

Management Discussion and Analysis

管理層討論及分析

Mobile phone users in the PRC in 2006

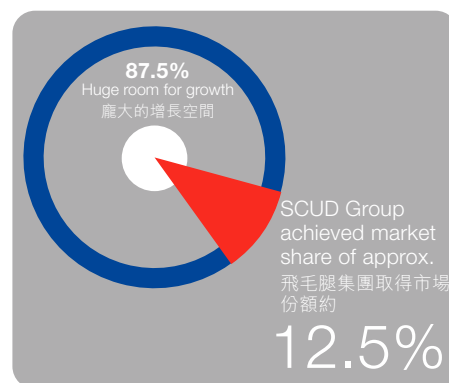
2006年中國移動電話用戶人數

461,000,000

Demand for replacement batteries in 2006

2006年移動電話電池的更換需求

183,000,000



MARKET REVIEW

According to the “Statistics Report of the Telecommunications Industry, December 2006” published by the Ministry of Information Industry, the number of mobile phone users in the PRC reached 461 million as at 31 December 2006, representing an increase of 17.3% or a net increase of 68 million from 393 million as compared with last year. This translated into a penetration rate of 35.3 mobile phones users for every 100 people. The relatively low penetration rate is indicative of the enormous room for market development, with significant growth potential in the rural market particularly. With the promotion of the “Communication Projects in Rural Areas” by the government, operators in the PRC are now stepping up the construction of communication infrastructure in rural areas, further promoting the development of the communication industry in this market segment. It is expected that the investment in this market segment by telecommunications operators will attract more mobile phone users, which will in turn fuel the demand for branded rechargeable batteries. As shown in the report entitled “Existing Development and Trend of the Mobile Phone Battery Industry of China Mainland, 2006-2007” released by FPDisplay Research Centre, the demand for replacement rechargeable batteries reached 183 million pieces in 2006 and is expected to increase to 205 million pieces in 2007. Based on such figures, the market share of branded mobile phone rechargeable batteries of the Group was approximately 12.5% in 2006 as compared to 10.6% in 2005.

市場回顧

根據信息產業部公佈的《二零零六年十二月通訊行業統計報告》，於二零零六年十二月三十一日，中國移動電話用戶達461,000,000戶，較去年的393,000,000戶增長17.3%，淨增加68,000,000戶，普及率為每百人35.3部移動電話，普及率相對偏低，顯示市場發展空間仍然龐大，尤其農村市場的增長潛力更是驚人。在政府著力倡導的《村通工程》下，中國營運商現正提升農村通信基礎設施的建設，進一步推動通訊市場於該市場分部的發展。預期電話營運商於該市場分部的投資將吸引更多移動電話用戶，勢必令品牌二次充電電池的需求增加。根據FPDisplay研究中心發佈的《二零零六年至二零零七年中國大陸流動電話電池產業發展現狀及趨勢》報告顯示，預期二零零六年充電電池更換需求量將為183,000,000顆，並預期將於二零零七年增長至205,000,000顆。根據該等數字，二零零六年本集團的品牌移動電話二次充電電池市場佔有率約為12.5%，而二零零五年的市場佔有率則為10.6%。

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BUSINESS REVIEW

The Board of Directors and the management of the Group have been committed to enhancing operational efficiency and upholding the principle of maximizing shareholders' interests as the basis for decision making. In reviewing the performance of its business, the Group evaluates its results and future business development based on the following indicators:

- Sales results, gross profit margin and net profit margin** — the Group has always endeavoured to establish a leading position in the market, which can be reflected by its market share. During the year, the Group's turnover increased by 32.4% from RMB707.0 million to RMB936.3 million due to the growing demand of rechargeable battery packs and peripherals for mobile phones and other portable electronic devices in the PRC. Meanwhile, in addition to actively increasing turnover, the Group also places emphasis on cost control and ultimate profitability. The improved gross profit margin and net profit margin can reflect the Group's competitiveness. In fact, the gross profit margin and net profit margin of the Group were further increased to 25.7% and 17.1% respectively, up 4.9 percentage points and 2.5 percentage points respectively. This is not only demonstrated in our shift of product mix towards higher margin own brand products but also the enhancement in production efficiency, economies of scale and lower purchase cost.

