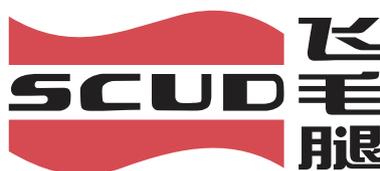


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## **SCUD GROUP LIMITED**

**飛毛腿集團有限公司\***

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 01399)**

### **FULFILMENT OF ALL RESUMPTION CONDITIONS RESUMPTION OF TRADING AND CHANGE OF DIRECTORS**

#### **FULFILMENT OF ALL RESUMPTION CONDITIONS**

Reference is made to the Company's announcements dated 13 July 2015 and 1 August 2018 in relation to the Resumption Conditions imposed by the Stock Exchange on the Company. As at the date of this announcement, the Company has fulfilled all the Resumption Conditions to the satisfaction of the Stock Exchange.

#### **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 26 March 2015. Since all the Resumption Conditions have been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on Friday, 28 September 2018.

#### **CHANGE OF DIRECTORS**

The Board is pleased to announce the restructuring of the Board with effect from 27 September 2018, which involved the appointment of new Directors who have substantial accounting, internal control and corporate governance experience. Following such restructuring, the Board members are as follows:

- Ms. Lian Xiu Qin (chief executive officer and executive Director)
- Mr. Feng Ming Zhu (executive Director)
- Dr. Ho Chung Tai Raymond (chairman and non-executive Director)
- Mr. Hou Li (non-executive Director)
- Mr. Heng Ja Wei Victor (independent non-executive Director)
- Mr. Lam Yau Yiu (independent non-executive Director)
- Dr. Wong Chi Wing (independent non-executive Director)

\* For identification purpose only

## BACKGROUND

At the request of SCUD Group Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”), trading in the shares of the Company (the “**Shares**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) has been suspended from 9:00 a.m. on 26 March 2015.

Reference is made to the Company’s announcements dated 13 July 2015 (the “**2015 Resumption Conditions Announcement**”) and 1 August 2018 (together with the 2015 Resumption Conditions Announcement, the “**Resumption Conditions Announcements**”) in relation to the conditions imposed by the Stock Exchange on the Company in respect of the resumption of trading in the Shares on the Stock Exchange (the “**Resumption Conditions**”). Unless the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Company’s announcement dated 14 June 2016 (the “**June 2016 Announcement**”, which is referred to below).

As stated in the Resumption Conditions Announcements, the Resumption Conditions include:

1. completion of the investigation of the Matters (which were referred to as the “**Observations**” in the 2015 Resumption Conditions Announcement) (the “**Investigation**”) by Grant Thornton, an independent third party investigator engaged for this purpose, disclosure of the findings of such Investigation, the Company having addressed the issues identified in the Investigation and if necessary, further investigation with appropriate scope (the “**First Resumption Condition**”);
2. demonstration to the satisfaction of the Stock Exchange that the Company has put in place adequate financial reporting procedures and internal control systems to meet its obligations under the Listing Rules (the “**Second Resumption Condition**”);
3. publication of all outstanding financial results required by the Listing Rules and the Company having addressed any audit qualifications (the “**Third Resumption Condition**”);
4. informing the market of all material information (the “**Fourth Resumption Condition**”); and
5. demonstration that the Directors meet the standard of competence commensurate with their position as directors of a listed issuer to fulfill duties of skill, care and diligence as required under Rule 3.08 of the Listing Rules (the “**Fifth Resumption Condition**”).

## FULFILMENT OF ALL THE RESUMPTION CONDITIONS

The Company is pleased to announce that as at the date of this announcement, the Company has fulfilled all the Resumption Conditions to the satisfaction of the Stock Exchange. Set out below are the actions taken to fulfill such Resumption Conditions and the corresponding views of the Resumption Committee and the Board.

### 1. The First Resumption Condition – Investigation of the Matters

Reference is made to the June 2016 Announcement, setting out, among other things, the background and details of the Matters, the establishment of the Independent Board Committee, the engagement of Grant Thornton to investigate the Matters and the improvement actions taken by the Group in respect of the Matters at the time pending completion of the Investigation.

The Investigation was completed by Grant Thornton and a summary of their key findings and the scope, main procedures and conclusion of the Investigation were set out in the June 2016 Announcement. Upon review of the report of Grant Thornton on the Investigation and in light of the issues identified in the Investigation, the Independent Board Committee made certain recommendations to the Board as set out in the June 2016 Announcement as summarised below. The Company has addressed the recommendations of the Independent Board Committee as follows:

**Independent Board Committee’s  
Recommendations**

**Actions taken by the Company**

*Measures against the Senior Management Involved*

- (i) Take expeditious and appropriate measures against the Senior Management Involved (that is, the Then General Manager of SCUD Battery and the Then Finance Control Director of SCUD Battery)

Pending completion of the Investigation, the Group revoked the relevant authorities of the Senior Management Involved and demoted them to other posts. They were required to cooperate with the Company to complete the Investigation, and their former daily duties were temporarily assumed by other suitable employees of the Group.

After the Investigation was completed, the Group summarily dismissed the Senior Management Involved from all of their respective duties within the Group on 31 May 2016.

As certain fine for tax overdue was imposed on SCUD Battery and SCUD Electronics by the State Administration of Taxation (the “SAT”) of the PRC in connection with omission in tax declaration by these two companies as a result of conducts of the Senior Management Involved, the Group commenced legal proceedings against the Senior Management Involved in the PRC courts. On 23 March 2017, the ruling by the PRC courts requiring the Senior Management Involved to compensate the Group for such amount of fine for tax overdue took effect. The Senior Management Involved were ordered to pay the Group such fine for tax overdue in the amount of RMB1,020,008.82. Please refer to the Company’s announcement dated 31 March 2017. The Senior Management Involved have fully paid such fines to the Group.

## **Independent Board Committee's Recommendations**

## **Actions taken by the Company**

The Group reported to the Ministry of Public Security in the PRC in respect of the conducts of the Senior Management Involved, and the Ministry of Public Security informed the Group that they would not accept such case as it was outside their jurisdiction, given the lack of evidence to establish a criminal case and the breach by the Senior Management Involved of their duties as employees was a civil case, which had been heard by the PRC courts and addressed by the SAT by way of the imposition of fine for tax overdue on the two companies and the Senior Management Involved had fully compensated the Group for such fine in accordance with the PRC court order.

