SCUD 飞毛腿

SCUD GROUP LIMITED
飛毛腿集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01399)

DISCLOSEABLE TRANSACTION

SALE AND PURCHASE AGREEMENT

On 9 December 2016, Scud Electronics (as the Vendor) entered into the Sale and Purchase Agreement with Guangdong Stiger (as the Purchaser).

Pursuant to the Sale and Purchase Agreement, Scud Electronics agreed to sell and Guangdong Stiger agreed to purchase the Sale Interest, being 70% equity interest in Shenzhen Nalon, for a consideration of RMB15.0 million (equivalent to approximately HK$16.9 million).

ONGOING BANK GUARANTEES

Upon completion of the Sale and Purchase Agreement, pre-existing bank guarantees given by the Vendor for the benefit of bank loans taken out by Shenzhen Nalon as at the date of the Sale and Purchase Agreement (being RMB19.6 million (equivalent to approximately HK$22.0 million) shall continue. However, in the event the Vendor is called upon to carry out its obligations under such guarantees, the Purchaser has undertaken to indemnify the Vendor any and all expenses and losses as may be incurred or suffered by it. The aggregate amount of such ongoing bank guarantees provided by the Vendor as at the date of this announcement is approximately RMB35.0 million (equivalent to approximately HK$39.4 million).

LISTING RULES IMPLICATIONS

As some of the applicable percentage ratios in respect of the Disposal exceed 5% but do not exceed 25%, the Disposal constitutes a discloseable transaction under the Listing Rules.

* *For identification purpose only*

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The specific terms of the Sale and Purchase Agreement are set out as follows:

Date: 9 December 2016

Parties:

(i) Scud Electronics, as the Vendor

(ii) Guangdong Stiger, as the Purchaser

Consideration: RMB15.0 million (equivalent to approximately HK$16.9 million)

Equity Holding: As at the date of the Sale and Purchase Agreement, the following equity holders are the beneficial owners of Shenzhen Nalon:

Equity holder	**% equity interest**
Scud Electronics	70
Mr. Cao	30

Immediately after completion of the Sale and Purchase Agreement, Guangdong Stiger will be the 70% beneficial owner of Shenzhen Nalon and Mr. Cao will remain as 30% beneficial owner of Shenzhen Nalon.

Payment: Pursuant to the terms of the Sale and Purchase Agreement, the Consideration payable by Guangdong Stiger is RMB15.0 million (approximately HK$16.9 million) to be settled by cash. Payment will be settled as follows:

(i) RMB8.0 million (approximately HK$9.0 million) payable to the Vendor within 10 days after the date of signing of the Sale and Purchase Agreement; and

(ii) RMB7.0 million (approximately HK$7.9 million) payable to the Vendor within 10 days after the date of registration of the transfer in the Industry and Commerce Bureau.

The Consideration was arrived at after arm's length negotiations between the parties with reference to:

(i) Shenzhen Nalon's net asset value

Being the unaudited net asset amount of approximately RMB15.0 million (equivalent to approximately HK$16.9 million) as at 30 November 2016 as per the unaudited management account of Shenzhen Nalon ("**Shenzhen Nalon's NAV**");

(ii) Unaudited adjusted value of net assets attributable to the Company

Being the sum of (a) Shenzhen Nalon's NAV and; (b) RMB1.2 million (equivalent to approximately HK$1.3 million), being 30% (attributable to Mr. Cao's non-controlling interest in Shenzhen Nalon) of the difference between the capital reserve contributed solely by Scud Electronics to Shenzhen Nalon of RMB19.0 million (equivalent to approximately HK$21.4 million) and Shenzhen Nalon's NAV.

Accordingly, the aggregate value of Shenzhen Nalon disposed of by the Company as at 30 November 2016 was approximately RMB16.2 million (equivalent to approximately HK$18.2 million).

In the event that the Sale and Transfer is not completed, the Vendor shall refund all funds received (without interest) to the Purchaser within 10 days.