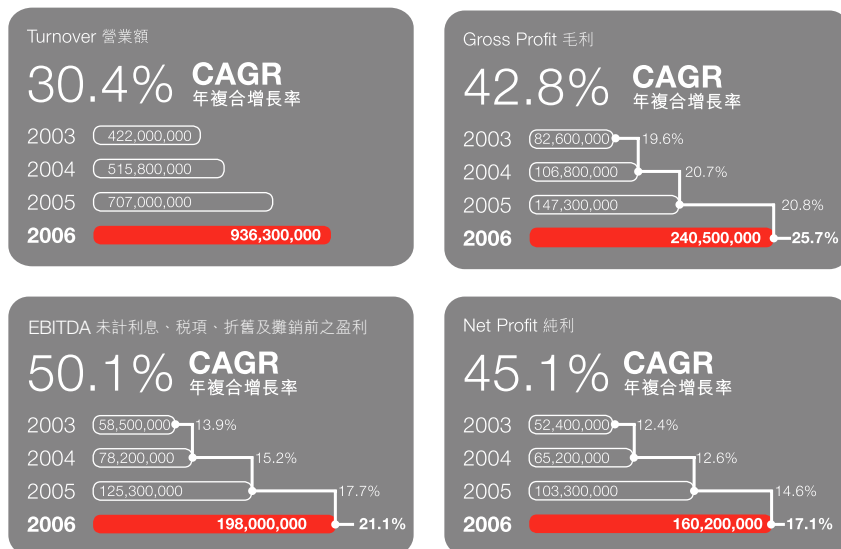
業務回顧

本集團的董事會及管理層一直致力提升營運效益，以股東利益最大化為各項決策的依歸。在回顧業務表現時，本集團主要以下列指標評估成效及未來業務發展指標：

- 銷售業績、毛利率及淨利潤率**—本集團一直積極在市場上建立領導地位，市場份額可反映本集團在市場的地位。年內，本集團的營業額由人民幣707,000,000元增加32.4%至人民幣936,300,000元，此乃由於中國對二次充電電池組及移動電話週邊產品以及其他便攜式電子產品的需求增長所致。與此同時，本集團除了積極提高營業額之外，亦十分關注成本控制及最終的盈利能力，而毛利率及淨利潤率改善則可反映本集團的競爭力。事實上，本集團的毛利率及淨利潤率分別進一步上升至25.7%及17.1%，分別增加4.9個百分點及2.5個百分點，不但顯示本集團的產品組合轉為利潤較高的自有品牌產品，且同時顯示生產效率、規模效益上升及採購成本下降。

Strong Financial Performance

強勁財務表現



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- **Expansion of sales network** — the rechargeable battery market of the PRC is highly fragmented and competitive. Extensive sales network and strong brand effect are crucial for the Group's own brand business to stay ahead of its competitors. Sales network and brand recognition are complementary to each other since a reputable brand will facilitate expansion into new markets while an extensive sales network helps to further establish brand recognition. As a fast growing enterprise, the Group places much emphasis on the development of sales network and brand recognition. As at 31 December 2006, the Group had 331 first tier distributors, increased by 83 compared with 248 as at 31 December 2005, further expanding the Group's market coverage to over 35,000 points of sales, spanning across 31 provinces, municipalities and autonomous regions in the PRC.
- **銷售網絡的拓展** — 國內的二次充電電池市場十分分散，競爭尤其激烈。針對本集團的自有品牌產品業務在市場突圍而出，廣泛的銷售網絡及良好的品牌效益是非常重要的。銷售網絡與品牌之間是相輔相成，良好的品牌有利進入新市場發展，而廣泛的銷售網絡亦有利於進一步建立品牌的知名度。作為一家迅速增長的企業，本集團非常重視銷售網絡的發展及品牌效益。於二零零六年十二月三十一日，本集團的一級分銷商數目達到331名，較二零零五年十二月三十一日的248名增加83名，進一步擴充本集團的市場覆蓋率至超過35,000個銷售點，遍及中國31個省、直轄市及自治區。



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SALES NETWORK

Conducting sales through a distribution system has enabled the Group to establish extensive market coverage and customer network in the PRC in an effective and highly cost efficient manner.

The Directors believe that, maintaining a close relationship with its major first tier distributors enables the Group to keep abreast of the changing needs of its customers as well as the market trend, thereby helping the Group to capture a larger market share.

銷售網絡

通過分銷架構進行銷售，讓本集團在中國通過有效而符合最高成本效益的方式，建立龐大的市場覆蓋面和客戶聯絡網。

董事相信，與其主要一級分銷商保持緊密關係，讓本集團可確定客戶不斷轉變的需要和市場趨勢，亦使本集團得以搶佔更大市場份額。

		Number of first tier distributors 一級分銷商數目	
		2006 二零零六年	2005 二零零五年
Southern China	華南	47	34
Eastern China	華東	120	91
Northern China	華北	54	42
Central China	華中	32	22
North-eastern China	中國東北	21	21
South-western China	中國西南	28	18
North-western China	中國西北	29	20
Total	合計	331	248

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- Product mix** — in order to maintain its competitiveness in the highly competitive rechargeable battery market, the Group believes wide product range and models and the optimization of product mix are keys to its success. The Group is committed to developing middle to high end rechargeable battery packs which can increase the overall profit margin of the Group due to the higher gross profit margin for such products. Meanwhile, the Group also develops products that cater more to the mass market in order to meet the demand of different customer segments.

- 產品組合** — 為了在這個競爭激烈的二次充電電池市場保持競爭力，本集團認為廣泛的產品種類及型號，以及優化的產品組合十分重要。本集團致力發展中高端二次充電電池組，該等二次充電電池組擁有較高的毛利率以提高本集團的整體利潤率；與此同時發展比較大眾化的產品以滿足不同層面的客戶需求。