### ***Audit and Review of Financial Statements***

- (ii) Auditor to review the previous financial information for FY2013 for the Company to restate the financial statements for FY2013 (if necessary)
- (iii) Engage 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 Matters
- (iv) The accounts of FY2014 and FY2015 be revised and presented by qualified accountants to reflect the true and accurate financial position of the Group
- (v) Auditor to complete the audit for FY2015

The Company engaged BDO Limited as its auditor (the “**Auditor**”) in August 2016. The Auditor, among other things, audited the annual results of the Group for FY2014 and FY2015 and reviewed the interim results of the Group for the six months ended 30 June 2015, which were announced on 30 April 2018. The relevant annual reports and interim report of the Company were despatched to the shareholders of the Company on 7 May 2018.

In the preparation of the consolidated annual financial statements for FY2014 (which were audited by the Auditor) and the condensed consolidated interim financial statements for the six months ended 30 June 2015 (which were reviewed by the Auditor), the Company took into account all the findings of the Investigation and made adjustments to such financial statements, including prior year adjustments to the annual and interim comparative information for FY2013 and the six months ended 30 June 2014 respectively, to correct the material misstatements uncovered by the Investigation.

## **Independent Board Committee's Recommendations**

## **Actions taken by the Company**

### *Internal Control Review*

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| <p>(vi) Independent Board Committee made certain recommendations with regard to the then financial reporting procedures and internal control systems of SCUD Battery in light of the Second Resumption Condition, as set out below</p> <p>(vii) Engage an independent third party consultant to review the internal control systems and procedures of the Company and implement the recommendations of the independent third party consultant to strengthen the internal control mechanism of the Company</p> | <p>The Company engaged BDO Financial Services Limited, an independent third party, as the internal control consultant of the Company to review the internal control systems and financial reporting procedures of the Group. The internal control consultant recommended improvements and/or remedial measures which addressed, among other things, the recommendations of the Independent Board Committee. The Company considered and implemented the recommendations of the internal control consultant to strengthen the internal control mechanism of the Company. Details of the major remedial measures implemented by the Group are set out in the section below.</p> |
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On the above basis, the Resumption Committee and the Board are satisfied that the Company has fulfilled the First Resumption Condition.

## **2. The Second Resumption Condition – Internal control review**

Reference is made to the Company's announcement dated 25 August 2016 in relation to, among other things, the engagement of BDO Financial Services Limited as the internal control consultant of the Company (the "**Internal Control Consultant**") to conduct a review of the internal control systems and financial reporting procedures of the Group (the "**Internal Control Review**").

The Internal Control Review has been completed and the Internal Control Consultant issued its report on 30 November 2017. Please refer to the Company's announcement dated 30 November 2017 (the "**November 2017 Announcement**").

As stated in the November 2017 Announcement, the scope of work of the Internal Control Consultant included an independent assessment of the internal control systems of the Group which addressed, among other things, the recommendations of the Independent Board Committee as set out in the June 2016 Announcement, covering financial reporting procedures, receivables recording and collection procedures, recording procedures on the return of goods in the sales process, bank statements reconciliation procedures, distribution of goods and tax declaration procedures. Details of the process of the Internal Control Review

were set out in the November 2017 Announcement. The Company has also considered and implemented the improvements and/or remedial measures recommended by the Internal Control Consultant.

The major remedial internal control measures implemented by the Group include, among others, the new enterprise resource planning system (the “**ERP System**”) for the major subsidiaries of the Company (being SCUD Battery and SCUD Electronics). The ERP System computerised and centralised the management and recording of data, such as procurement, inventory, sales, bank and financial records, of the relevant subsidiary. Such data form the basis of the financial statements of the relevant subsidiary. The new ERP System could, among other things, strengthen the internal control systems and financial reporting procedures of the Group to mitigate the risks of any manual alteration to the data, concealment of information, false reporting and creation of forged documents and reduce inconsistencies between internal records.

Set out below are a summary of the major deficiencies identified by the Internal Control Consultant and the major remedial internal control measures implemented by the Group:

**Major Deficiencies**

**Major Remedial Measures Implemented**

*(i) Sales process and reconciliation with customers*

Customers’ purchase orders were often not retained after the Group issued the relevant sales invoices and the payments were settled. Sales orders were sometimes not issued using the Group’s standard sales order form and there was no centralised numbering for the sales orders. Whilst the customers confirmed delivery by signing on the delivery notes, such delivery notes were sometimes not retained by the sales department and were not required to be provided to the finance department.

Third party suppliers directly supplied the Group’s goods to the customers. The Group relied on the suppliers’ reconciliation statements and delivery notes to conduct monthly reconciliation with its customers. The Group had insufficient control over the direct delivery of goods by the suppliers to the customers and there were no requirements that the reconciliation be conducted in writing, records of reconciliation be retained and the reconciliation be provided to the finance department.

Upon receiving a customer’s purchase order, the purchase order is retained on the ERP System and the sales department inputs information from the purchase order into the ERP System, which automatically generates a corresponding digital sales order and a corresponding digital delivery note when the goods leave the warehouses. The corresponding sales order and purchase order can be traced from the delivery note. Such chain of linked documents and the automatic generation of documents from the ERP System reduce inconsistencies between internal records and mitigate the risks of manual alteration to the data and creation of forged documents.

## **Major Deficiencies**

After monthly reconciliation was conducted with the customers, the sales department was responsible for issuing sales invoices upon approval by the sales manager. Although the finance department was responsible for issuing tax invoices and preparing accounting vouchers, they were not provided with some of the supporting documents, such as purchase orders and sales orders, as basis for preparing such invoices and vouchers and for cross-checking.

The Group lacked clear policies on management of accounts receivable. Although the finance department prepared accounts receivable aging analysis on a monthly basis and the sales department was responsible for collecting the accounts receivable, there was no requirement that the accounts receivable collection process be recorded in writing and there was no requirement on taking legal actions on accounts receivable overdue for a long period of time.

## **Major Remedial Measures Implemented**

The customer confirms delivery by signing on the delivery note. The sales department conducts monthly reconciliation of sales and accounts receivable with the customer, and the customer confirms the reconciliation by signing on the subsidiary's reconciliation statement which is retained by the subsidiary or by allowing the subsidiary to retain a copy of the customer's reconciliation statement. Such confirmation from and monthly reconciliation with third parties mitigates the risks of concealment of information, false reporting and creation of forged documents. The finance department also conducts monthly reconciliation with the sales department in respect of accounts receivable, which reduces inconsistencies between internal records.

The sales department then prepares a sales invoice based on the relevant delivery note on the ERP System and input details of the corresponding VAT invoice into the ERP System, linking them to the relevant delivery note, sales order and purchase order. The finance department then prepares accounting vouchers on the finance system on a monthly basis, based on the delivery notes generated from the ERP System and the sales invoices issued. Such chain of linked documents reduces inconsistencies between internal records.

