

Analyst: Vincent Leung

Main Board Listing – Research

SCUD Group Limited [Stock Code: 1399] 飛毛腿集團有限公司

**Global Coordinator, Sole Bookrunner, Sponsor
and Lead Manager**

: Cazenove Asia

Co-Lead Mangers

: DBS Asia Capital

Taiwan Securities

Sector : Electrical Equipment

Business : Marketing and distribution of rechargeable battery packs for mobile phones in the PRC

| | |
|--|--|
| Total share offer: <u>260,000,000</u> shares (30.23% of the enlarged share capital) Public Offer: 26,000,000 shares (10%) Placing: 234,000,000 shares (90%) Greenshoe: 39,000,000 shares | <u>Business of SCUD Group (SCUD)</u> SCUD is a market leader in the marketing and distribution of rechargeable battery packs for mobile phones in the PRC under its own brand name “ SCUD (飛毛腿) ”. The Group has been developing its brand “SCUD” since 1997. In 2005, the Group’s own-brand mobile-phone rechargeable battery packs represented 10.6% of the national demand for mobile phone batteries under retail sales in the PRC. With respect to its own-brand business, the Group has over 1,600 models of mobile phone battery packs which are compatible to over 2,200 mobile phone models, covering almost all models of major brands available in the market. Its own brand products are sold through a nationwide network, comprising over 300 independent distributors which cover over 30,000 sales points in the PRC. The Group is also an OEM manufacturer of rechargeable battery packs for mobile phones, notebook computers and charger. Its OEM customers include Lenovo, ZTE, AMOI, Huawei, Sangfei and UT Starcom. The Group’s production facilities, which is located in Mawei District, Fuzhou, Fujian Province, currently occupies a total GFA of approximately 25,000 m ² . It comprises 25 production lines for mobile-phone battery packs, 2 production lines for digital product battery packs, 3 production lines for notebook computer battery packs and 4 production lines for chargers. |
| Price: HK\$1.37 – HK\$2.02 per share Market Cap: HK\$1,178 million – HK\$1,737 million Pro-forma FY2006E P/E: 8.1x – 12.0x Adjusted NTA per share: HK\$0.67 – HK\$0.87 Staffing: 2,150 (as of 30 th June 2006) | |
| Bookbuilding Period: 8 th December 2006 – 14 th December 2006 HK Public Offer period: 11 th December 2006 – 14 th December 2006 noon Receiving bank: Bank of China (Hong Kong) Share registrar: Tricor Investor Services Limited Listing date: 21 st December 2006 | |
| | |

This report has been prepared solely for information purposes and we are not soliciting any action based upon it. Neither this document nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which we consider reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein, while its group companies may from time to time have interests in securities of the company or companies mentioned herein.

**Shareholding Structure after Listing**

(Assuming the over-allotment option and the conversion rights attached to a convertible bond are not exercised)

| | |
|--|----------------|
| Mr. Fang Jin (Executive Director, Chairman and a co-founder of the Group) | 46.75% |
| Mr. Lin Chao (Executive Director, Vice Chairman and a co-founder of the Group) | 20.93% |
| Mr. Guo Quan Zeng (Executive Director and President of the Group) | 2.09% |
| Public Shareholders | 30.23% |
| | <u>100.00%</u> |

Note: Assuming the rights attached to a convertible bond held by Neng Liang Limited (maturity date: the earlier of the expiration of 6 months after the listing date and 23rd January 2010) are exercised in full but not taking into account of the exercise the over-allotment option, shareholding structure after listing will be as follows:

| | |
|---------------------|----------------|
| Mr. Fang Jin | 42.18% |
| Mr. Lin Chao | 18.89% |
| Mr. Guo Quan Zeng | 1.89% |
| Neng Liang Limited* | 9.76% |
| Public Shareholders | 27.28% |
| | <u>100.00%</u> |

Remark (): An investment holding company, to which CLSA Capital Partners (HK) Limited acts as the investment advisor.*

Use of Proceeds

Net proceeds from the offer are estimated to be HK\$414 million *(Assuming the over-allotment option is not exercised, and at an issue price of HK\$1.70 each, being the midpoint of the indicative price range)*

| | HK\$ million |
|--|--------------|
| For the strengthening and expansion of the Group's sales and marketing network in the PRC, including potential acquisitions and investment opportunities | 150 |
| For the expansion of the Group's production capabilities | 215 |
| For repayment of bank loans | 25 |
| For general working capital | 24 |

Financial Highlights

| | Year ended 31 st December | | | Six months ended 30 th June |
|----------------------------|--------------------------------------|-----------------|-----------------|--|
| | 2003 RMB'000 | 2004 RMB'000 | 2005 RMB'000 | 2006 RMB'000 |
| Turnover | 422,036 | 515,839 | 706,992 | 482,401 |
| Gross profit | 82,629 | 106,846 | 147,279 | 126,041 |
| Operating profit | 55,957 | 74,835 | 116,154 | 89,599 |
| Attributable profit | 34,088 | 42,392 | 86,336 | 79,689 |
| Gross margin | 19.6% | 20.7% | 20.8% | 26.1% |
| Operating margin | 13.3% | 14.5% | 16.4% | 18.6% |
| Net margin | 8.1% | 8.2% | 12.2% | 16.5% |