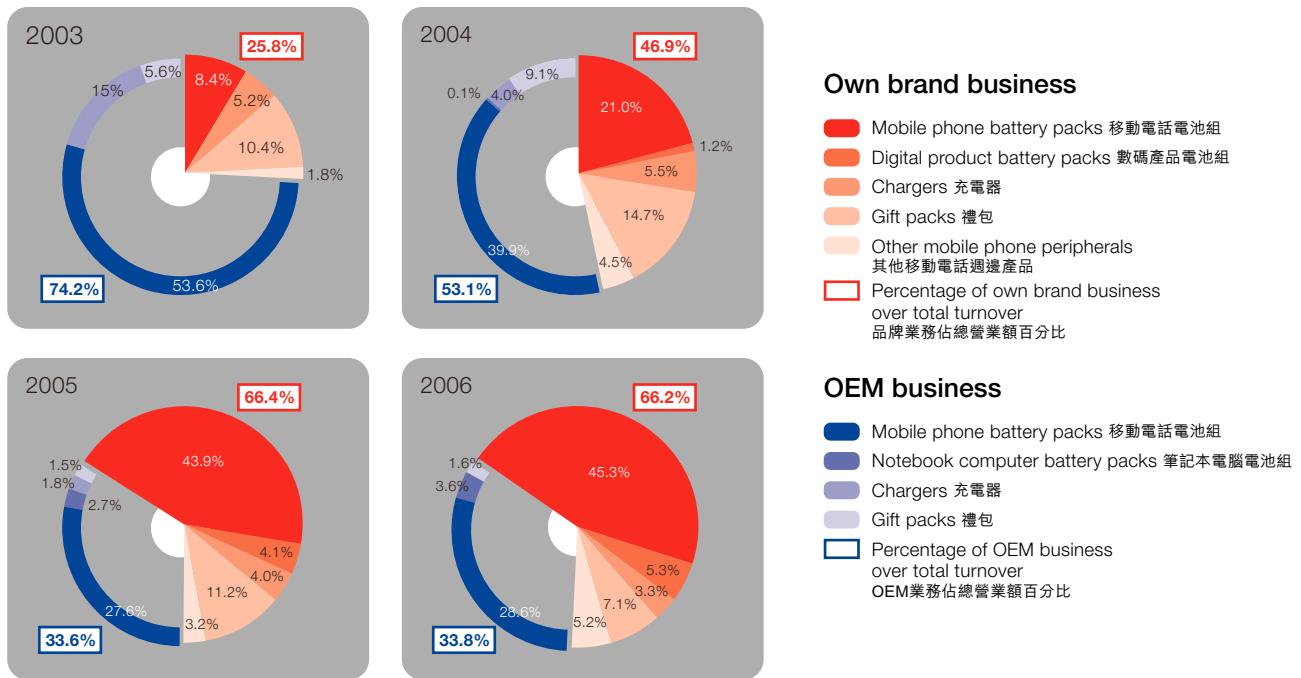


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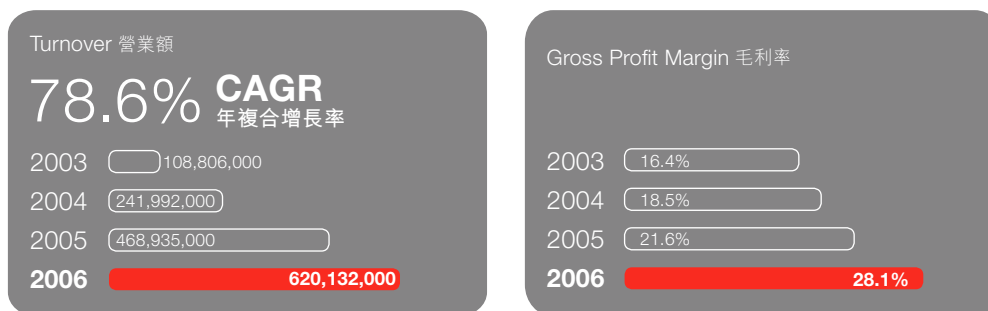
Turnover Breakdown by Product

按產品劃分之營業額



Outstanding Own Brand Business

自有品牌業務表現突出



In response to the increasing demand for mobile phones and other portable electronic devices, more and more new models of mobile phones and electronic devices are launched in the market, providing an impetus for the business growth of the Group's products.

As at 31 December 2006, the Group's own "SCUD 飛毛腿" brand products comprised over 2,200 models of rechargeable mobile phone battery packs which are compatible with 2,800 mobile phone models.

隨著移動電話和其他便攜式電子產品的需求日漸加強，愈來愈多新移動電話型號及電子產品推出市場，帶動本集團的產品業務增長。

於二零零六年十二月三十一日，本集團自有的「SCUD 飛毛腿」品牌產品包括超過2,200種型號的移動電話二次充電電池組，且可相容2,800款移動電話型號。

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AWARDS AND RECOGNITION RECEIVED IN 2006

2006年度獲得榮譽

Date 日期	Judging Authority 評審部門	Awards and Recognition 獲得榮譽
January 2006 2006年1月	Intermediate People's Court of Nan Ping in Fujian province 福建省南平市中級人民法院	China Famous Trademark 中國馳名商標
January 2006 2006年1月	Enterprise and Culture Promotion Association of China, China Industrial Design Association and Election Committee for Top Ten Influential Brands in China 中國企業文化促進會、中國工業設計協會、中國十大影響力品牌推選委員會	Top Ten Influential Brands in China 中國行業十大影響力品牌
January 2006 2006年1月	Department of Science and Technology of Fujian Province, Fujian Foreign Trade and Economic Cooperation Bureau, Fujian Provincial Bureau of Quality and Technology Supervision and Fujian Provincial Environment Protection Bureau 福建省科學技術廳、福建省對外貿易經濟合作廳、福建省質量技術監督局、福建省環境保護局	Multi-section lithium ion intellect battery with series & parallel connection mode was listed as key new products of Fujian Province 多節串並聯鋰離子智能電池列入福建省重點新產品項目
June 2006 2006年6月	World Brand Laboratory 世界品牌實驗室	China's 500 Most Valuable Brands 中國500最具價值品牌
June 2006 2006年6月	The Torch High Technology Industry Development Centre of the Ministry of Science and Technology of China 科學技術部火炬高技術產業開發中心	National Important High-tech Enterprise of Torch-Plan 國家火炬計劃重點高新技術企業
June 2006 2006年6月	China Foundation of Consumer Protection 中國保護消費者基金會	National Brands of Users' Satisfaction 全國用戶滿意品牌
July 2006 2006年7月	Fujian Business Appraisal Centre and Fujian Chamber of Commerce 福建省企業評價中心、福建省企業評價協會	The Top 300 Industrial Enterprises of Fujian, The 300 Most Competitive Industrial Enterprises of Fujian and The Top 300 Public Enterprises of Fujian 福建工業300強、福建工業競爭力300強、福建民營企業300強
September 2006 2006年9月	Fuzhou Municipal People's Government 福州市人民政府	Third Prize for Science and Technology Achievement of Fujian Province 2006 福州市2006年度科學技術進步三等獎

