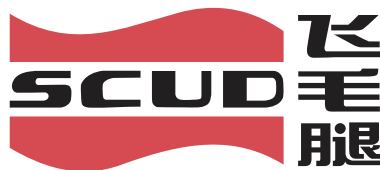


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SCUD GROUP LIMITED

飛毛腿集團有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 01399)

UPDATE ON PROGRESS OF FULFILLMENT OF RESUMPTION CONDITIONS AND OPERATIONAL UPDATE FOR JUNE 2018

ADDITIONAL RESUMPTION CONDITION

The Stock Exchange notified the Company on 27 July 2018 that an additional Resumption Condition is imposed requiring the Company to demonstrate that the Directors meet the standards expected of them pursuant to Rule 3.08 of the Listing Rules in light of the key findings of the Investigation conducted on the Matters as announced on 14 June 2016 and the key findings from the Internal Control Review as announced on 30 November 2017. The Stock Exchange has also notified the Company on 27 July 2018 that in light of the amendments to the delisting framework under the Listing Rules which came into effect on 1 August 2018, the Stock Exchange may recommend to the Listing Committee to cancel the Company's listing if trading in the Shares does not resume by 31 July 2019.

RESUMPTION PLAN AND PROGRESS UPDATE

The steps taken by the Company and status of fulfillment of the Initial Resumption Conditions are set out below. The Company is awaiting the Stock Exchange's confirmation of the status of fulfillment of such Initial Resumption Conditions. The Company is currently working with its advisors to respond to the Stock Exchange in order to fulfill the Additional Resumption Condition.

Subject to the confirmation of the Stock Exchange, the Company believes that it would be in a position to have taken all reasonable steps to demonstrate its fulfillment of the Resumption Conditions on or before 31 August 2018.

* For identification purpose only

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange will continue to be suspended pending the fulfillment of all the Resumption Conditions.

This announcement is made at the request of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”).

Reference is made to the announcement of SCUD Group Limited (the “**Company**” and, together with its subsidiaries, the “**Group**”) dated 13 July 2015 (the “**Initial Resumption Conditions Announcement**”) in relation to the conditions imposed by the Stock Exchange on the Company in respect of the resumption of trading in the shares of the Company (the “**Shares**”) on the Stock Exchange (the “**Initial 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**”).

THE INITIAL RESUMPTION CONDITIONS

As stated in the Initial Resumption Conditions Announcement, the Initial Resumption Conditions include:

1. completion of the investigation of the Matters (which were referred to as the “**Observations**” in the Initial 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**”);

Status: The Company has taken steps which it believes fulfills 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**”);

Status: The Company has taken steps which it believes fulfills 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**”); and

Status: Subject to publication of the 2017 annual and interim financial results as referred to below, the Company has taken steps which it believes fulfills the Third Resumption Condition.

4. informing the market of all material information (the “**Fourth Resumption Condition**”).

Status: The Company has taken steps which it believes fulfills the Fourth Resumption Condition to date.

DETAILS OF PROGRESS OF FULFILLING THE INITIAL RESUMPTION CONDITIONS

The Company has taken actions with a view to fulfilling the Initial Resumption Conditions, a summary of which is set out below. The Company is continuing its discussion with the Stock Exchange to seek its confirmation on the fulfillment of the Initial Resumption Conditions and will make an announcement when appropriate.

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. The Company has addressed such recommendations as summarised below:

Measures against the Senior Management Involved

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.

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

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 and 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.

Internal control review

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. Please refer to the section below in relation to the Second Resumption Condition for details.

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.

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.

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” sections of such reports.

FY2017 Interim Results and Annual Results

The Company expects to announce the interim results of the Group for the six months ended 30 June 2017 (which have been reviewed by the Auditor) and the annual results of the Group for the financial year ended 31 December 2017 (the “FY2017”) (which have been audited by the Auditor) on or before 3 August 2018. The respective interim report and annual report of the Company are expected to be despatched to the shareholders of the Company on or before 15 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 confirmed that it will express 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 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 and qualified conclusion above 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 and their review conclusion on the interim financial information of the Group for the six months ending 30 June 2018 respectively.

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.

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 save for the FY2017 annual and interim results to be published as referred to above, 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.

Pending the resumption of trading in the Shares, the Company will continue to inform the market of all material information as and when appropriate.

Fulfillment of the above Initial Resumption Conditions is subject to the Stock Exchange's final confirmation.

ADDITIONAL RESUMPTION CONDITION

The Stock Exchange notified the Company on 27 July 2018 that an additional condition would apply before the grant of any request by the Company of the resumption of trading in the Shares, being the Company's 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 "**Additional Resumption Condition**" and, together with the Initial Resumption Conditions, the "**Resumption Conditions**"). The Stock Exchange has also notified the Company that in light of the amendments to the delisting framework under the Listing Rules which came into effect on 1 August 2018, the Stock Exchange may recommend the Listing Committee to cancel the Company's listing if trading in the Shares does not resume by 31 July 2019.

The Company is currently working with its advisors to respond to the Stock Exchange in order to fulfill the Additional Resumption Condition and resume the trading in the Shares as soon as practicable. Subject to the confirmation of the Stock Exchange, the Company believes that it would be in a position to have taken all reasonable steps to demonstrate its fulfillment of the Resumption Conditions on or before 31 August 2018.

BUSINESS OPERATIONS UPDATE

Set out below is an update on the business operations of the Group for June 2018. The information set out below is based on the unaudited management accounts of the major subsidiaries of the Company for the six months ended 30 June 2018.

The total sales revenue (value added tax not included) of the Group for the six months ended 30 June 2018 was about RMB3.0 billion. The ODM business accounted for about RMB2.8 billion, representing about 94% of the total sales revenue of the Group for the six months ended 30 June 2018. The Own-brand business and others accounted for the remainder.

As of 30 June 2018, the bank balance of the Group amounted to about RMB838 million, of which about RMB790 million had been pledged in the ordinary course of its business and about RMB48 million was free cash. The amount of account receivables of the Group settled during the six months ended 30 June 2018 was about RMB3.1 billion and the amount of payables of the Group settled during the six months ended 30 June 2018 was about RMB3.0 billion. Bank borrowings as at 30 June 2018 was about RMB361 million.

The Group has other assets and liabilities, and this update on its business and cash position should not be taken as an indicator of the financial performance of the Group.

CONTINUED SUSPENSION OF TRADING

Trading in the Shares on the Stock Exchange will continue to be suspended pending the fulfillment of all the Resumption Conditions referred to in the Initial Resumption Conditions Announcement and this announcement.

By Order of the Board
SCUD GROUP LIMITED
Fang Jin
Chairman

Hong Kong, 1 August 2018

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.