All documents (including the chain of purchase order, sales order, delivery note, sales invoice, VAT invoice and accounting vouchers) are cross-checked and approved by the relevant department heads and managers. The ERP System assigns a designated number to each sales order, delivery note and sales invoice and the documents are linked on the ERP System by such designated identification numbers.

## Major Deficiencies

## Major Remedial Measures Implemented

The Group updated its policies on management of accounts receivable. The finance department prepares a sales invoice register recording details of all sales invoices issued which is linked to the relevant sales orders and delivery notes on the ERP System. The sales invoice register tracks the settlements of payments made by the customers, as it is updated after completing verification of such payments. The sales department prepares an accounts receivable register on a monthly basis, which is cross-checked by the finance department. The sales department is responsible for collecting the accounts receivable and the finance department updates the sales invoice register upon receipt of payments from the customers. The finance department prepares accounts receivable aging analysis on the finance system on a monthly basis containing details of, among other things, the outstanding amounts receivable from each customer, the time period for which such amounts were overdue and the accounts receivable collection process, which is cross-checked by the finance manager, and demand letters are issued to demand for payments when appropriate.

Such chain of linked documents and the designated identification number assigned to each document reduce inconsistencies between internal records and mitigate the risk of manual alteration to the data. Such cross-checking and segregation of duties mitigate the risks of concealment of information, false reporting and creation of forged documents.

## Major Deficiencies

## Major Remedial Measures Implemented

### (ii) *Procurement process and reconciliation with suppliers*

The Group's relevant policies did not cover the requirements on the reconciliation process with the suppliers and on the accounts payable aging analysis.

The Group established policies on management of payments for procurement, which states that the procurement department shall obtain reconciliation statements from the suppliers on a monthly basis and check the goods receipt record on the ERP System against the suppliers' reconciliation statements, and after the procurement manager cross-checks and approves the reconciliation conducted by the procurement department, the finance department prepares accounts payable aging analysis on a monthly basis based on such approved reconciliation.

The Group has established a procurement payment register, which contains information on the corresponding purchase order and supplier invoice linked to the goods receipt number and the information on the purchase order recorded on the ERP System. For payment by the Group to the suppliers, the procurement department makes an application to the finance department based on the information on the procurement payment register and the payment is made after approval by the finance department.

Such chain of linked documents reduces inconsistencies between internal records and mitigate the risk of manual alteration to the data, and such reconciliation with third parties, cross-checking and segregation of duties mitigate the risks of concealment of information, false reporting and creation of forged documents.

## Major Deficiencies

### *(iii) Inventory and return of goods*

Whilst inventory aging analysis was conducted on the Group's finance system, the Group has not established policies requiring inventory aging analysis to be conducted regularly. Data on the flow of incoming and outgoing inventories was manually input without cross-checking to the inventory system and the finance system separately. As the systems did not have the function for automatic cross-checking of data on the two systems to ensure consistency, such cross-checking was conducted manually but records of such manual cross-checking were not retained. There was also no record that inventory data on the finance system was cross-checked with physical inventory stock take to ensure consistency.

In the sales process, the majority of the Group's goods were supplied directly by the Group to the customers and where such goods were returned, the customers returned them directly to the Group, and the Group retained records of the processing of such return of goods, which were reflected in the Group's books. Where the third party suppliers directly supplied the Group's goods to the customers and where such goods were returned, the customers returned them directly to the suppliers, the Group did not record data on such return of goods and instead relied on the suppliers' record, and such returned inventories could not be reflected in the Group's books. Whilst the Group's policies required written return applications be processed by the sales department and approved by the sales manager, in practice return of goods by the customers directly to the third party suppliers were processed based on verbal confirmation instead.

## Major Remedial Measures Implemented

The Group established policies requiring inventory aging analysis based on the inventory information on the ERP System be conducted on a semi-annual basis. The Group records its inventory data and manages its inventory on the new ERP System. The finance department updates the inventory information on the finance system based on that on the ERP System on a monthly basis and performs monthly inventory aging analysis to ensure consistency and accuracy. The Group regularly conducts physical inventory stock take to cross-check inventory records on the ERP Systems to ensure their accuracy. Both the warehousing department and the finance department are involved in counting and recording inventory.

The Group established policies on management of return of goods in the sales process and procurement process.

In the sales process, the majority of the Group's goods are supplied directly by the Group to the customers and the rest are supplied directly by the third party suppliers to the customers. The policies on the return of goods supplied directly by the Group and by the third party suppliers are similar. The quality-check department assesses the quality issues raised by customers. In respect of goods that qualify for return, the sales department processes written return applications and, once approved, the returned goods are processed into the Group's warehouses by the warehousing department (where such goods are supplied directly by the Group) or the relevant third party supplier's warehouses (where such goods are supplied directly by such third party supplier). The warehousing department (where the returned goods are supplied directly by the Group) or the sales department (where the returned goods are supplied directly by third party suppliers) informs the finance department accordingly in relation to the goods returned, and then the finance department updates the accounts on the finance system.

## Major Deficiencies

### (iv) *Bank statements reconciliation process*

The Group has not established policies on management of funds.

For some Group members, the cashier obtained daily bank statements from the banks to prepare the bank account details register. After the cashier obtained the monthly bank statements from the banks, the cashier would reconcile the bank account details register and the monthly bank statements, but as funds were mostly instantly transferred through online banking systems and thus there was no difference between the bank account details register and the daily bank statements, the finance department did not prepare bank account balance adjustment tables. For some other Group members, there was a lack of complete record of reconciliation for bank accounts.

## Major Remedial Measures Implemented

In the procurement process (for example, for raw materials and semi-finished goods), the warehousing department processes the return of goods based on the goods return information sheet prepared by the procurement department, which is cross-checked and approved by the finance department, and then the finance department updates the accounts on the finance system.

Such chain of linked documents recorded on the ERP System, cross-checking and segregation of duties reduce inconsistencies between internal records and mitigate the risks of manual alteration of the data, concealment of information, false reporting and creation of forged documents.

The Group established policies on management of funds, covering management of receipt and payment of cash, receipt of funds from and payment of funds to banks, loans, other receivables, opening and closing of bank accounts, safekeeping of bank seals and the authorisation and approval procedures for safekeeping, receipt, issue and settlement of cheque and bank and trade acceptance bill.

The cashier obtains bank statements directly from the banks, conducts reconciliation between the bank statements and internal books balance and prepares bank account balance adjustment tables on a monthly basis, which are cross-checked by the accountant and then by the finance manager. Such regular reconciliation with third parties, level of cross-checking and segregation of duties mitigate the risks of concealment of information, false reporting and creation of forged documents. Records of cross-checking and the supporting documents are retained for audit purpose.