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Date 日期	Judging Authority 評審部門	Awards and Recognition 獲得榮譽
September 2006 2006年9月	The Torch High Technology Industry Development Centre of the Ministry of Science and Technology of China 科學技術部火炬高技術產業開發中心	Multi-section lithium ion intellect battery with series & parallel connection mode listed in the National Torch Plan Project 多節串並聯鋰離子智能電池列入國家火炬計劃項目
September 2006 2006年9月	China Quality Association and National User Committee 中國質量協會、全國用戶委員會	National Services of Users' Satisfaction 全國用戶滿意服務
September 2006 2006年9月	Fuzhou Municipal People's Government 福州市人民政府	Fujian Provincial Second Class Prize of Outstanding New Product 2006 2006年福州市優秀新產品二等獎
December 2006 2006年12月	World Brand Laboratory 世界品牌實驗室	The Chinese Brand Annual Awards 2006 2006年中國品牌年度大獎
December 2006 2006年12月	China Center for Information Industry Development 中國電子信息產業發展研究院	Internal and External Battery Products for Notebook Computers Award of Users' Satisfaction of the PRC 2006 2006年中國用戶滿意筆記本內置、外置電池產品獎
December 2006 2006年12月	Fujian Provincial People's Government 福建省人民政府	Third Prize for Science and Technology of Fujian Province 2006 福建省2006年度科學技術三等獎

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OUTLOOK AND PROSPECTS

The Directors believe that the PRC's ever-growing economy will contribute to the increasing demand for 3C products and in turn lead to an increase in the demand for rechargeable battery packs to power such devices. The Group will not only benefit from the growth of the mobile phone industry in the PRC, but will also benefit from the trend of more advanced multimedia functions of the latest models mobile phones and the higher electricity consumption of mobile phones. It is expected that with the operation of the 3G network in the PRC in the near future, the Group will be presented with unlimited opportunities.

With a view to capturing the emerging market opportunities, the Group has already formulated its development strategies to further consolidate its market share and enlarge its business scale.

First of all, the Group is in the process of actively revamping its marketing and branding strategies with a view to further upgrading its brand recognition and sales coverage. In the medium term, the Group's market share should benefit from these strategies.

Secondly, in respect of the distribution network, the Group plans to increase its brand equity by partnering with its 2,000 first-tier distributors in 2007 to redecorate and spruce up SCUD sales counters. In addition, the Group plans to explore the markets in the other cities with development potential, such as in the western region of the PRC. Market coverage will be increased to attract and retain outstanding distributors and enlarge the area covered by the existing distribution network. Meanwhile, the Group will strengthen the distribution network for its rechargeable battery packs designed for digital cameras, notebook computers and other portable electronic devices.

With respect to products, the Group will continue to focus on maintaining the leading position of its own brand products in the market of mobile phone rechargeable battery packs in the PRC. The Group will also allocate more resources to capture the opportunities brought by the growth in the demand for other portable electronic devices in the PRC, such as the demand for rechargeable battery packs for notebook computers, digital cameras and other portable electronic devices, in order to increase the Group's income and enhance its market competitiveness.

展望

董事相信，隨著中國國內經濟的不斷發展，3C產品的需求將會增加，這亦將導致用作有關裝置電源的二次充電電池組需求上升。本集團不單將受惠於中國移動電話業的數量增長，亦同時因最新款的移動電話多媒體功能更為先進和耗電量增加的趨勢而得益。預期在不久將來即將開通的中國3G網絡亦會為本集團帶來無限的商機。

為抓緊市場湧現的商機，本集團已制定發展策略，務求進一步鞏固集團的市場佔有率和壯大業務規模。

首先，本集團正積極更改其市場及品牌推廣策略，務求進一步提升其品牌知名度及銷售範圍。就中期而言，此等策略將有助擴大本集團的市場佔有率。

第二，分銷網絡方面，本集團計劃於二零零七年與其2,000個一級分銷商合作，以重新佈置及裝飾飛毛腿銷售專櫃，從而提升品牌資產。此外，集團也計劃擴大其他具發展潛力的城市，例如中國西部地區，透過增加市場覆蓋率以加強及挽留優質分銷商，擴大現有分銷網絡範圍；同時，本集團將會鞏固其數碼相機、筆記本電腦及其他便攜式電子產品專用二次充電電池組的分銷網絡。

產品方面，本集團將繼續專注保持其自有品牌產品於中國移動電話二次充電電池組的市場領導地位，同時投入更多資源以把握中國其他便攜式電子裝置需求增長的機遇，包括筆記本電腦、數碼相機和其他便攜式電子產品的二次充電電池組，以增加本集團收入並提升其市場競爭力。

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In order to provide customers with more choices of products to meet their different needs, the Group will keep abreast of the changes in the preferences of its end customers and the market trend, and will launch new series of rechargeable battery pack products designed for various portable electronic devices on a timely basis.