Turnover Breakdown (% of Total Turnover)

| | Year ended 31 st December | | | Six months ended 30 th June |
|---------------------------------|--------------------------------------|-----------|-----------|--|
| | 2003 % | 2004 % | 2005 % | 2006 % |
| Own-brand business | | | | |
| Mobile phone battery packs | 8.4% | 21.0% | 43.9% | 48.3% |
| Digital product battery packs | - | 1.2% | 4.1% | 5.5% |
| Chargers | 5.2% | 5.5% | 4.0% | 3.2% |
| Gift packs | 10.4% | 14.7% | 11.2% | 8.6% |
| Other mobile phone peripherals | 1.8% | 4.5% | 3.2% | 5.4% |
| Sub-total (Own-brand business) | 25.8% | 46.9% | 66.4% | 71.0% |
| OEM business | | | | |
| Mobile phone battery packs | 53.6% | 39.9% | 27.6% | 24.1% |
| Notebook computer battery packs | - | 0.1% | 2.7% | 3.1% |
| Chargers | 15.0% | 4.0% | 1.8% | 1.9% |
| Gift packs | 5.6% | 9.1% | 1.6% | 0.0% |
| Sub-total (OEM business) | 74.2% | 53.1% | 33.7% | 29.1% |
| Sales tax | | | (0.1%) | (0.1%) |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

Strengths/Opportunities

- ✓ SCUD Group's principal brand "SCUD" was recognized as "China Top Brand" in 2004, "China Famous Trademark" in 2006 and was twice selected as one of "China 500 Most Valuable Brands" in 2005 and 2006. In 2005, the Group's own-brand mobile-phone rechargeable battery packs commands a 10.6% market share in the PRC. The Group targets to increase its market share to 15% within 3 years.
- ✓ The Company intends to pay out at least 30% of its net profit as dividends.
- ✓ To be priced at 8.1x-12.0x FY2006E P/E, SCUD's valuation is not demanding when compared with another Hong Kong-listed mobile-phone battery player BYD (stock code: 1211). BYD, which has a market capitalisation of some HK\$15 billion, is currently trading at FY2006E P/E of 16.6x.

Weaknesses/Threats

- × Competitions from other manufacturers and new entrants may intensify given the low technical barrier of the rechargeable battery industry.
- × The Group does not have direct control on its sales points and relies solely on its network of distributors to sell its own-brand products in the PRC.
- × The Group had been able to enhance its overall gross margin through economies of scale and increase in the scale of its own-brand business, which commanded a higher margin. In fact, the average selling prices of the Group's rechargeable battery packs under its own brand business and its OEM business have been on a downward trend, declining from RMB25.0 and RMB41.1 for 2003 respectively to RMB21.5 and RMB18.5 for the six months ended 30th June 2006. Sustainability of the currently high gross margin will be a concern.

Recommendation: Neutral



Important Disclosure / Analyst Certification / Disclaimer

This document is published by East Asia Securities Company Limited, a wholly-owned subsidiary of The Bank of East Asia, Limited (BEA). At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA and / its associated or affiliated companies may from time to time have interests in securities of the company or companies mentioned herein.

The research analyst primarily responsible for the content of this report, in part or in whole certifies that the views on the companies and their securities mentioned in this report accurately reflect his/her personal views. The analyst also certifies that no part of his/her compensation was, is, or will be, directly, or indirectly, related to specific recommendations or views expressed in this report.

This report has been prepared solely for information purposes and has no intention whatsoever to solicit any action based upon it. Neither this report nor its contents shall be construed as an offer, invitation, advertisement, inducement or representation of any kind or form whatsoever. The information is based upon information, which East Asia Securities Company Limited considers reliable, but accuracy or completeness is not guaranteed. Opinions expressed herein are subject to change without notice. Any recommendation contained in this report does not have regard to the specific investment objectives, financial situation and the particular needs of any specific addressee. This report is not to be taken in substitution for the exercise of judgment by respective readers of this report, who should obtain separate legal or financial advice. East Asia Securities Company Limited and / or The BEA Group accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or further communication given in relation to this report.

At time of this report, East Asia Securities Company Limited has no position in securities of the company or companies mentioned herein the report, while BEA along with its affiliates and/or persons associated with any of them may from time to time have interests in the securities mentioned in this report. BEA and its associates, its directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein and may also perform or seek to perform broking, investment banking and other banking services for these companies.

BEA and/or any of its affiliates may beneficially own a total of 1% or more of any class of common equity securities of the subject company or companies mentioned in this report and may, within the past 12 months, have received compensation and/or within the next 3 months seek to obtain compensation for investment banking services from the subject company or companies mentioned in the report.