## Major Deficiencies

### (v) *Financial reporting*

The Group has implemented internal control procedures on financial reporting, including preparation, review, approval and reporting of consolidated financial statements, preparation of financial reports, analysis and management of discrepancies, financial analysis, financial budgeting, assessment of performance targets and reporting on implementation of annual budgets, but the Group has not yet established the corresponding written policies.

The finance department conducts monthly reconciliation of major accounting data, but complete written reconciliation record was not retained.

Staff in the finance department was not provided with regular financial-related training.

## Major Remedial Measures Implemented

Remedial measures implemented by the Group which strengthen the internal control systems and financial reporting procedures of the Group (such as the implementation of the ERP System, establishment and implementation of policies on management of payments for procurement, management of return of goods in the sales process and procurement process and systems security control, regularly conducting inventory aging analysis, regular reconciliation with third parties such as banks, customers and suppliers, establishment of an internal risk management department and establishment of the Corporate Governance Committee, as disclosed in this announcement) mitigate the risks of any manual alteration to the data, concealment of information, false reporting and creation of forged documents and reduce inconsistencies between internal records which form the basis of the financial statements of the relevant subsidiary.

The Group continues to implement internal control procedures on financial reporting and has established the corresponding written policies.

Written records of monthly reconciliation between the finance department and sales department, and written records of reconciliation between the sales department and customers, are properly recorded and retained.

The Group enrolls its staff in the finance department in annual professional financial-related training and the Company's chief financial officer periodically compiles and circulates articles on financial-related topics to staff in the finance department.

## Major Deficiencies

## Major Remedial Measures Implemented

### (vi) *Tax declaration process*

The Group's tax management policies have not been updated or reviewed since they were established and in practice the Group's standard form was not used.

The Group has reviewed and updated its tax management policies, which are subject to review and/or update as and when necessary. Tax specialists prepare tax calculation in accordance with the Group's tax management policies and procedures, which is cross-checked by the accountant and approved by the finance manager to ensure the completeness and accuracy of tax returns before submitting to the government tax bureau.

### (vii) *Systems security control*

The Group has not established policies on managing user rights, changes to the systems and passwords for accessing the systems and there was no written record of application and approval for adding, modifying and deleting user account and user rights.

The Group established policies on the delineation of different levels of user rights, the approval procedures for adding, modifying and terminating user rights and the application and approval procedures for making changes to the systems. When a new user account is to be added to the ERP System and the finance system, the department to which such new user belongs makes a written application to the deputy finance manager. After the deputy finance manager approved such application, the system administrator adds a user account accordingly. When a user account of an employee leaving the Group is to be deleted from the ERP System and the finance system, the general engineer deletes the user account and confirms such deletion by signing on the departure handover list of such employee. There are also policies on specific requirements on password for accessing the finance system and the ERP System.

The finance department would discuss with the finance manager their request for adding, modifying or deleting any accounts in the chart of accounts and the finance manager would then make such addition, modification or deletion on the finance system, but there was no record of written approvals.

The deputy finance manager considers and approves written applications from the finance department for adding, modifying or deleting any accounts in the chart of accounts and the finance manager makes such addition, modification and deletion on the finance system.

Although the Group required that closed accounts should not be re-opened and the data on the finance system was locked after settlement, in practice closed accounts could be re-opened and locked data could be modified.

Accounts are closed and settled on the 15th day of the following month, upon which data on the finance system is locked unless formal approval is granted by the finance manager to re-open the accounts for modifying the data.

## Major Deficiencies

## Major Remedial Measures Implemented

Such measures, in addition to those mentioned above, mitigate the risk of unauthorised manual alteration to the data on the ERP System and the finance system by unauthorised access to the systems.

### *(viii) Internal risk management department*

As the Group's human resources evolved over time, there was at one stage where the internal audit team had only one member, which hindered its ability to effectively conduct risk management, risk assessment and internal audit.

The Group established an internal risk management department to design and implement the risk management system, assist the Board in monitoring the implementation and effectiveness of the risk management framework and process and review the measures on dealing with risks. The department shall comprise one chief risk management officer, one risk management manager and certain number of risk management specialists depending on needs. The department currently comprises one chief risk management officer, one risk management manager and three risk management specialists, who have a wealth of experience and knowledge on internal audit, internal control, risk management and accounting. The Group developed and implemented improved risk management and internal control systems, covering internal control, risk management, risk assessment and risk monitoring. The internal risk management department regularly reports to and discuss with Mr. Feng Ming Zhu, a key member of the Corporate Governance Committee established with effect from the date of this announcement, the implementation of risk management and internal control policies and procedures of the Group in practice and fine-tune such policies and procedures. Mr. Feng will then report to the Corporate Governance Committee periodically so that the committee will be kept abreast of the latest status and be able to leverage on their diverse experience in the internal control, corporate governance and related expertise, and give the Group the feedback it needs in order to maintain a high level of corporate governance.

As stated in the November 2017 Announcement:

- (a) the Internal Control Consultant was satisfied that the Company maintained, in all material respects, effective internal control systems in relation to the companies within the Group that were the subject of the Internal Control Review and all the business areas of the Group as at 31 May 2017; and
- (b) having reviewed the findings and results of the report on the Internal Control Review prepared by the Internal Control Consultant, and having taken into consideration the improvements and/or remedial measures implemented in accordance with the Internal Control Consultant's recommendations, the Board is of the view that the Company has put in place adequate internal control system and financial reporting procedures to meet its obligations under the Listing Rules.

On the above basis, the Resumption Committee and the Board are satisfied that the Company has fulfilled the Second Resumption Condition.

### **3. The Third Resumption Condition – Publication of all outstanding financial results**

#### **FY2014, FY2015 and FY2016 Annual Results and FY2015 and FY2016 Interim Results**

On 30 April 2018, the Company announced the annual results of the Group for FY2014, FY2015 and the financial year ended 31 December 2016 (“**FY2016**”) (which have been audited by the Auditor) and the interim results of the Group for the six months ended 30 June 2015 and 30 June 2016 (which have been reviewed by the Auditor). The respective annual reports and interim reports of the Company were despatched to the shareholders of the Company on 7 May 2018.

For the audited annual financial statements for FY2014 and FY2015 and the reviewed interim financial information for the six months ended 30 June 2015 and 30 June 2016, the Auditor expressed disclaimer of opinion and disclaimer of conclusion respectively. In all other respects, the Auditor was of the opinion that such annual financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the “**HK Companies Ordinance**”).

For the audited annual financial statements for FY2016, the Auditor expressed a qualified opinion that, except for the possible effects of the matters forming the basis for their qualified opinion, such annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (the “**IFRS**”) and have been properly prepared in compliance with the disclosure requirements of the HK Companies Ordinance.