With respect to production, in order to cater to the market demand for rechargeable battery packs for 3C products, the Group intends to lease more production space of approximately 11,000 sq.m in the second quarter of 2007, which will enable it to increase its annual production capacity by 50% from 40 million to 60 million pieces. Meanwhile, the Group will continue its preparations for the construction of its new plant in Fuzhou in March 2007. Upon completion, the Group's production facilities can all be centralized and located at the new production plant and occupy a gross floor area of 64,000 sq.m. The Group's annual production capacity is expected to be increased to approximately 120 million pieces when fully operate. It is targeted that the plant will commence production in the fourth quarter of 2008.

Regarding research and development, the Group will focus on devoting more resources for the research and development of mobile phone rechargeable battery packs to accelerate the pace of product research and development and supplement battery models required by mobile phones of non-major brands as soon as possible. At the same time, the Group will strive to commence research and development upon the introduction of new mobile phones for the launch of its new products.

Meanwhile, the Group has speeded up the efforts in exploring various opportunities including the forming of potential business alliances and the acquisitions of businesses, technology platforms or projects which are adjacent to the Group's existing value chain. These initiatives will be developed with a view to become the growth drivers of the Group in the near future.

Looking ahead, with the advent of the 3G mobile phone era, and the enormous business opportunities presented in the market of the rechargeable battery packs for 3C products in the PRC, the Directors firmly believe that, by leveraging on the Group's leading position in the mobile phone rechargeable battery pack industry of the PRC and more than 35,000 points of sales spanning across 31 provinces, municipalities and autonomous regions in the PRC, and implementing the development strategies formulated by the Group, the Group will be in a favourable position to develop into the most popular rechargeable battery pack brand for 3C products in the PRC and generate fruitful returns for its shareholders.

集團亦將密切關注最終客戶不斷轉變的喜好和市場趨勢，並將及時推出供多種便攜式電子裝置使用的新系列二次充電電池組產品，以向客戶提供更多產品選擇以滿足其不同需求。

生產方面，為配合市場對3C產品二次充電電池組的需求和業務增長的需要，本集團有意於二零零七年第二季起增加租用約11,000平方米的生產空間，屆時每年產能將由現時的40,000,000顆擴充至60,000,000顆，增幅達50%。同時，本集團將繼續預備於二零零七年三月位於福州的新廠房建設工程，於落成後，本集團將可集中其所有生產設施於新生產廠房內，樓面面積為64,000平方米，預期本集團全面投產的每年產能將增加至120,000,000顆，目標是於二零零八年第四季投產使用。

本集團在研發方面，將進一步重點加大移動電話二次充電電池組的研發投入，加速產品開發及研究步伐，儘快補齊非主流品牌移動電話市場所需的品種。同時，力爭在新產品剛上市就開始研發，推出新產品上市。

與此同時，本集團正加速發掘不同機會，包括組成具潛力的業務聯盟及收購與本集團現有價值鏈相連的業務、技術平台或項目。本公司將發展該等項目，以成為本集團於短期內的增長動力。

展望未來，隨著3G流動電話年代的來臨，加上中國3C產品二次充電電池組市場的龐大商機，憑藉集團在中國移動電話二次充電電池組行業擁有的領導地位、遍佈中國31個省、直轄市及自治區逾35,000個銷售點，董事有信心透過本集團制定的發展策略，將能使本集團在市場中佔據有利位置，成為中國3C產品二次充電電池組最受歡迎的品牌，為股東帶來豐厚的回報。

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FINANCIAL REVIEW

Turnover

Driven by the growth in the demand of rechargeable battery packs and the peripherals for mobile phones and other portable electronic devices in the PRC, the consolidated turnover of the Group for the year ended 2006 was RMB936.3 million, representing an increase of 32.4% over the amount of RMB707.0 million for the year ended 2005. During the year, turnover attributable to the Group's own brand business increased 32.2% from RMB468.9 million to RMB620.1 million while the turnover attributable to the Group's OEM business increased 32.9% from RMB238.1 million to RMB316.2 million. The Group's own brand business as a percentage of the Group's turnover was maintained at 66.3% in 2005 and 66.2% in 2006 respectively.

The increase in the Group's turnover is attributable to its own brand business was principally a result of (i) an increase in the number of the Group's first tier distributors. The number of first tier distributors of the Group has grown from 248 as at 31 December 2005 to approximately 331 as at 31 December 2006; (ii) the increase in sales of the Group's mobile phone peripherals; and (iii) the increase in production capacity. The increase in the Group's turnover attributable to its OEM business was principally a result of the increase in sales of (i) its notebook computer battery packs from RMB19.2 million in 2005 to RMB34.1 million in 2006 and (ii) mobile phone rechargeable battery packs from RMB194.9 million in 2005 to RMB268.2 million in 2006.

Cost of sales

The Group's cost of sales amounted to RMB695.8 million in 2006. Direct materials, direct labour and other production cost accounted for approximately 89.4%, 3.3% and 7.3% of the cost of sales. Overall, as a percentage of the Group's turnover, the Group's cost of sales decreased from 79.2% in 2005 to 74.3% in 2006.

