT).
- In order to avoid the warehousing department and financial staff of SCUD Battery becoming suspicious of the fictitious sales transactions, the Then General Manager of SCUD Battery instructed the then sales manager to collect the recalled batteries from the warehousing department several times, and transferred the recalled batteries to another warehouse which was used for storing abandoned machinery and equipment, and was not monitored by the warehousing department. As such, the warehousing department issued delivery notes in respect of the false sales of approximately 12 million pieces of already recorded recalled batteries, and the finance department of SCUD Battery recorded this transaction as revenue for FY2013.

- Subsequently, the Then Finance Control Director of SCUD Battery obtained from the Third Party the forged bank receipts and bank statements and gave the forged bank receipts to the then cashier of SCUD Battery who then forwarded the same to the accountant of SCUD Battery and falsely reported the collection of accounts receivable of approximately RMB19,000,000 and approximately RMB4,000,000 respectively in relation to the sales of batteries (i.e. approximately RMB23,000,000 was accumulated in aggregate for FY2014).
- The false statement of collection of accounts receivable and revenue that began to take place in 2013 had resulted in the false increase of bank balances of SCUD Battery. In order to avoid the Board and Moore Stephens becoming suspicious and having consulted the Third Party, the Then Finance Control Director of SCUD Battery gave the forged bank interest receipts and bank statements of the bank to the then cashier of SCUD Battery and falsely reported the bank interest income accordingly based on the false increase of bank balances for FY2013 and FY2014.

Write-downs of accumulated and undeclared tax payable

- During the period between FY2013 and FY2014, since some of the customers of SCUD Battery did not ask for VAT sales invoices for some of the sales transactions that occurred during the relevant period, SCUD Battery had sales transactions of approximately RMB234,000,000 and RMB226,000,000 for FY2013 and FY2014 respectively, representing approximately 45% and 35% of the total sales amount of SCUD Battery for FY2013 and FY2014, for which no VAT sales invoices were issued. Taking into account the recommendations from the Third Party, since the losses from the large amount of recalled products were not declared by SCUD Battery to the tax bureau, the Then Finance Control Director of SCUD Battery did not declare the sales (for which no VAT sales invoices were issued) to tax authorities. Since the tax authorities were entitled to recover the avoided VAT, SCUD Battery has been making full provisions for VAT payable.
- Since there was a large amount of false increase of bank balances of SCUD Battery due to the false statement of collection of accounts receivable, with the assistance of the Third Party, the Then Finance Control Director of SCUD Battery gave the forged tax receipts of the bank to the then cashier of SCUD Battery who once again forwarded the same to the accountant of SCUD Battery in the course of SCUD Battery's financial reporting procedures, and the fictitious tax payments were recorded during the period between FY2013 and FY2014 respectively. By this move, the Then Finance Control Director of SCUD Battery had written back some of the falsely increased bank balances and had reduced the tax payable of approximately RMB38,000,000 and RMB41,000,000 for FY2013 and FY2014 respectively (i.e. approximately RMB79,000,000 was accumulated in FY2014).
- To summarize the above breaches, the bank balances of the Group as at 31 December 2013 and 2014 were falsely overstated by approximately RMB158,000,000 and RMB199,000,000 respectively.

Providing forged VAT sales invoices to Moore Stephens

- SCUD Battery did not issue VAT sales invoices to the relevant customers for some of the sales transactions that occurred in FY2013 and FY2014. In order to avoid Moore Stephens questioning the authenticity of such sales and SCUD Battery's omission of declaration of the VAT for FY2013 and FY2014, the Third Party suggested to the Then Finance Control Director of SCUD Battery that it should prepare a set of forged VAT sales invoices for those sales transactions without VAT sales invoices for the audit purposes. Since the VAT sales invoices prepared by the Third Party were inconsistent with those VAT sales invoices produced by the tax bureau in terms of invoice number and quality and the then on-site audit work for SCUD Electronics and SCUD Battery were done by the same team of auditors simultaneously, in order to avoid Moore Stephens becoming suspicious of the invoices of SCUD Battery provided by the Third Party, the Then Finance Control Director of SCUD Battery took the advice of the Third Party and prepared forged invoices of SCUD Battery in FY2013 and FY2014 and a full set of forged VAT sales invoices of SCUD Electronics in FY2013 and FY2014, attaching to the sales vouchers for that period and submitted to Moore Stephens for audit purposes.