The Board is of the view, and which the Audit Committee of the Company concurs, that the issues underlying the basis for the Auditor's disclaimers and qualified opinion have been addressed or resolved. Please refer to the relevant annual reports and interim reports for the Auditor's disclaimers or qualified opinion (as applicable) and their basis set out in the Auditor's reports and the Board's view on such disclaimers and qualified opinion and its basis set out in the "Management Discussion and Analysis" section of such reports.

### **FY2017 Annual Results and Interim Results**

On 3 August 2018, the Company announced the annual results of the Group for the financial year ended 31 December 2017 (the "FY2017") (which have been audited by the Auditor) and the interim results of the Group for the six months ended 30 June 2017 (which have been reviewed by the Auditor). The respective annual report and interim report of the Company were despatched to the shareholders of the Company on 9 August 2018.

For the audited annual financial statements for FY2017 and the reviewed interim financial information for the six months ended 30 June 2017, the Auditor expressed a qualified opinion and a qualified conclusion respectively, in that, except for the possible effects of the matter forming the basis for their qualified opinion and qualified conclusion, (i) such annual financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the IFRS and have been properly prepared in compliance with the disclosure requirements of the HK Companies Ordinance and (ii) nothing has come to their attention that caused them to believe that such interim financial information has not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The Board is of the view, and which the Audit Committee of the Company concurs, that the issue underlying the basis for the Auditor's qualified opinion and qualified conclusion have been addressed or resolved, as the sole issue was that, given the Auditor was appointed in August 2016, the Auditor did not attend the physical stock take conducted by the Group of the opening and closing inventory balances of the comparative period being the six months ended 30 June 2016 and the opening inventory balance of the comparative year being FY2016, and that subsequent to their appointment in August 2016, the Auditor attended and observed the physical stock take conducted by the Group of the inventory balances as at 31 December 2016 and 31 December 2017 and performed inventory roll-back procedures for the inventory balance as at 30 June 2017 and the Auditor raised no concern on such inventory balances.

Further details on the Auditor's qualified opinion and qualified conclusion and their basis are set out in the Auditor's reports and the Board's view on such qualified opinion and qualified conclusion and its basis are set out in the "Management Discussion and Analysis" sections of such reports.

## **FY2018 Annual Results and Interim Results**

On 31 August 2018, the Company announced the interim results of the Group for the six months ended 30 June 2018 (which have been reviewed by the Auditor) on time in accordance with Rule 13.49(6) of the Listing Rules, and the Company despatched the corresponding interim report of the Company to the shareholders of the Company on 6 September 2018 on time in accordance with Rule 13.48(1) of the Listing Rules. The Auditor expressed a clean conclusion, in that nothing has come to their attention that caused them to believe that such interim financial information has not been prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim Financial Reporting”.

The Auditor also confirmed to the Company that based on the information made available to them as at the date of this announcement, they are of the view that the issue underlying the basis of their qualified opinion in respect of the audited annual financial statements for FY2017 will not form a basis for modifying their audit opinion on the consolidated financial statements of the Group for the year ending 31 December 2018.

On the above basis, the Resumption Committee and the Board are satisfied that the Company has fulfilled the Third Resumption Condition.

#### **4. The Fourth Resumption Condition – Inform the market of all material information**

Having made such enquiry with respect to the Company as is reasonable in the circumstances, the Directors confirm that to the best of their knowledge, information and belief, save as disclosed in this announcement and the announcements and publications previously made by the Company including but not limited to the Resumption Conditions Announcements, the June 2016 Announcement, the November 2017 Announcement, the annual results announcements and annual reports for FY2014, FY2015, FY2016 and FY2017 and the interim results announcements and interim reports for the six months ended 30 June 2015, 30 June 2016, 30 June 2017 and 30 June 2018, there is no other material information that needs to be disclosed pursuant to any of the requirements set out in the Listing Rules, nor are there any other matters that need to be brought to the attention of the shareholders and potential investors of the Company in connection with the Resumption Conditions, and the Directors are not aware of any other inside information that needs to be disclosed under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as at the date of this announcement.

On the above basis, the Resumption Committee and the Board are satisfied that the Company has fulfilled the Fourth Resumption Condition.

## 5. The Fifth Resumption Condition – Demonstration of Directors’ competence

### Directors have the competence to fulfill duties of skill, care and diligence

Reference is made to the June 2016 Announcement. The Matters were a result of the acts of certain individuals in the subsidiaries, being the Then General Manager of SCUD Battery and the Then Finance Control Director of SCUD Battery, none of whom were past members or are current members of the Board. Such individuals have been summarily dismissed by the Group from all of their respective duties within the Group and the Group has taken formal legal proceedings against them in the PRC courts and reported them to the Ministry of Public Security in the PRC, further details of which have been set out above.

The Board is of the view that each member of the Board had been able to fulfil duties of skill, care and diligence as required under Rule 3.08 of the Listing Rules. In particular, (i) none of the past Directors have been found to be acting in a dishonest, bad faith or such manner otherwise than in the interests of the Company as a whole, (ii) the past Directors have always been acting in the proper purpose to facilitate the Group’s business operations, and that the Own-Brand Battery Recall Plan was an ad hoc arrangement carried out with the intention to support the distributors of the Group for its own-brand business so that the network of distributors would not collapse as a result of the slow sale of batteries, which in turn would have had a material adverse impact on the Group.

Nevertheless, the Directors have taken the view that the Group’s corporate governance could be improved by way of, amongst others (such as the implementation of the ERP System, details of which have been set out above), (i) a restructuring of the Board including its composition and the roles of the Director to further solidify relevant expertise from the corporate governance perspective and (ii) an enhancement of the procedures and practices which facilitate the Board’s monitoring and supervision.

