



MOBICON GROUP LIMITED

萬保剛集團有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 1213)

DISCLOSEABLE AND CONNECTED TRANSACTIONS ACQUISITION OF AN ADDITIONAL 29% INTEREST IN A SUBSIDIARY

On 16th November 2004, the Company, through Mobicon (BVI) (a direct wholly-owned subsidiary of the Company), as purchaser entered into an agreement with certain shareholders of APC (an indirect wholly-owned subsidiary of the Company) as vendors for the sale and purchase of shares in APC. The transactions as contemplated under the said agreement will constitute connected transactions for the purposes of Chapter 14A of the Listing Rules.

The Board confirms that the resultant ratio of each of the relevant size tests does not exceed the relevant thresholds as set out in Rule 14A.32 of the Listing Rules and therefore, the share acquisition by the Company will fall under Rule 14A.32 of the Listing Rules and will only be subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

The share acquisition will also constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules. A circular in connection with the share acquisition will be despatched to the shareholders of the Company within 21 days after the publication of this announcement.

This announcement is made by the board of directors of the Company pursuant to Rule 14A.47 of the Listing Rules. However, a separate announcement will be made by the Company should the share acquisition proceed on terms different from those set out in this announcement.

We, the board of directors of the Company (the "Board"), would like to inform you that on 16th November 2004, the Company, through Mobicon (BVI) Limited ("Mobicon (BVI)"), entered into an agreement (the "Agreement") with certain shareholders of A Plus Computer Holdings Limited ("APC") pursuant to which these shareholders have jointly and severally agreed to sell, and Mobicon (BVI) has agreed to purchase, 232,000 shares of US\$1 each in the capital of APC (the "Shares"), representing 29% of the entire issued share capital of APC (the "Share Acquisition"), at a total consideration of US\$232,000 (equivalent to approximately HK\$1,809,600 at the exchange rate of HK\$7.8 to US\$1) (the "Consideration").

APC, a company incorporated in the British Virgin Islands with limited liabilities on 19th March 2003, is the direct holding company of certain subsidiaries of the Group which are principally engaged in the trading of computer products and accessories in Hong Kong (the "Business"). The subsidiaries which are currently engaging in the Business under APC are (a) A Plus Electronic Company Limited (a direct wholly-owned subsidiary of APC), (b) PC Master Limited (a direct 90% majority-owned subsidiary of APC), (c) A Plus 2 Computer Limited (a direct 51% majority-owned subsidiary of APC), (d) Videocom Technology (HK) Limited (a direct wholly-owned subsidiary of APC), (e) Videocom 298 Limited (a direct 60% majority-owned subsidiary of APC) and (f) Videocom Freetron Limited (a direct 70% majority-owned subsidiary of APC). APC was incorporated for the sole purpose of acting as the holding company of the aforesaid subsidiaries of the Group.

As at the date hereof, the remaining 10% interest of PC Master Limited and 49% interest of A Plus 2 Computer Limited are held by Future-Tech (Computer) Trading Company Limited, the entire issued share capital of which is in turn held by Mr. Yu Wah Keung, Mr. Lam Sun Hung and Mr. Yip Chi Sing. The remaining 40% interest of Videocom 298 Limited is held by Wong Yuk Chor whilst the remaining 30% of Videocom Freetron Limited is held by New Success Enterprises Limited, the entire issued share capital of which is in turn held by Miss Leung Wai Yee, Pauline. Mr. Yu Wah Keung is a director of A Plus 2 Computer Limited whilst Miss Leung Wai Yee, Pauline is the spouse of Mr. Duong Du Co, a director of Videocom Freetron Limited.

Other than as disclosed above, each of Future-Tech (Computer) Trading Company Limited (together with its beneficial owners), Wong Yuk Chor and New Success Enterprises Limited (together with its beneficial owner) is independent of the Company and its connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")).

Since its incorporation, APC has been held as to 51% by Mobicon (BVI), a wholly-owned subsidiary of the Company, as to 24.5% by Mr. Hong Chi Kwong ("Mr. Hong"), as to 12.25% by Mr. Ip Man Kwong ("Mr. M.K. Ip") and as to the remaining 12.25% by Mr. Ip Man Chun ("Mr. M.C. Ip"). Mr. Hong is a director of Videocom Technology (HK) Limited and Videocom 298 Limited whilst Mr. Hong, Mr. M.K. Ip and Mr. M.C. Ip are the members of the senior management of Videocom Technology (HK) Limited. Mr. M.K. Ip is the elder brother of Mr. M.C. Ip.

As each of Mr. Hong, Mr. M.K. Ip and Mr. M.C. Ip is a substantial shareholder of APC which in turn is an indirect majority-owned subsidiary of the Company, the aforesaid persons will be regarded as connected persons of the Company for the purposes of Chapter 14A of the Listing Rules.