INDEPENDENT INVESTIGATION AND SUMMARY OF THE INVESTIGATION

Based on the above, Grant Thornton determined that the Audit Issue should involve an investigation in four specific areas in respect of the financial data of SCUD Battery and SCUD Electronics in FY2013 and FY2014 as set out below:

- (i) verifying the authenticity of the sales amount after the Post Accounting Adjustments of SCUD Battery and SCUD Electronics in FY2013 and FY2014;
- (ii) verifying the authenticity of accounting records of accounts receivable after the Post Accounting Adjustments of SCUD Battery and SCUD Electronics in FY2013 and FY2014;
- (iii) verifying the authenticity of the bank accounts after Post Accounting Adjustments of SCUD Battery and SCUD Electronics and the bank balances of the Group in FY2013 and FY2014; and
- (iv) verifying the completeness and authenticity of VAT and income tax and amount of tax payment after Post Accounting Adjustments of SCUD Battery and SCUD Electronics in FY2013 and FY2014.

Main procedures that Grant Thornton conducted for the investigation included:

- (i) interviewing relevant management and other staff of the Group;
- (ii) carrying out bank confirmation for all of the existing bank accounts controlled by the Group;

- (iii) carrying out customer confirmation in respect of the sales amounts, accounts receivable balances of SCUD Battery and SCUD Electronics and the amount of returned goods and sales amount related to the returned goods in FY2013 in respect of SCUD Battery;
- (iv) interviewing relevant governmental departments and some of the customers of SCUD Battery who may have unusual circumstances;
- (v) checking relevant information filed with government departments;
- (vi) reviewing computer-records in computers of relevant staff members;
- (vii) inspecting and verifying relevant accounting records;
- (viii) carrying out stocktaking for the battery products recalled in the Own-Brand Battery Recall Plan.

As stated above, according to the preliminary internal review of the Group, the Group adjusted the entries of the Late Adjustments previously provided to Moore Stephens. Therefore, the entries of the Post Accounting Adjustments obtained by Grant Thornton during the investigation are not entirely consistent with the Late Adjustments referred to in the Letter of Resignation of Moore Stephens. Furthermore, the Group adjusted the accounting records that were misstated by SCUD Battery, in which certain balance sheet items including assets, liabilities and equity etc were adjusted. The relevant accounting records of SCUD Battery before and after the Post Accounting Adjustments are summarized as follows:

SCUD Battery – FY2013 (RMB'000) (approximation):

	Year-end Balance	Post Accounting Adjustments	Year-end Balance after Adjustment	Liability and Equity	Year-end Balance	Post Accounting Adjustments	Year-end Balance after Adjustment
Assets:				Liability:			
Bank balances and cash	235,005	(158,460)	76,545	Receipts in advance	10,282	66,344	76,626
Accounts receivable	199,392	(26,765)	172,627				
Tax refundable	7,932	(7,932)	-	Equity:			
Other tax (payable)/ refundable	(10,199)	15,195	4,996	Accumulated profit/ (loss)	128,549	(183,229)	(54,680)
Deferred tax assets	28,256	61,077	89,333				

SCUD Battery – FY2014 (RMB'000) (approximation):

	Year-end	Post Accounting	Year-end	Liabilities	Year-end	Post Accounting	Year-end
Assets	Balance	Adjustments	Balance after	and Equity	Balance	Adjustments	Balance after
			Adjustment				Adjustment
Assets:				Liabilities:			
Bank balances and cash	273,228	(199,414)	73,814	Other tax payable	7,688	23,209	30,897
Accounts receivable	235,322	(11,307)	224,015	Tax payable	2,484	16,665	19,149
Deferred tax assets	9,625	60,394	70,019				
				Equity:			
				Accumulated profit/	58,895	(190,201)	(131,306)
				(loss)			

Through evidence collection and enquiries from various aspects, Grant Thornton conducted verification of the amount of sales, accounts receivable and VAT payable and income tax payable after the Post Accounting Adjustments of SCUD Battery as well as the bank balances of the Group in FY2013 and FY2014. In conclusion, it has not come to the attention of Grant Thornton any material inconsistency between the amount of sales, accounts receivable, bank balances and VAT payable and income tax payable after the Post Accounting Adjustments of SCUD Battery and the result of evidence collection of Grant Thornton. According to the conclusion of the independent investigation, and based on the statements of the interviewees, there was no evidence showing that any of the Group's senior management (except the Senior Management Involved) was involved in the aforementioned malpractices.

ACTIONS TAKEN BY THE COMPANY AT THIS STAGE

In respect of the Matters involved in the independent investigation, the Company has taken the following improvement actions at this stage.