Gross profit and gross profit margin

The Group's gross profit increased 63.3% from approximately RMB147.3 million for the year 2005 to approximately RMB240.5 million for 2006. For the Group's own brand business, the gross profit increased by 72.0% from RMB101.3 million in 2005 to RMB174.2

財務回顧

營業額

在中國對二次充電電池組及移動電話週邊產品以及其他便攜式電子產品的需求增長推動下，本集團截至二零零六年止年度的綜合營業額為人民幣936,300,000元，較截至二零零五年止年度之人民幣707,000,000元上升32.4%。年內，本集團自有品牌業務應佔營業額由人民幣468,900,000元增加32.2%至人民幣620,100,000元，而本集團的OEM業務應佔營業額則由人民幣238,100,000元增加32.9%至人民幣316,200,000元。本集團的自有品牌業務佔本集團營業額的百分比於二零零五年及二零零六年分別維持於66.3%及66.2%。

本集團自有品牌業務應佔營業額增加主要由於(i)本集團的一級分銷商數目增加，本集團的一級分銷商數目由二零零五年十二月三十一日的248名增加至二零零六年十二月三十一日的約331名；(ii)本集團的移動電話週邊產品銷售額增加；及(iii)生產能力上升所致。本集團OEM業務應佔營業額增加主要由於(i)其筆記本電腦電池組的銷售額由二零零五年的人民幣19,200,000元增加至二零零六年的人民幣34,100,000元及(ii)移動電話二次充電電池組的銷售額由二零零五年的人民幣194,900,000元增加至二零零六年的人民幣268,200,000元所致。

銷售成本

本集團於二零零六年的銷售成本為人民幣695,800,000元。直接材料、直接人工及其他生產成本分別佔銷售成本約89.4%、3.3%及7.3%。整體而言，本集團銷售成本佔本集團營業額的百分比由二零零五年的79.2%減少至二零零六年的74.3%。

毛利及毛利率

本集團的毛利由二零零五年度的約人民幣147,300,000元增加63.3%至二零零六年度的約人民幣240,500,000元。至於本集團的自有品牌業務，毛利則由二零零五年的人

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million in 2006. For the Group's OEM business, the gross profit increased by 50.7% from RMB44.0 million in 2005 to RMB66.3 million in 2006.

The gross profit margin of the Group increased from 20.8% in 2005 to 25.7% in 2006. For the Group's own brand business, the gross profit margin was 28.1%, higher than 6.5% in last year primarily due to enhancement of production efficiency and economies of scale, lower purchase cost and a shift of product mix towards higher margin own brand products in the current year. For the OEM business, the gross profit margin increased from 18.5% to 21.0% over the period compared.

Other income

The other income of the Group increased from RMB4.4 million in 2005 to RMB24.5 million in 2006. This increase was primarily due to the increase in interest income derived from the Company's initial public offering in December 2006.

Change in fair value of convertible bonds designated as at fair value through profit or loss

A subsidiary of the Group issued US\$10 million (equivalent to approximately RMB78,161,000) convertible bonds on 23 January 2006 with a coupon rate of 2.5% per annum and redemption premium of 12% per annum, and with a maturity date on 23 January 2010.

Upon application of International Accounting Standards 39, the entire convertible bonds were designated as "financial liabilities at fair value through profit or loss" which requires the convertible bonds to be carried at fair value at the balance sheet date and the changes in fair values are recognized directly in the consolidated income statement. For the year 2006, a loss on changes in fair value of approximately RMB8.5 million is recognized in the consolidated income statement.

On 15 September 2006, a supplemental agreement to the issue of convertible bonds was signed to modify the terms of the convertible bonds and such modification is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

人民幣101,300,000元增加72.0%至二零零六年的人民幣174,200,000元，而本集團OEM業務的毛利則由二零零五年的人民幣44,000,000元增加50.7%至二零零六年度的人人民幣66,300,000元。

本集團的毛利率由二零零五年的20.8%增加至二零零六年的25.7%。至於本集團的自有品牌業務，毛利率則為28.1%，較去年上升6.5%，主要由於本年度生產效率及規模效益上升、採購成本下降及產品組合轉為利潤較高的自有品牌產品所致。就OEM業務而言，毛利率由比較期間的18.5%上升至21.0%。

其他收入

本集團的其他收入由二零零五年的人民幣4,400,000元增加至二零零六年的人民幣24,500,000元，增幅主要由於來自本公司於二零零六年十二月首次公開招股之利息收入增加所致。

按公平值計入損益賬之可換股債券公平值變動

本集團一間附屬公司於二零零六年一月二十三日發行10,000,000美元（相等於約人民幣78,161,000元）的可換股債券，票息為每年2.5%，贖回溢價為每年12%，到期日為二零一零年一月二十三日。

於應用國際會計準則第39號時，全部可換股債券均指定為「按公平值於損益表入賬的金融負債」，規定可換股債券按於結算日的公平值列賬，而公平值的變動則直接於綜合收益表內確認。於二零零六年度，約人民幣8,500,000元的公平值變動虧損已於綜合收益表內確認。

於二零零六年九月十五日，本公司就發行可換股債券簽訂一項補充協議，以修訂可換股債券的條款，有關修訂列賬為取消原有金融負債及確認為新的金融負債。

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Subsequent to 31 December 2006 and on 7 February 2007, the convertible bonds holder exercised its right to convert all the bonds into an aggregate of 93,001,246 shares of HK\$0.1 each in the Company.

Profit before taxation

Operating profit was RMB174.9 million, representing an increase of approximately 56.6% compared to 2005. During the year, the Group recorded total operating expenses of RMB70.9 million, comprising approximately RMB15.6 million for distribution costs and RMB55.3 million for administrative expenses. Distribution costs comprised RMB4.3 million for advertising and promotion expenses, RMB3.0 million for salaries and allowances, and RMB1.0 million provision with respect to the warranties applicable to the Group's own brand business. The distribution cost amounted to 1.7% of turnover, compared with 1.6% in 2005. A higher distribution cost was primarily due to the increased efforts in marketing and brand building, thereby increasing advertising and promotion expenses.