### Restructuring of the Board

Taking into account the issues which arose from the Own-Brand Battery Recall Plan and the findings by the Internal Control Consultant, the composition of the Board has since been optimised as a result of the following appointments, redesignation and resignation:

- (i) the appointment of Mr. Feng Ming Zhu (“**Mr. Feng**”) as an executive Director with effect from 25 August 2016. Mr. Feng’s primary responsibility for the Group is to focus on monitoring the Group’s internal control procedures on a day-to-day basis and review them with other members of the Corporate Governance Committee established with effect from the date of this announcement to ensure that they are strictly adhered to by all departments of the Group and that legal and other corporate governance related issues are promptly attended to, and to execute or facilitate the execution of relevant corporate actions by other Board members and the internal control, human resources and legal departments;

- (ii) the appointment of Mr. Hou Li (“**Mr. Hou**”) as a non-executive Director with effect from 25 August 2016. Mr. Hou’s appointment means the Group will have timely access to legal advice as and when needed, given Mr. Hou’s strong legal background as a senior PRC partner in an international law firm;
- (iii) the appointment of Mr. Heng Ja Wei Victor (“**Mr. Heng**”) as an independent non-executive Director and a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company with effect from 1 September 2016. Mr. Heng as a practicing certified public accountant brings to the Board invaluable experience and capability for financial information interpretation and analysis and facilitates the Board’s understanding of related financial implications so as to be in a position to identify any untoward that may be identified;
- (iv) the redesignation of Mr. Zhang Li (“**Mr. Zhang**”) as a non-executive Director with effect from 25 August 2016. Mr. Zhang was an executive Director at the material time; and
- (v) the resignation of Ms. Huang Yan as an executive Director with effect from 25 August 2016. Ms. Huang was an executive Director and responsible for the establishment and maintenance of the Group’s sales distribution channels at the material time.

Please refer to the Company’s announcements dated 25 August 2016 and 1 September 2016 for further details.

The composition of the Board has been further optimised as follows with effect from the date of this announcement in order to strengthen it from the corporate governance perspective generally:

- (i) the appointment of Ms. Lian Xiu Qin (“**Ms. Lian**”) as an executive Director and the new chief executive officer. Ms. Lian will be primarily responsible for the management of the Group’s daily operations. Ms. Lian joined the Group over 20 years ago and she has been the deputy general manager and the division head of the first business division of SCUD Electronics since January 2016 and July 2016 respectively, responsible for managing the Group’s business with its major customers, including a number of international market leaders in the mobile phone industry. She was never involved in the Own-Brand Battery Recall Plan or the Matters, and she was not, and is not, involved in the Group’s own-brand business;
- (ii) the appointment of Dr. Ho Chung Tai Raymond, SBS, MBE, S.B. St. J., JP (“**Dr. Ho**”) as a non-executive Director and the chairman. Dr. Ho has over 23 years’ experience in corporate management and as an independent non-executive director of a number of companies listed on the Stock Exchange;

- (iii) the appointment of Mr. Lam Yau Yiu (alias Mr. Lam Yau Yiu Laurence) (“**Mr. Lam**”) as an independent non-executive Director. As the chairman of the Corporate Governance Committee established with effect from the date of this announcement and leveraging on his about 29 years’ experience in auditing, accounting and corporate management and his over 8 years’ experience as the financial controller and/or company secretary of a number of companies listed on the Stock Exchange, Mr. Lam will be primarily responsible for monitoring the Company’s compliance with the Corporate Governance Code and the Listing Rules from the corporate governance, risk management and internal control perspectives. He is expected to drive the process of ensuring proper implementation of internal control and related risk management procedures by working with Mr. Feng who will be the executive Director in charge of the related ground work. Mr. Lam will lead by consolidating the expertise of the Corporate Governance Committee and give recommendations to the Board and in particular, to be in close contact with Mr. Feng accordingly; and
- (iv) the proposed appointment of Dr. Wong Chi Wing (alias Dr. Wong Chi Wing Lawrence) (“**Dr. Wong**”) as an independent non-executive Director. Dr. Wong, as a fellow member of the Hong Kong Institute of Certified Public Accountants and with his 25 years’ experience as a certified public accountant and management consulting and information technology expert, will be primarily responsible for contributing to the Board’s financial review and analysis and providing management consultancy advice.

As part of the restructuring, Mr. Fang Jin (“**Mr. Fang**”) (an executive Director and the chairman), Mr. Guo Quan Zeng (an executive Director and the chief executive officer), Mr. Zhang (a non-executive Director), Dr. Loke Yu (an independent non-executive Director), Mr. Wang Jing Zhong (an independent non-executive Director) and Mr. Wang Jian Zhang (an independent non-executive Director) have resigned with effect from the date of this announcement.

Mr. Fang will remain a controlling shareholder of the Company, indirectly holding approximately 48.84% of the Company’s total issued shares as at the date of this announcement.

Set out below are the biographies of the new Directors:

(i) *Ms. Lian*

Ms. Lian, aged 47, was appointed as an executive Director and the chief executive officer. Ms. Lian joined the Group in March 1998 and she has been the deputy general manager and the division head of the first business division of SCUD Electronics since January 2016 and July 2016 respectively, responsible for managing the Group’s business with its major customers, such as Huawei, Xiaomi, Lenovo (Motorola), etc. Previously, she held other key positions such as the production head and engineering manager of SCUD Electronics.

With her over twenty years' experience in engineering and manufacturing technologies together with her experience in corporate management, Ms. Lian has made major improvements to the Group's production process and operational management, enabling the collection and analysis of management data, such as production and inventory data, on a real-time basis, resulting in improved product quality, productivity and cost control and strengthened business relationships between the Group and its customers and suppliers. Under Ms. Lian's leadership as the division head of the first business division and the deputy general manager of SCUD Electronics for nearly three years, the Group's sales performance has improved significantly and the Group's procurement, inventory, production, sales and accounts receivables have been more effectively controlled.

Ms. Lian was awarded the honorary title "Second-term Outstanding Highly Skilled Talent of Fuzhou" by the Human Resources and Social Security Bureau of Fuzhou in May 2013. The polymer battery metal shell structure registered by the State Intellectual Property Office of the PRC as a patent in the name of SCUD Electronics was invented by Ms. Lian and two other staff of the Group. Publications by Ms. Lian on "Lithium Battery Production Technologies" and "Electronic Products Assembly Process" are used as teaching materials at the Fujian Scud Senior Technician Training School.

Ms. Lian is a qualified senior technician specialising in the production of battery cells. She graduated from the Shenyang University of Technology in July 1995 specialising in Applied Electronics Technology and an undergraduate qualification in Business English at the Fujian Normal University in June 2009. Ms. Lian has completed professional training on "Quantitative Methods in Process Improvement" (ISO 13053-1&2:2011) published by the International Organization for Standardization and on cost control management. Ms. Lian will start her part-time study in Master of Business Administration at the Seton Hall University of the United States of America in the PRC in October 2018.

Ms. Lian has entered into a service contract with the Company for her appointment as an executive Director for a term commencing on 27 September 2018 and ending on the earlier of 26 September 2021 and the date of the annual general meeting to be held by the Company in 2021. The service contract can be terminated by either party giving at least three months' prior notice in writing. Pursuant to such service contract, she is entitled to an annual director's fee of HK\$240,000 for her services to the Company, which is determined by reference to her performance for the year, experience, qualification, duties and responsibilities in the Company and the prevailing market rate and will be subject to review by the Remuneration Committee and the Board from time to time, plus statutory contributions to retirement benefits schemes and performance-based discretionary bonus payments as assessed by the Board. As the chief executive officer, Ms. Lian is also entitled to an annual salary of RMB700,000, which is determined by reference to her experience and duties.

