

Local Expertise
Business Interaction



MALAYSIA



SINGAPORE



HONG KONG CHINA



SOUTH AFRICA



TAIWAN

- **HONG KONG CHINA**
- **MALAYSIA**
- **SINGAPORE**
- **SOUTH AFRICA**
- **TAIWAN**

Annual Report 2005/2006

Enterprising - Pragmatic - Aspiring

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CORPORATE INFORMATION

DIRECTORS

Executive directors

Hung Kim Fung, Measure (*Chairman*)

Yeung Man Yi, Beryl

Hung Ying Fung

Yeung Kwok Leung, Allix

Independent non-executive directors

Charles E. Chapman

Leung Wai Cheung

Chow Shek Fai

COMPANY SECRETARY

Yeung Kin Kwan, Alvan

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

7th Floor, New Trend Centre

704 Prince Edward Road East

San Po Kong

Kowloon

Hong Kong

AUDITORS

HLB Hodgson Impey Cheng

Chartered Accountants

Certified Public Accountants

31/F, Gloucester Tower

The Landmark

11 Pedder Street, Central

Hong Kong

SHARE REGISTRARS AND TRANSFER OFFICE

Principal registrars in Bermuda

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke HM08

Bermuda

Branch registrars in Hong Kong

Hong Kong Registrars Limited

Shops 1712-1716, 17/F

Hopewell Centre

183 Queen's Road East

Hong Kong

PRINCIPAL BANKER

DBS Bank (Hong Kong) Limited

Standard Chartered Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISERS

F. Zimmern & Co.

Suites 1501-1503, 15th Floor

Gloucester Tower

The Landmark

11 Pedder Street

Central, Hong Kong

COMPANY HOMEPAGE/WEBSITE

<http://www.mobicon.com>

STOCK CODE

1213

GROUP STRUCTURE

MOBICON GROUP LIMITED

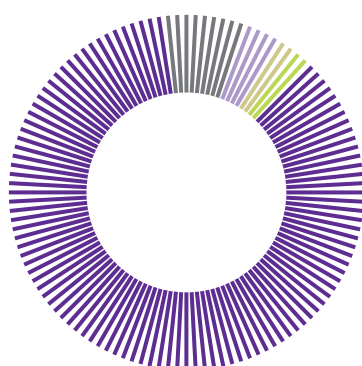


FINANCIAL HIGHLIGHTS

MAJOR FINANCIAL INDICATORS AND RATIOS

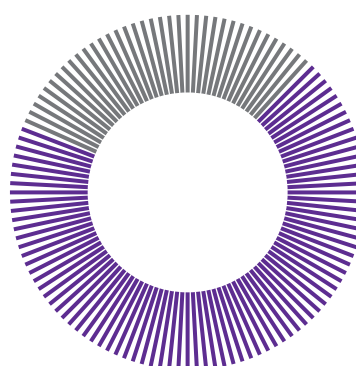
	2006	2005	2004	2003	2002
Net gearing ratio	0.02	0.19	0.19	—	—
Inventory turnover days	66 days	54 days	43 days	51 days	90 days
Accounts receivable turnover days	32 days	29 days	26 days	28 days	36 days
Earnings per share – basic	HK\$0.10	HK\$0.16	HK\$0.14	HK\$0.09	HK\$0.02
Net assets	HK\$180 million	HK\$167 million	HK\$147 million	HK\$120 million	HK\$104 million

TURNOVER BY GEOGRAPHICAL SEGMENTS (BY %)



- Hong Kong 86%
- Asia-Pacific region (other than Hong Kong) 8%
- South Africa 3%
- Europe 2%
- Others 1%

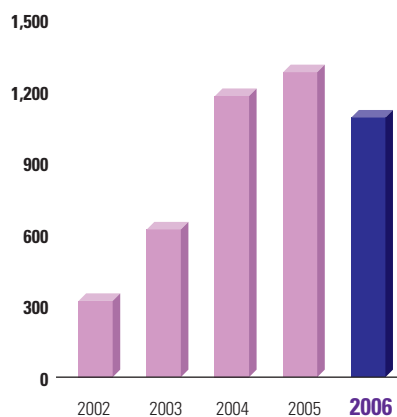
TURNOVER BY BUSINESS SEGMENTS (BY %)