During 2006, the Group recorded administrative expenses of approximately RMB55.3 million, comprising approximately RMB12.6 million for research and development expenses and RMB7.7 million being the professional fees incurred for the initial public offering of the Company. Research and development expenses accounted for approximately 1.3% of the total turnover in 2006, or an increase of RMB5.9 million from 2005. The Group's administrative expenses accounted for 5.9% of total turnover in 2006, a growth of RMB30.8 million from 2005.

Liquidity and Financial Resources

The Group's cash and bank balance increased to RMB486.9 million, representing an increase of RMB472.1 million from the balance recorded as at the end of December 2005. The increase is largely due to positive cash flow of RMB70.0 million generated from the operating activities and RMB481.2 million from the proceeds of the initial public offering. Total debt to equity ratio of the Group expressed as a percentage of interest bearing loans and other borrowings over the total equity of RMB835.7 million was 39.1% as at 31 December 2006. In addition, the Group has restricted short term bank deposits of RMB124.0 million. As at 31 December 2006, the Group has a long term liabilities of RMB1.4 million. The current ratio and quick ratio also improved to 3.3 times and 3.0 times from 2.0 times and 1.5 times respectively in 2005.

於二零零六年十二月三十一日之後及於二零零七年二月七日，可換股債券持有人已行使其權利將所有債券轉換為合共93,001,246股本公司每股面值0.1港元的股份。

除稅前溢利

經營溢利為人民幣174,900,000元，較二零零五年上升約56.6%。年內，本集團錄得總經營開支人民幣70,900,000元，包括分銷成本約人民幣15,600,000元及行政開支約人民幣55,300,000元。分銷成本包括廣告及宣傳開支人民幣4,300,000元、薪金及津貼人民幣3,000,000元及本集團自有品牌業務適用保證撥備人民幣1,000,000元。分銷成本佔營業額的1.7%，而於二零零五年則佔1.6%。分銷成本上漲主要由於加強於市場推及品牌建立方面的工作，因此導致廣告及宣傳開支上升所致。

於二零零六年，本集團錄得行政開支約人民幣55,300,000元，包括研究及開發開支約人民幣12,600,000元及本公司首次公開招股產生的專業費用人民幣7,700,000元。研究及開發開支約佔二零零六年總營業額約1.3%，較二零零五年增加人民幣5,900,000元。本集團的行政開支佔二零零六年總營業額的5.9%，較二零零五年增加人民幣30,800,000元。

流動資金及財務資源

本集團的現金及銀行結餘增加至人民幣486,900,000元，較二零零五年十二月底錄得的結餘增加人民幣472,100,000元，主要由於經營業務產生的正面現金流量人民幣70,000,000元，以及首次公開招股所得款項人民幣481,200,000元所致。本集團的總債項對股本比率按計息貸款及其他借貸除以總股本人民幣835,700,000元計算，於二零零六年十二月三十一日的比率為39.1%。此外，本集團的有限制短期銀行存款為人民幣124,000,000元。於二零零六年十二月三十一日，本集團長期負債為人民幣1,400,000元。流動比率及速動比率亦分別由二零零五年的2.0倍及1.5倍改善至3.3倍及3.0倍。

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Net Current Assets and Net Assets

The Group's net current assets as at 31 December 2006 was approximately RMB741.4 million, an increase of 418.8% or RMB598.5 million from the balance of RMB142.9 million recorded as at 31 December 2005 due largely to the proceeds from the issue of shares by the initial public offering of the Company. Net assets rose to RMB837.1 million, representing an increase of RMB634.9 million or 314.0% over the balance as at 31 December 2005.

Pledge of Assets

As at 31 December 2006, the Group pledged its bank deposit of RMB83.5 million (2005: Nil) and certain machinery and electronic equipment with an aggregate carrying amount of RMB3.3 million (2005: RMB19.0 million) to certain banks to secure bank facilities granted to a subsidiary of the Group.

As at 31 December 2006, the Group pledged its bank deposit of RMB40.5 million (2005: RMB2.9 million) to certain banks to secure notes payable and letter of credit facilities granted to a subsidiary of the Group.

Contingent Liabilities

As at 31 December 2006, the Group had no contingent liabilities. As at 31 December 2005, guarantees given to the banks in respect of bank facilities and notes payables were RMB40.6 million and RMB28.9 million respectively.

Foreign Exchange Exposure

The Group carries out the majority of its transactions in RMB and accordingly, the Group is not exposed to any significant foreign currency risk. Although the Group has certain bank balances and short-term bank loans denominated in USD, JPY and HKD, their proportion to the Group's total assets is insignificant. The Group has convertible bonds denominated in USD and management considers the exchange rate fluctuation between RMB and USD is not significant, and thus no hedging arrangement of foreign currency risk has been entered into.