**(ii) Dr. Ho**

Dr. Ho, aged 79, was appointed as a non-executive Director and the chairman and as a member of the Remuneration Committee, Nomination Committee and Corporate Governance Committee. Dr. Ho has 55 years of experience in civil, structural, environmental and geotechnical engineering industries and has directly managed a number of mega-sized engineering projects. Dr. Ho received his degree of Doctor of Philosophy in Civil Engineering from the City University of London in June 1971, an Honorary Doctor of Laws from the University of Manchester in September 2001 and an Honorary degree of Doctor of Business Administration from the City University of Hong Kong in November 1999. He graduated from the University of Hong Kong in November 1963 with a Bachelor of Science in Engineering and obtained his diploma for advanced studies in engineering and soil mechanics from the University of Manchester in July 1964.

Dr. Ho has served as an independent non-executive director of AP Rentals Holdings Limited (stock code: 1496) since March 2016, ChinLink International Holdings Limited (stock code: 997) since December 2013, GCL-Poly Energy Holdings Limited (stock code: 3800) since September 2007, China State Construction International Holdings Limited (stock code: 3311) since June 2005, and Deson Development International Holdings Limited (stock code: 262) since December 1994, the securities of which are listed on the Stock Exchange. Dr. Ho is an advisor to The Hong Kong Independent Non-Executive Director Association (the “**HKiNEDA**”). Dr. Ho has also served as a professional advisor to the Office of the Ombudsman of Hong Kong since October 2015, a position in which he previously served from July 1995 to March 2013, and as the Chairman of the Guangdong Daya Bay Nuclear Plant and Ling Ao Nuclear Plant Safety Consultative Committee since February 2005.

Dr. Ho has entered into an appointment letter with the Company for his appointment as a non-executive Director for a term commencing on 27 September 2018 and ending on the earlier of 26 September 2020 and the date of the annual general meeting to be held by the Company in 2020. The appointment letter can be terminated by either party giving at least three months’ prior notice in writing. Pursuant to such appointment letter, he is entitled to an annual director’s fee of HK\$960,000, which is determined by reference to the prevailing market rate and his time, effort and expertise devoted to the Company’s affairs and will be subject to review by the Remuneration Committee and the Board from time to time.

**(iii) Mr. Lam**

Mr. Lam, aged 54, was appointed as an independent non-executive Director and as the chairman of the Corporate Governance Committee and a member of the Audit Committee, Remuneration Committee and Nomination Committee. Mr. Lam is a fellow member of the

Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He has about 29 years' experience in auditing, accounting and corporate management.

Mr. Lam was the financial controller and the company secretary of Zhong An Real Estate Limited (stock code: 672) from October 2008 to December 2016, and the qualified accountant and the company secretary of Creative Energy Solutions Holdings Limited (now known as Kirin Group Holdings Limited, stock code: 8109) from December 2005 to June 2006, the securities of which are listed on the Stock Exchange. He was also the financial controller of INTAC International Holdings Limited (a member of Intac International Inc., the securities of which are listed on NASDAQ in the United States of America) from August 2003 to May 2005.

Mr. Lam holds a Master of Business Administration and a Master of Science in Information Systems Management from the Hong Kong University of Science and Technology and a Bachelor of Accounting from the City University of Hong Kong. He has been the consultant to Chase Solar Limited since January 2018 and he was the chief financial officer and company secretary of Main City Development Limited from January to July 2017.

Mr. Lam has entered into an appointment letter with the Company for his appointment as an independent non-executive Director for a term commencing on 27 September 2018 and ending on the earlier of 26 September 2020 and the date of the annual general meeting to be held by the Company in 2020. The appointment letter can be terminated by either party giving at least three months' prior notice in writing. Pursuant to such appointment letter, he is entitled to an annual director's fee of HK\$360,000, which is determined by reference to the prevailing market rate and his time, effort and expertise devoted to the Company's affairs and will be subject to review by the Remuneration Committee and the Board from time to time.

**(iv) Dr. Wong**

Dr. Wong, aged 55, was appointed as an independent non-executive Director and as the chairman of the Nomination Committee and a member of the Audit Committee, Remuneration Committee and Corporate Governance Committee. Dr. Wong is a fellow member of the Hong Kong Institute of Certified Public Accountants and a Certified Drucker Trainer of the Peter F. Drucker Academy in Hong Kong. He is also a new economy expert and data scientist with over 30 years' working experience in some of the world's leading consulting firms, such as Accenture, Deloitte and KPMG, and listed conglomerates such as PCCW and Hutchison Telecom. He was a managing director of Accenture Consulting in Greater China and has established, trained up and managed a team of approximately 200 management consulting professionals and data scientists serving the global market.

Dr. Wong is now the managing partner of Big Data Elite Asia Limited and GCE Consulting Limited, which focus on providing advisory and training services in relation to big data, digital transformation, FinTech and strategic management. He is also an independent non-executive director and the chairman of the internal audit committee of Autotoll Limited, which is operating under the Stored Value Facilities licence administered by the Hong Kong Monetary Authority and is the only service provider of electronic toll collection in Hong Kong.

Dr. Wong is the convenor of the New Economy Task Force and the vice president of the HKiNEDA. He also serves as a think-tank member and executive committee member of Da Shun Foundation focusing on Belt & Road Initiatives.

Dr. Wong holds a doctorate degree in business administration and two master degrees (one in business administration and the other in e-commerce) from the City University of Hong Kong. He also holds a bachelor degree in statistics and computer science from the Chinese University of Hong Kong.

Dr. Wong has entered into an appointment letter with the Company for his appointment as an independent non-executive Director for a term commencing on 27 September 2018 and ending on the earlier of 26 September 2020 and the date of the annual general meeting to be held by the Company in 2020. The appointment letter can be terminated by either party giving at least three months' prior notice in writing. Pursuant to such appointment letter, he is entitled to an annual director's fee of HK\$360,000, which is determined by reference to the prevailing market rate and his time, effort and expertise devoted to the Company's affairs and will be subject to review by the Remuneration Committee and the Board from time to time.