Share Acquisition

Pursuant to the terms of the Agreement, Mr. Hong, Mr. M.K. Ip and Mr. M.C. Ip have jointly and severally agreed to dispose part of their respective shareholding interests in APC to Mobicon (BVI) at the Consideration in the following manner:

- disposal of 116,000 Shares, which represents 14.5% of the issued share capital of APC, by Mr. Hong to Mobicon (BVI) (Mr. Hong subscribed the 116,000 Shares at an aggregate par value of US\$116,000 (equivalent to approximately HK\$904,800 at the exchange rate of HK\$7.8 to US\$1) on 19th March 2003);
- disposal of 58,000 Shares, which represents 7.25% of the issued share capital of APC, by Mr. M.K. Ip to Mobicon (BVI) (Mr. M.K. Ip subscribed the 58,000 Shares at an aggregate par value of US\$58,000 (equivalent to approximately HK\$452,400 at the exchange rate of HK\$7.8 to US\$1) on 19th March 2003); and
- disposal of 58,000 Shares, which represents 7.25% of the issued share capital of APC, by Mr. M.C. Ip to Mobicon (BVI) (Mr. M.C. Ip subscribed the 58,000 Shares at an aggregate par value of US\$58,000 (equivalent to approximately HK\$452,400 at the exchange rate of HK\$7.8 to US\$1) on 19th March 2003).

As set out in the Agreement, the Consideration will be payable by Mobicon (BVI) in cash upon completion of the Share Acquisition by way of delivery of 3 cheques in the following manner:-

- to Mr. Hong a cheque drawn in favour of Mr. Hong in the sum of US\$116,000;
- to Mr. M. K. Ip a cheque drawn in favour of Mr. M. K. Ip in the sum of US\$58,000; and
- to Mr. M. C. Ip a cheque drawn in favour of Mr. M. C. Ip in the sum of US\$58,000.

It is proposed that the completion of the Share Acquisition shall take place on or before 30th November 2004 subject to the fulfilment or waiver (as the case may be) of all relevant requirements as may be imposed by The Stock Exchange of Hong Kong Limited. The Consideration payable by Mobicon (BVI) to Mr. Hong, Mr. M.K. Ip and Mr. M.C. Ip will be funded by the internally generated resources of the Group.

Upon completion of the Share Acquisition, APC will be held as to 80% by Mobicon (BVI), as to 10% by Mr. Hong, as to 5% by Mr. M.K. Ip and as to the remaining 5% by Mr. M.C. Ip.

A separate announcement will be made by the Company should the Share Acquisition proceed on terms different from those set out in this announcement.

Basis of determination of consideration

As reflected in the consolidated management accounts of APC for the year ended 31st March 2004 (the "Management Accounts"), the accumulated loss attributable to the shareholders of APC amounted to approximately HK\$124,000 and the net assets value of the relevant sale Shares (which represents 29% of the issued share capital of APC) amounted to HK\$1,774,000 as at 31st March 2004 (the "NAV"). As reflected in the Management Accounts, the net profit (before taxation, extraordinary items and minority interests of APC) amounted to HK\$729,000 whilst the net loss (after taxation, extraordinary items and minority interests of APC) amounted to HK\$124,000 as at 31st March 2004.

In light of the under-performance of APC, the parties to the Agreement decided to fix the total consideration for the Share Acquisition at the Consideration (that is, HK\$1,809,600) which is equivalent to the aggregate par value of the relevant sale Shares.

The Consideration also represents a premium of 2% over the NAV (which is approximately HK\$35,600 as at 31st March 2004) which is considered by the Board to be fair and reasonable in terms of its immateriality. Completion of the Share Acquisition will increase not only the Group's controlling stake in APC, but also its board control over APC. Following the resignation of Mr. Hong and Mr. Ip King Ki (the father of Mr. M.K. Ip and Mr. M.C. Ip) from their respective directorships in APC upon completion of the Share Acquisition, the Company will obtain the entire board control over APC. As at the date hereof, the board of APC comprises Mr. Hung Kim Fung, Measure (a director of the Company), Madam Yeung Man Yi, Beryl (a director of the Company), Mr. Hung Ying Fung (a director of the Company), Mr. Hong and Mr. Ip King Ki.