Demotion and restriction of authorities and dismissal of the Senior Management Involved

During the period in which the investigation was conducted, the Group revoked the relevant authorities of the Senior Management Involved and demoted them to other posts, and they were required to co-operate with the Company to complete the investigation. The former daily duties of the Senior Management Involved were temporarily replaced by other suitable employees of the Group. The Group has terminated the employment of the Senior Management Involved from all of their duties within the Group after the investigation was completed.

Enhancement of business process

The relevant finance department of the Group reconciles directly with suppliers, customers and distributors on a monthly basis, and requests the finance department to fully implement verification procedures. In respect of sales procedures, since May 2015, the Group's sales department is required

to submit original customer orders to the finance department of the relevant Group member. Upon confirmation of sales income being recorded, the finance department is required to review the customers' orders, the delivery notes of sales, warehouse orders and invoices altogether. Each department head is, for the time being, required to report to the Board directly.

Supplemental declaration and payment of taxes and fine for tax overdue in accordance with the requirements of the State Administration of Taxation

The Group's senior management has taken the initiative and reported to the State Administration of Taxation about the circumstances in which the Group discovered the omission by SCUD Battery and SCUD Electronics to declare VAT and income tax for FY2013 and FY2014, and it clarified with the State Administration of Taxation in respect of the actual amount in the enterprise income tax annual tax returns and schedules and VAT tax returns of SCUD Battery and SCUD Electronics as verified by Grant Thornton. It also clarified the amount of tax and fine for tax overdue to be imposed by the State Administration of Taxation on such omission in tax declaration by SCUD Battery and SCUD Electronics.

In light of the omission on declaring income tax and VAT for SCUD Electronics and SCUD Battery in the previous years, the Group has clarified with the State Administration of Taxation in respect of actual amount of outstanding tax and fine for tax overdue of SCUD Battery and SCUD Electronics for the tax year ended 31 December 2014, and it has obtained a formal reply and confirmation issued by the State Administration of Taxation confirming the amount of tax and fine payable. In accordance with the confirmation from the State Administration of Taxation, SCUD Battery and SCUD Electronics are required to make a supplemental declaration in respect of such VAT which was not declared in the year of tax assessment for 2015 and it shall pay such outstanding income tax and fine for tax overdue for the previous years as soon as possible, and the State Administration of Taxation agreed to waive any other penalty and, subject to the aforesaid payments being made, the Group shall have no further liability in connection therewith. As at the date of this announcement, SCUD Battery and SCUD Electronics have declared and paid such taxes and fine for tax overdue in accordance with the requirements of the State Administration of Taxation, and they have obtained written confirmation from the State Administration of Taxation that SCUD Battery and SCUD Electronics have paid the above taxes and fine for overdue tax in accordance with the requirements of the State Administration of Taxation.

RECOMMENDATIONS OF THE INDEPENDENT BOARD COMMITTEE

Upon review of the Final Draft Report, the Independent Board Committee made the following recommendations to the Board:

1. The Final Draft Report has identified the persons to be liable for the breach, including, inter alia, the Senior Management Involved. The Independent Board Committee recommended the Board to consider taking expeditious and appropriate measures against them, which may include internal disciplinary action or summary dismissal or reporting to the relevant PRC authorities.

2. The Independent Board Committee recommended that the accounts of FY2014 and FY2015 to be revised and presented by qualified accountants to reflect the true and accurate financial position of the Group.
3. The Independent Board Committee recommended engaging a professional accounting firm as an auditor to complete the audit of the consolidated financial statement of the Group for FY2014 and to address the Audit Issues.
4. As it was found in the investigation of Grant Thornton that the financial information of SCUD Battery for FY2013 was misstated, the Independent Board Committee recommended the auditor to review the previous financial information for FY2013 for the purpose of the Company's restatement of the financial statement for FY2013 (if necessary).
5. The Independent Board Committee recommends the auditor to complete the audit for FY2015.
6. In accordance with the Stock Exchange's letter dated 3 July 2015, one of the conditions of the resumption of trading in the Company's shares by the Company is to show to the satisfaction of the Stock Exchange that the Company has put in place adequate financial reporting procedures and internal control systems to fulfil its obligations under the Listing Rules. The Independent Board Committee makes the following recommendations with regard to the current financial reporting procedures and internal control systems of SCUD Battery:

Redefine and strictly implement the rules or guidelines on the accounts receivable, for example:

1. On, before and after the date of balance sheet, perform cross-checking and/or reconciliation on goods to ensure the completeness and consistency of the records during the accounting periods
2. Issue reconciliation statements of accounts receivable to customers/distributors regularly
3. Execute collection of payments from overdue accounts in accordance with established policies
4. Internal reviewers to check accounting documents regularly