Save as disclosed above, as at the date of this announcement, each of Ms. Lian, Dr. Ho, Mr. Lam and Dr. Wong (i) does not hold any other position with the Company and other members of the Group; (ii) has not held any other directorships in other public companies the securities of which are listed on any securities market in Hong Kong or overseas in the last three years or any other major appointments or qualifications; (iii) does not have any relationship with any other Directors, senior management, substantial or controlling shareholders of the Company; and (iv) does not have any other interests in the Shares which are required to be disclosed pursuant to Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong); and that there are no other matters relating to their respective appointment as Director and/or appointment as members of the various committees of the Board (as appropriate) that need to be brought to the attention of the shareholders of the Company and there is no other information that is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

## **Changes to the Board committees and establishment of the Corporate Governance Committee**

With the restructuring of the Board, the composition of the existing Board committees have also been changed with effect from the date of this announcement and a new Corporate Governance Committee has been established by the Board with effect from the date of this announcement. Details of the changes are as follows:

### ***Audit Committee***

The Audit Committee comprises three independent non-executive Directors namely Mr. Heng (chairman), Mr. Lam and Dr. Wong.

### ***Remuneration Committee***

The Remuneration Committee comprises three independent non-executive Directors namely Mr. Heng (chairman), Mr. Lam and Dr. Wong and one non-executive Director namely Dr. Ho.

### ***Nomination Committee***

The Nomination Committee comprises three independent non-executive Directors namely Dr. Wong (chairman), Mr. Heng and Mr. Lam and one non-executive Director namely Dr. Ho.

### ***Corporate Governance Committee***

Taking into account the issues which arose from the Own-Brand Battery Recall Plan and the findings by the Internal Control Consultant, the Board has decided to establish a Corporate Governance Committee to facilitate the Board's monitoring and supervision of the corporate governance practices of the Group.

The new committee comprises three independent non-executive Directors namely Mr. Lam (chairman), Dr. Wong and Mr. Heng, one non-executive Director namely Dr. Ho and one existing executive Director namely Mr. Feng, all of whom have significant experience in the internal control, corporate governance, legal and/or accounting areas.

The committee will be primarily responsible for performing corporate governance functions and risk management and internal control functions in accordance with the Corporate Governance Code in the Listing Rules.

With Mr. Feng, a current executive Director who is responsible for the daily operations of the Group, being a key member of the committee, Mr. Feng will play a key role in experiencing the actual implementation status and/or progress of various internal control and ongoing monitoring policies, identifying key issues as and when they arise and continue to interact with the staff and the operational systems themselves in order to identify any such issues on a timely basis. Mr.

Feng will then report to the Corporate Governance Committee periodically so that the committee will be kept abreast of the latest status and be able to leverage on their diverse experience in the internal control, corporate governance and related expertise, and give the Group the feedback it needs in order to maintain a high level of corporate governance. In particular, with the committee being led by Mr. Lam as the chairman, Mr. Lam is expected to contribute to the committee his wealth of experience in auditing, accounting and corporate management and as the financial controller and/or company secretary of a number of companies listed on the Stock Exchange and perform a key leading role in monitoring the Company's compliance with the Corporate Governance Code and the Listing Rules from the corporate governance, risk management and internal control perspectives.

### **Enhancement of procedures and practices which facilitate the Board's monitoring and supervision**

Taking into account the issues which arose from the Own-Brand Battery Recall Plan and the findings by the Internal Control Consultant, enhancements have been made to the Group's procedures and practices which facilitate the Board's monitoring and supervision of, among other things, the following:

- (i) the corporate governance practices of the Group, in particular:
  - (a) the restructuring and optimisation of the Board as set out in the sub-section headed "Restructuring of the Board" above;
  - (b) the establishment of a Corporate Governance Committee as set out in the sub-section headed "Changes to the Board committees and establishment of the Corporate Governance Committee" above; and
  - (c) the following structural changes to the Group's management:
    - 1. there is no longer a general manager at each of the major subsidiaries with significant authority over the operations of such subsidiaries, and instead the Group splits up the management of its operations so that different individuals (the "**Division Heads**") are tasked with the responsibility to supervise their own segment of operations who report directly to the board of directors of the relevant subsidiary (including the executive Directors of the Company), allowing the directors to compare the performance and operational circumstances of the different groups of customers or functional groups and making it relatively easier for the directors to become aware of anomalies to the extent an issues arises for one group but not the other groups, and Ms. Lian will participate in monthly operational meeting with each Division Head and members of each division before reporting back to the Board in order to facilitate the Board's understanding of each division's operations and participation in each division's major decision making; and

2. there is no longer a finance control director responsible for all the financial matters of the major subsidiaries like before, and instead each major subsidiary has its own finance department supervised by its own financial controller who reports directly to the board of directors of the relevant subsidiary (including the executive Directors of the Company), allowing the directors to compare the performance and operational circumstances of the different subsidiaries and making it relatively easier for the directors to become aware of anomalies to the extent an issue arises for one subsidiary but not the others;
- (ii) the formulation, approval and implementation of strategies, budgets and business operations performance targets of the Group, in particular (a) the Group has formulated relevant written internal control policies, (b) the chief executive officer of the Company would organise and supervise each of the major subsidiaries and Division Heads on formulating their respective divisional strategies, budgets and business operations performance targets based on the written proposal on the Group's strategies and budgets, which is prepared by the Division Heads under the leadership of the chief executive officer of the Company with the input and cooperation of the financial controllers of the major subsidiaries and members of the senior management of the Group and considered and approved by the executive Directors of the Company, (c) the chief executive officer of the Company and each relevant Division Head would organise and supervise the implementation of strategies, budgets and business operations performance targets after the executive Directors of the Company have considered and approved the proposals, and (d) the finance department of each major subsidiary prepares quarterly financial budget analysis report and operational data, which are circulated to the executive Directors of the Company and the relevant Division Heads, and reported on at quarterly meetings between them and the finance departments for consideration, which form the basis for adjustment to the Group's strategies, budgets and business operations performance targets for the next quarter;
  - (iii) the financial reporting of the Group, as set out in the sub-section headed "The Second Resumption Condition – Internal control review" above; and
  - (iv) the internal control system of the Group, as set out in the sub-section headed "The Second Resumption Condition – Internal control review" above.

On the above basis, the Resumption Committee and the Board are satisfied that the Company has fulfilled the Fifth Resumption Condition.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange has been suspended from 9:00 a.m. on 26 March 2015. Since all the Resumption Conditions have been fulfilled, the Company has made an application to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:00 a.m. on Friday, 28 September 2018.

By Order of the Board  
**SCUD GROUP LIMITED**  
**Ho Chung Tai Raymond**  
*Chairman*

Hong Kong, 27 September 2018

*As at the date of this announcement, the Board comprises Ms. Lian Xiu Qin and Mr. Feng Ming Zhu being the executive Directors, Dr. Ho Chung Tai Raymond and Mr. Hou Li being the non-executive Directors, and Mr. Heng Ja Wei Victor, Mr. Lam Yau Yiu and Dr. Wong Chi Wing being the independent non-executive Directors.*