The Board plans to utilise the internal generated resources of the Group for the expansion of the Business by (i) increasing the number of retail outlets in Hong Kong for the trading of computer products and accessories and (ii) further broadening the range of computer products and accessories traded in this business segment (the "Expansion Plan"). An increase of the business scale will lead to an increase in the bulk volume purchase and thus, a reduction in the purchase costs of the products sold. The gross profit margin will also be increased accordingly. Since the incorporation of APC as a holding company of the various subsidiaries as mentioned hereinabove, the total number of retail outlets operated under APC increased from four (4) as at 31st March 2003 to twelve (12) as at 31st March 2004 whilst the turnover derived from the Business also increased by approximately 160% from HK\$218 million for the year ended 31st March 2003 to HK\$568 million for the year ended 31st March 2004. The Board believes that there are ample business opportunities in this business segment and the turnover and the gross profit margin deriving from the Business can be further increased through the implementation of the Expansion Plan after the Share Acquisition.

The Board considers that the past under-performance of APC, which was influenced by the performance of its subsidiaries as a whole, was attributable to the limited operation history of these subsidiaries after they have been held under APC. APC acquired the interests of (a) A Plus Electronic Company Limited (established by the Group on 7th April 1993), (b) PC Master Limited (established by the Group on 19th October 2001), (c) A Plus 2 Computer Limited (established by the Group on 17th April 2002) and (d) Videocom Technology (HK) Limited (established by Mr. Hong and his spouse on 5th July 2002) on 7th May 2003. Thereafter, APC acquired the interests in (a) Videocom 298 Limited (established by the Group on 5th December 2003) and (b) Videocom Freetron Limited (established by the Group on 12th January 2004) on 12th December 2003 and 12th January 2004 respectively. The Board believes that the performance of APC will be improved with the continued smoothing of the business operations after the initial business start-up stage of APC together with the expanding business scale in the coming future.

Listing Rules implications

Given that (a) Mobicon (BVI), being an investment holding company of a group of subsidiaries whose principal activities are the trading and distribution of electronic parts, components, equipment, and trading, distribution and retail sale of computer products and accessories, is a direct wholly-owned subsidiary of the Company and (b) each of Mr. Hong (being a director of Videocom Technology (HK) Limited and Videocom 298 Limited), Mr. M.K. Ip (being the elder brother of Mr. M.C. Ip) and Mr. M.C. Ip is a substantial shareholder of APC which in turn is also a subsidiary of the Company, and hence a connected person of the Company for the purposes of the Listing Rules, the Share Acquisition as contemplated under the Agreement will constitute connected transactions under Rule 14A.13(1)(a) of the Listing Rules and will be subject to the disclosure requirements under Chapter 14A of the Listing Rules.

* for identification purpose only

Other than as disclosed above, each of Mr. Hong, Mr. M.K. Ip and Mr. M.C. Ip is independent of the Company and its connected persons (as defined in the Listing Rules).

The Board notes that Rule 14A.32 of the Listing Rules provides for the exemption of certain connected transactions from the independent shareholders' approval requirements. One of those exemptions covers any transaction on normal commercial terms in which each of the percentage ratios (other than the profits ratio) is equal to or more than 2.5% but is less than 25% and the total consideration is less than HK\$10,000,000.

The Board confirms that each of the relevant percentage ratios will be less than 25% for the purposes of Rule 14A.32 of the Listing Rules. The transactions as contemplated under the Agreement will therefore only be subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47 of the Listing Rules.

As the Share Acquisition will also constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules, a circular in connection with the Share Acquisition will be despatched to the shareholders of the Company within 21 days after the publication of this announcement.

Reasons for the Share Acquisition

Completion of the Share Acquisition will increase not only the Group's controlling stake in APC, but also its board control over APC. Following the resignation of Mr. Hong and Mr. Ip King Ki (the father of Mr. M.K. Ip and Mr. M.C. Ip) from their respective directorships in APC upon completion of the Share Acquisition, the Company will obtain the entire board control over APC. The Board believes that the resignation of Mr. Hong and Mr. Ip King Ki from their respective directorships in APC will not have any material adverse impact on the operation of the Group.

The Board intends to expand the Business in future by the adoption of the Expansion Plan as described above. Having considered the future prospect of the Business after the expansion of its business scale, the Board believes that the Group can be benefited from the additional contribution generated from the Business after the increase in equity stake in APC through the Share Acquisition.

The Board (including the independent non-executive Directors) considers that the terms and conditions for the Agreement are fair and reasonable and reflect arm's length negotiations on normal commercial terms and are in the interests of the shareholders of the Company as a whole.

The Group is principally engaged in the trading and distribution of electronic parts, components, equipment, and trading, distribution and retail sale of computer products and accessories.

As at the date of this announcement, the Board comprises Mr. Hung Kim Fung, Measure, Madam Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix as executive directors and Mr. Charles E. Chapman, Mr. Leung Wai Cheung and Mr. Chow Shek Fai as independent non-executive directors.

By Order of the Board
Mobicon Group Limited
Hung Kim Fung Measure
Chairman

Hong Kong, 16th November 2004

"Please also refer to the published version of this announcement in The Standard."