流動資產淨值及資產淨值

本集團於二零零六年十二月三十一日的流動資產淨值約為人民幣741,400,000元，較二零零五年十二月三十一日的餘額人民幣142,900,000元增加418.8%或人民幣598,500,000元，大部分是由於本公司從首次公開發售中發行股份收取所得款項。資產淨值增至人民幣837,100,000元，較二零零五年十二月三十一日的餘額增加人民幣634,900,000元或314.0%。

資產抵押

於二零零六年十二月三十一日，本集團向若干銀行抵押為數人民幣83,500,000元的銀行存款（二零零五年：無）及若干總賬面值為人民幣3,300,000元的機器及電子設備（二零零五年：人民幣19,000,000元），以作為本集團一家附屬公司獲授的銀行信貸的抵押。

於二零零六年十二月三十一日，本集團向若干銀行抵押為數人民幣40,500,000元（二零零五年：人民幣2,900,000元）的銀行存款，以作為本集團一家附屬公司獲授的應付票據及信用狀信貸的抵押。

或然負債

於二零零六年十二月三十一日，本集團並無或然負債。於二零零五年十二月三十一日，就銀行融資及應付票據向銀行提供的擔保分別為人民幣40,600,000元及人民幣28,900,000元。

外匯風險

本集團以人民幣進行其大多數交易，故本集團並無承受任何重大外幣風險。儘管本集團擁有若干以美元、日圓及港元為單位的銀行結餘及短期銀行貸款，然而，佔本集團的總資產比例並不重大。本集團擁有以美元為單位的可換股債券，管理層認為人民幣與美元的匯率波動不大，故並無作出對沖外幣風險的安排。

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Employee, Remuneration Policies and Share Option Scheme

As at 31 December 2006, total number of employees of the Group was approximately 2,300. The Group ensures all levels of employees are paid competitively within the standard in the market and employees are rewarded on a performance-related basis within the framework of the Group's salary, incentives and bonus scheme.

The Company's share option scheme (the "Scheme"), was adopted pursuant to a resolution passed on 3 December 2006 for the primary purpose of providing incentives to directors and eligible employees. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. The Scheme was adopted for a period of 10 years and the Company by ordinary resolution in general meeting or the Board of Directors of the Company may at anytime terminate the Scheme without prejudice to the options granted during the life of the Scheme and which remain unexpired immediately prior to such termination.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 24,970,000 (2005: N/A), representing 2.9% (2005: N/A) of the shares of the Company in issue at that time. The number of shares issued and to be issued in respect of which options granted and may be granted to a substantial shareholder or an independent non-executive director or any of their respective associates representing in aggregate over 0.1% the Company's share capital on the date of such grant or with an aggregate value in excess of HK\$5 million must be approved in advance by resolution of the Company's shareholders (voting by way of poll).

A consideration of HK\$1.0 is payable on the grant of an option.

僱員、薪酬政策及購股權計劃

於二零零六年十二月三十一日，本集團共有約2,300名僱員。本集團確保所有職級僱員的薪酬均符合市場水平，而根據本集團的薪金、獎勵及花紅計劃，本集團會因應僱員的表現而回饋僱員。

本公司已根據於二零零六年十二月三日通過的決議案採納購股權計劃（「計劃」），主要為向董事及合資格僱員提供獎勵。根據計劃，本公司董事會可向合資格僱員（包括本公司及其附屬公司的董事）授出購股權，以認購本公司的股份。計劃按十年年期採納，本公司可以股東大會上的普通決議案或由本公司董事會於任何時間終止計劃，惟必須以無損計劃終止前行使於計劃生效期間授出而仍然尚未到期的購股權為限。

於二零零六年十二月三十一日，該等根據計劃授出及仍然發行在外的購股權所涉及的股份數目為24,970,000股（二零零五年：不適用），佔本公司當時已發行股份的2.9%（二零零五年：不適用）。已授出及可能授出予主要股東或獨立非執行董事或彼等各自任何聯繫人的購股權所涉及的已發行及將予發行股份數目，如佔本公司於授出日期的股本總額超過0.1%，或總值超過5,000,000港元，則必須預先獲本公司股東以決議案（以按股數表決形式）批准。

就授出購股權須支付代價1.0港元。

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Use of Proceeds

The Company raised an aggregate proceeds of HK\$604.0 million as a result of the initial public offering of shares of the Company on the Mainboard of the Stock Exchange (inclusive of HK\$78.8 million raised from the over-allotment option exercised in January 2007). During the reporting period, the Company applied HK\$78.0 million (equivalent to RMB78.2 million) and HK\$195.0 million (equivalent to RMB195.6 million) to the capital injection in Scud (Fujian) Electronics Co. Ltd and Scud (Fujian) Battery Co. Ltd respectively. The capital injected to the subsidiaries are intended to be used in strengthening and expansion of the Group's sales and marketing network in the PRC, promoting the "SCUD 飛毛腿" brand name, construction of new factory in Fuzhou, expansion of production capabilities and repayment of bank loans during the next 12 months. As at 31 December 2006, proceeds in the amount of HK\$340.7 million remained unutilized and were held as deposits with commercial banks in Hong Kong.

所得款項用途

本公司因股份於聯交所主板首次公開發售而籌集所得款項共604,000,000港元，當中包括於二零零七年一月行使超額配股權所籌集的78,800,000港元。於報告期內，本公司分別動用78,000,000港元（相等於人民幣78,200,000元）及195,000,000港元（相等於人民幣195,600,000元）向飛毛腿（福建）電子有限公司及飛毛腿（福建）電池有限公司注資。注資附屬公司的資金擬應用於未來十二個月鞏固及擴充本集團於中國的銷售及推廣網絡、推廣「SCUD 飛毛腿」品牌、於福州興建新廠房、提高生產能力及償還銀行貸款。於二零零六年十二月三十一日，為數340,700,000港元的所得款項仍未動用，並於香港的商業銀行持作存款。