On-going Bank Guarantees: Upon completion of the Sale and Purchase Agreement, pre-existing bank guarantees given by the Vendor for the benefit of bank loans taken out by Shenzhen Nalon as at the date of the Sale and Purchase Agreement (being RMB19.6 million (equivalent to approximately HK$22.0 million) shall continue. However, in the event the Vendor is called upon to carry out its obligations under such guarantees, the Purchaser has undertaken to indemnify the Vendor any and all expenses and losses as may be incurred or suffered by it. The aggregate amount of such ongoing bank guarantees provided by the Vendor as at the date of this announcement is approximately RMB35.0 million (equivalent to approximately HK$39.4 million).

The rights and obligations of the Sale Interest (including but not limited to the rights to receive dividends and other distribution entitlement declared, made, paid, payable or accumulated on the date of the Sale and Purchase Agreement and thereafter and the voting rights) are passed to the Purchaser on the date of signing of the Sale and Purchase Agreement.

It is not currently anticipated that competition will arise given that Shenzhen Nalon is involved in the research and development, manufacture and sales of lithium-ion bare battery cells as a supplier to the Group whereas the Group, after such disposals would continue to source bare battery cells from independent third party suppliers as well as Shenzhen Nalon (and/or each of their respective subsidiaries and/or associates) as a component of their battery modules before selling such battery modules. Shenzhen Nalon (and/or each of their respective subsidiaries and/or associates) is not engaged in the sales of battery modules as at the date of this announcement.

Upon completion of the Sale and Purchase Agreement, Shenzhen Nalon will cease to be an indirect subsidiary of the Company.

As stated in the unaudited management accounts of Shenzhen Nalon for the two financial years ended 31 December 2015, the unaudited profits (losses) before and after tax for the two financial years ended 31 December 2015 are set out below:

	For the year ended 31 December 2014 (unaudited)	**For the year ended 31 December 2015** (unaudited)
Loss before tax and extraordinary items	RMB2,047,000 (approximately HK$2,302,000)	RMB14,796,000 (approximately HK$16,639,000)
Loss after tax and extraordinary items	RMB2,183,000 (approximately HK$2,455,000)	RMB14,693,000 (approximately HK$16,523,000)

Based on the Consideration of RMB15.0 million (equivalent to approximately HK$16.9 million) and Shenzhen Nalon's NAV of approximately RMB15.0 million (equivalent to approximately HK$16.9 million) attributable to the 70% equity interest in Shenzhen Nalon, the Disposal is expected to give rise to a loss attributable to the Company of approximately RMB1.2 million (equivalent to approximately HK$1.3 million).

The Company intends to use the net proceeds from the completion of the Disposal for general working capital purposes.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE AND PURCHASE AGREEMENT

With reference to the announcement of the Company dated 13 June 2014 and 24 October 2014, the Company had previously entered into a sale and purchase agreement in relation to, among others, the disposal of Shenzhen Nalon to Mr. Fang Jin, the chairman and the controlling shareholder of the Company. However, that sale did not proceed to completion as not all required consents and approvals were obtained and the Group continued to look for opportunities to dispose of Shenzhen Nalon.

Since 2014, the Group's own-brand and bare battery cells businesses continued to face challenges in light of changes in the industry. The drop in the Group's sales of bare battery cells was attributable to the significant decrease in demand for prismatic liquid lithium-ion bare battery cells typically used in feature mobile phones, in addition to the intensified competition across the industry. Furthermore, the Group had already repositioned its target customers to domestic mid to high-end phone manufacturers with its expectation to boost its business in its original design manufacturing ("**ODM**") business which has a relatively higher growth potential in terms of volume. The industry environment remains competitive with numerous domestic and overseas enterprises engaged in the manufacturing of lithium-ion bare battery cells, among which are established companies with large-scale operations enjoying significant competitive advantages as compared to our Group. These factors, together with Shenzhen Nalon's loss making status as a result of the above, contributed to the Group's decision to dispose of Shenzhen Nalon.

The disposal of Shenzhen Nalon is expected to allow the Group to focus its resources on relatively more profitable segments of its business, reduce operating losses, improve the Group's results in operation and working capital.

The terms of the Sale and Purchase Agreement were arrived at after arm's length negotiations between the parties. The Directors are of the view that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the relevant applicable percentage ratios in respect of the Disposal exceed 5% but do not exceed 25%, the Disposal constitutes a discloseable transaction under the Listing Rules.