Redefine and strictly implement the rules or guidelines on the return of goods in the sales process, for example:

1. Prepare reports on the inventory aging analysis of accounts on a regular basis
2. The warehousing department submits information on the return of goods to the finance department punctually, completely and accurately
3. Check inventory records internally and regularly

Redefine and strictly implement the rules or guidelines on the bank statement reconciliation process, for example:

1. Standardize the authorization required
2. Ensure that the statements/documents are directly obtained from banks and the bank statement reconciliation is handled by a person independent of the cashier
3. Internal reviewers conduct verification on the entries recorded in bank statements regularly

Redefine and strictly implement the rules or guidelines on the distribution channels, for example:

1. Determine a limit according to the credit standing and payment capability of customers; suspension of delivery of goods to customers exceeding the credit limits
2. Monitor closely the financial and credit positions of customers

Redefine and strictly implement the rules or guidelines on the tax declaration process, for example:

1. Standardize the authorizations of relevant departmental personnel of the Company
 2. Internal review of tax returns and business registration annual review forms before submitting the same
7. The Independent Board Committee recommends engaging an independent third party consultant to review the internal control systems and procedures of the Company and consider other issues regarding internal control, including but not limited to the establishment of internal audit function and the formulation of reporting policies. The Board should implement the recommendations of the independent third party to strengthen the internal control mechanism of the Company to avoid the occurrence of similar breaches in the future.

ACTIONS TO BE TAKEN BY THE COMPANY IN THE FUTURE

The Board agreed to implement the above recommendations by the Independent Board Committee.

As set out in the announcement published by the Company on 13 July 2015, the Stock Exchange has informed the Company that before any request for the resumption of trading in the Company's shares made by the Company is accepted, the following conditions must be satisfied:

- (i) Grant Thornton (which is an independent third party investigator) was engaged for this matter to complete the investigation into the situation discovered, to disclose the results of the relevant investigation, and the Company has addressed the issues discovered in the investigation, and if necessary, conduct further investigation to the extent as appropriate;
- (ii) show to the satisfaction of the Stock Exchange that the Company has put in place adequate financial reporting procedures and internal control systems to fulfil its obligation under the Listing Rules;
- (iii) publish all outstanding financial results required by the Listing Rules and the Company has addressed any audit qualifications; and
- (iv) inform the market of all material information.

As at the date of this announcement, the Company has satisfied the above condition (i). If there is material development on the resumption of the trading in the shares of the Company, an announcement will be made by the Company in due course.

LIMITATIONS ON THE GRANT THORNTON INVESTIGATION EXERCISE

The findings in the Final Draft Report are primarily subject to the following limitations:

- (i) no interviews have been conducted with such finance department and sales department employees of SCUD Battery who have resigned;
- (ii) the Then Finance Control Director of SCUD Battery could not arrange for an interview with Grant Thornton of the Third Party whom Grant Thornton understands has been in liaison with the Then Finance Control Director of SCUD Battery;
- (iii) Grant Thornton did not have access to the forged financial documentation presented to Moore Stephens for review previously as it was informed such documentation have been returned to the Third Party by the Then Finance Control Director of SCUD Battery;
- (iv) not all customers of SCUD Battery have been able to participate in Grant Thornton's investigation exercise. Revenue attributable to such customers represent approximately 3.2% and 1.4% of the total revenue of SCUD Battery for the FY2013 and FY2014, and accounts receivable representing approximately 26.8% and 5.0% of the total accounts receivable of SCUD Battery for the same period;

- (v) Moore Stephens declined to meeting with Grant Thornton to discuss about the Audit Issue save that Moore Stephens have confirmed to Grant Thornton they have nothing to supplement in addition to what is already stated in the Letter of Resignation;
- (vi) Grant Thornton cannot carry out investigation on bank accounts which are no longer controlled by the Group (as a result of the account holder having been deregistered or sold by the Group);
- (vii) not all customers responded to requests for written confirmation on sales and receivables figures.

