

**SCUD GROUP LTD:
THIS COMPANY SHOULD GO FROM STRENGTH TO STRENGTH**

It is, always, interesting to note, when a company determines to don the purple of a publicly listed company, how it claims that it wants to apply the net proceeds of its cash-raising exercise.

In the case of Scud Group Ltd () (Code: 1399, Main Board, The Stock Exchange of Hongkong Ltd), a manufacturer of batteries, it collected about \$HK580 million from the investing public, of which \$HK76 million was the result of the exercise, in full, of an Over-Allotment Option of 39 million Shares.

The entire net proceeds from the Over-Allotment Option (\$HK76 million), the Company's International Offering Prospectus states at Page 182, *'will be applied by the Group for repayments of bank loans and for general working capital purposes.'*

In addition, in the section of the Prospectus, headed, *'Future Plans and Use of Proceeds'*, it is stated that \$HK35 million of the estimated net proceeds of about \$HK504 million, would be *'for repayment of bank loans'*.

In aggregate, therefore, of the \$HK580 million, collected in this Initial Public Offering, about \$HK111 million, equivalent to about 19 percent, went straight into the coffers of the Company's lending banks, to wit:

1. Xiamen International Bank, Fuzhou Branch ();
2. Fuzhou City Commercial Bank, Antai Branch (); and,
3. China Merchants Bank, Fuzhou Branch ().

According to Page 173 of the Prospectus, as at October 31, 2006, Scud Group Ltd had total outstanding borrowings of about 245.60 million renminbi (about \$HK239 million).

The borrowings comprised:

Bonds and accrued interest	89.20 million renminbi
Non-Interest Bearing Bills and Notes	82.00 million renminbi
Short-Term Bank Borrowings	<u>74.40 million renminbi</u>

TOTAL :245.60 MILLION RENMINBI

Total available bank borrowings, it is stated, was about 276 million renminbi, *'of which the Group's used banking facilities were approximately RMB173.0 million and the Group's unused banking facilities amounted to approximately RMB103.1 million.'*

Considering the Annual Turnover and Net Profits of Scud Group Ltd and the fact that, with the exception of the 89.20-million, renminbi bond issue, there is no material debt of any real consequence, one has to ponder as to the real reason that Management was so desirous to retire a large chunk of its debts.

It could well be indicative of a very conservative management style or, alternatively, the banks, all of which

are controlled by the Government of the People's Republic of China (PRC), are following the PRC-Government guidelines of trying to keep the lid on the red-hot economy of the most-populous part of the world.

One thing is absolutely certain, however: As at January 1, 2007, Scud Group Ltd did not have any appreciable debt, at all, and should have been staring at a cash position, approaching at least \$HK550 million (**TARGET** [] has taken into account the cash and bank balances, shown in the Consolidated Balance Sheet for the 6-month period, ended June 30, 2006, of 50.37 million renminbi, plus the trading results for the 22 weeks, up to the middle of December 2006).

The Flotation

The flotation of Scud Group Ltd was pitched on December 11, 2006, with trading in the shares of the Company, commencing on Thursday, December 21, 2006.

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