GENERAL INFORMATION

The Group's principal businesses comprise its ODM business which mainly supplies lithium-ion battery modules to manufacturers of well-known telecommunication brands at home and abroad, and the business on manufacture and sale of battery modules for mobile phones in the PRC under its own "SCUD 飛毛腿" brand. For more information, please visit the Group's website at http://www.scudgroup.com.

As set out above, upon disposal of Shenzhen Nalon, the Group will focus on producing lithium-ion battery modules through its ODM business and its own brand "SCUD飛毛腿". The Group believes that focusing its resources on these segments of the Group's business will further enhance the profit margin and demand for the Company's products.

Scud Electronics is a wholly-owned subsidiary of the Company principally engaged in the manufacturing and marketing of rechargeable battery packs and other related accessories for mobile phones and other electronic appliances.

Shenzhen Nalon is principally engaged in the research and development, manufacturing and sales lithium-ion bare battery cells.

Guangdong Stiger is principally engaged in manufacturing and sales of power adapters, chargers and other accessories for notebook computers and tablets.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, Guangdong Stiger and the ultimate beneficial owner of Guangdong Stiger is a third party independent of the Company and connected persons of the Company.

DEFINITIONS

"associate"	has the meaning ascribed to it in the Listing Rules
"Board"	the board of Directors
"Company"	SCUD Group Limited, a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange
"connected person"	has the meaning ascribed to it in the Listing Rules
"Consideration"	the consideration of RMB15.0 million under the Sale and Purchase Agreement
"Director(s)"	director(s) of the Company
"Disposal"	the disposal contemplated under the Sale and Purchase Agreement
"Group"	the Company and its subsidiaries
"Guangdong Stiger"	廣東斯泰克信息技術有限公司 (Guangdong Stiger Information Technology Co., Ltd.*), a limited liability company established under the laws of the PRC

"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mr. Cao"	曹興剛 (Cao Xinggang), who beneficially owns 30% equity interest in Shenzhen Nalon as at the date of the Sale and Purchase Agreement
"percentage ratios"	the percentage ratios calculated based on the requirements under Rule 14.07 of the Listing Rules
"PRC"	the People's Republic of China and for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Purchaser"	Guangdong Stiger
"RMB"	Renminbi, the lawful currency of the PRC
"Sale and Purchase Agreement"	the sale and purchase agreement entered into between the Vendor and the Purchaser on 9 December 2016, pursuant to which the Purchaser agreed to pay a consideration of RMB15.0 million (approximately HK$16.9 million) which would give the Purchaser a 70% equity interest in Shenzhen Nalon upon completion of this agreement
"Sale Interest"	70% equity interest in Shenzhen Nalon
"Scud Electronics"	飛毛腿(福建)電子有限公司 (Scud (Fujian) Electronics Co., Ltd.*), a wholly foreign-owned enterprise established in the PRC on 30 September 2002 and an indirect wholly-owned subsidiary of the Company, which beneficially owns 70% equity interest in Shenzhen Nalon as at the date of the Sale and Purchase Agreement
"Share(s)"	ordinary share(s) in the Company with a nominal value of HK$0.10 each
"Shareholder(s)"	holder(s) of the Shares
"Shenzhen Nalon"	深圳市朗能電池有限公司 (Shenzhen Nalon Battery Co., Ltd.*), a company established under the laws of the PRC

"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Scud Electronics

For the purpose of this announcement, unless otherwise indicated, the exchange rate of HK$1=RMB0.88923 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or at all.

By Order of the Board
SCUD GROUP LIMITED
Fang Jin
Chairman

Hong Kong, 9 December 2016

As at the date of this announcement, the Board comprises Mr. Fang Jin, Mr. Guo Quan Zeng and Mr. Feng Ming Zhu being the executive Directors, Mr. Zhang Li and Mr. Hou Li being the non-executive Directors, and Dr. Loke Yu, Mr. Wang Jing Zhong, Mr. Wang Jian Zhang and Mr. Heng Ja Wei Victor being the independent non-executive Directors.