CONTINUED SUSPENSION OF TRADING

Upon the request of the Company, trading in the shares of the Company has been suspended since 26 March 2015 and suspension will remain until further notice. The trading of shares of the Company may only resume after, inter alia, the Company has resolved the comments of the Stock Exchange on the relevant Final Draft Report.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

- | | |
|-----------------|--|
| “Announcements” | announcements of the Company in connection with the Audit Issue and related matters since 24 April 2015; |
| “Audit Issues” | the three inconsistencies between the financial data and the audit evidence listed in Moore Stephens’ Letter of Resignation found during the audit for FY2014, namely: <ul style="list-style-type: none">(i) Moore Stephens was unable to verify all VAT invoices tested in their sales transaction test through the online verification system;(ii) Moore Stephens was unable to verify a late adjustment debiting accounts receivable and crediting bank balances. The bank balances as at 31 December 2014 after putting through that adjustment is inconsistent with the balances shown on the bank confirmations that Moore Stephens obtained from the banks during the audit; and |

(iii) Moore Stephens was unable to verify a late adjustment debiting sales, income tax payable, VAT payable and crediting bank balances and intercompany current account. That adjustment is inconsistent with the tax returns, tax payment advice and bank confirmations that Moore Stephens obtained and the sales ledger that was made available for their testing during the audit.

“Board”	the board of Directors
“Company”	SCUD Group Limited, a company incorporated in the Cayman Islands with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	the director(s) of the Company
“FY2012”	the financial year commencing from 1 January 2012 to 31 December 2012
“FY2013”	the financial year commencing from 1 January 2013 to 31 December 2013
“FY2014”	the financial year commencing from 1 January 2014 to 31 December 2014
“FY2015”	the financial year commencing from 1 January 2015 to 31 December 2015
“Grant Thornton”	Grant Thornton Advisory Services Limited
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	the independent board committee comprising all of the independent non-executive directors of the Group (i.e. Dr. Loke Yu, Mr. Wang Jing Zhong and Mr. Wang Jian Zhang)

“Late Adjustments”	the preliminary late adjustments by the Group for FY2014 (unaudited) as set out in the Letter of Resignation, namely debiting accounts receivable and crediting bank balances by approximately RMB199,000,000; debiting sales by approximately RMB16,000,000, income tax payable by approximately RMB2,000,000, VAT payable by approximately RMB12,000,000, crediting bank balances by approximately RMB26,000,000 and intercompany account by approximately RMB4,000,000
“Letter of Resignation”	Moore Stephens’ resignation letter dated 2 April 2015 to the Board and the audit committee of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Matters”	the Audit Issue raised in Moore Stephens’ resignation letter dated 2 April 2015
“Moore Stephens”	Moore Stephens Certified Public Accountants, the auditors of the Group from 2007 to 2014 and formally resigned on 2 April 2015
“ODM Business”	the original design and manufacturing business, which is primarily the sales of power design proposals, manufacture of original mobile phone batteries and original power banks for brand mobile phone manufacturers. The ODM Business is mainly operated by SCUD Electronics
“Own-Brand Battery Recall Plan”	a plan to recall those own-brand battery products of specified series purchased from SCUD Battery by 31 designated distributors during the period between 1 January 2010 and 30 June 2012. The recall action commenced from the fourth quarter of 2012 and ended on 30 June 2013
“Own-brand Business”	the manufacture and sale of lithium-ion battery modules, power banks, chargers and related accessories for the use on mobile phones and digital electronic products under the “SCUD 飛毛腿” brand and “Chaolitong 超力通” brand. The Own-brand Business is mainly operated by SCUD Battery

“Post Accounting Adjustments”	the post accounting adjustments in respect of sales revenue, interest income, cost of sales, income tax expenses, accounts receivable, bank deposits, deferred tax assets, income tax payable, VAT payable, other taxes payable and inventories of SCUD Battery for FY2013 and FY2014 and made after the preliminary internal review by the Group
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“SCUD Battery”	SCUD Battery Co., Ltd, a wholly foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“SCUD Electronics”	SCUD (Fujian) Electronics Co., Ltd, a wholly foreign-owned enterprise established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Senior Management Involved”	Then Finance Control Director of SCUD Battery and SCUD Electronics, and Then General Manager of SCUD Battery
“SFO”	the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Then Finance Control Director of SCUD Battery”	the finance control director responsible for capital operation, deployment and negotiation of financing arrangements with banks, and was in charge of the finance departments of SCUD Battery and SCUD Electronics. The Group formally dismissed her from all of her duties within the Group on 31 May 2016
“Then General Manager of SCUD Battery”	the general manager of SCUD Battery during the period between January 2012 and April 2015, who was responsible for principal operation, establishment of brand culture, integration of brand market and development of distribution channels of the Own-brand Business of the Group. The Group formally dismissed him from all of his duties within the Group on 31 May 2016

“Third Party” a person who, according to the Senior Management Involved, assisted in providing forged documentation and manipulating financial data in respect of FY2013 and FY2014, and which is not a staff member of the Group

“VAT” value added tax

By order of the Board
SCUD Group Limited
Chairman
Fang Jin

Hong Kong, 14 June 2016

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