- Electronic Trading Business 69%
- Computer Business 31%

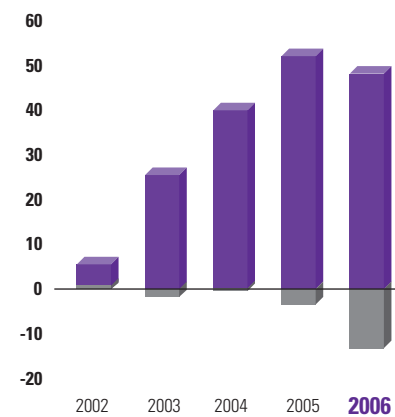
TURNOVER

HK\$ in million



SEGMENT RESULTS

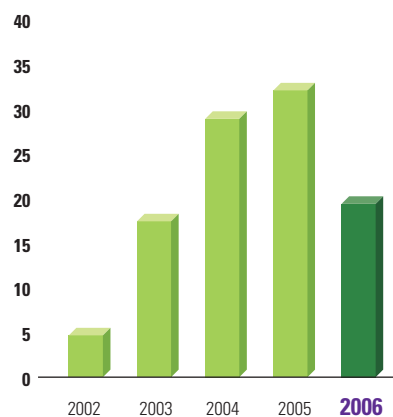
HK\$ in million



- Electronic Trading Business
- Computer Business

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

HK\$ in million



CHAIRMAN'S STATEMENT



Hung Kim Fung, Measure
Chairman

FINANCIAL RESULTS

The Group recorded a turnover of around HK\$1.09 billion during the fiscal year ended 31st March 2006. This represents a decrease of about 15% on the figure of around HK\$1.28 billion for the previous year. Gross profit dropped by approximately 4% to around HK\$156 million, down from last year's figure of about HK\$162 million while the gross profit margin grew by approximately 1.7% to around 14.4%, up from previous year's figure of about 12.7%. The Group's operating profit amounted to around HK\$36 million (31st March 2005: HK\$47 million), while the profit attributable to shareholders was approximately HK\$19 million (31st March 2005: HK\$32 million), representing earnings per share of HK\$0.097 (31st March 2005: HK\$0.162 per share).

During the year under review, the Group continued to develop its two core business lines, namely: (1) the distribution of electronic components, automation parts and equipment under the **MOBICON** service branding (the "Electronic Trading Business"); and (2) computer related business (the "Computer Business") which includes (i) the retail sales of computer products and accessories under the **VideoCom** retail branding (the "Computer Retail Business") and (ii) the provision of IT outsourcing and solution services to small and medium enterprises in Hong Kong (the "IT Outsourcing Services"). The Group's turnover of Electronic Trading Business amounted to about HK\$752 million, dropped approximately by 6% compared with last year figure of about HK\$798 million, while the turnover of Computer Business recorded a decrease of approximately 30% to HK\$337 million from previous year's figure of about HK\$482 million.

Integrating the results of two core business lines, the Group achieved a steady increase in the gross profit margin by 1.7%, which was mainly due to enhancement of its "Small Order Services" in Electronic Trading Business which contributed to the gross profit margin growth of the Group. It successfully unified its product database by increasing the existing 40,000 items on its price list to 70,000. The Group also mass-produced and distributed multicolored product catalogues to its distributor partners. On top of that, the Group was granted exclusive rights to produce and sell wafer chips carrying the brand name of Actions Semiconductor Co Ltd. ("Actions") for radio-controlled cars last year and its striving towards development with a turnover of HK\$11 million leads to an expansion of the Group's market share in the electronic toys field, as well as an increase in the overall gross profit margin.

During the fiscal year, the increase of crude oil and commodity price caused a contraction of the international export market for electronic consumer products and toys. Customers' sensitivity towards business operations thus became more conservative, leading to an unfavorable business environment which resulted in a slight drop in the Group's business sales of electronic trading. The intense competition in the local computer retail industry brought about a change of business operation into small profits mode by the suppliers of LCD monitor and MP3, dropping the market price of computers and accessories tremendously. With an addition of increasing rent in the local market, the turnover of the Group derived from the Computer Retail Business decreased prominently.



CHAIRMAN'S STATEMENT (CONTINUED)

DEVELOPMENT STRATEGY

Through the merge of the 'Small Order Services' business model and the "Satellite Development Strategy", the Group aimed to cope with the trend towards the predominance of consumer products. The "Small Order Services" business model helped to further expand client networks, revenue opportunities and strengthening of the Group's competitiveness because of the abundant varieties of electronic products available and the low demand for large-volume orders for individual products in the Hong Kong market.

With a view to pursue specialization, the five satellite companies, namely Arkia Advance Limited, Conwise Power Limited, MCU Power Limited, DV Power Limited and Milliard Devices Limited continued to develop various professional application solutions including MP3-amplifier solutions, ultra-violet light detector solutions, automobile bluetooth sound system solutions and LED lighting solutions etc., offering a more comprehensive service of a higher quality. It allowed the Group to successfully transform itself into a distributor with knowledge in both product design and development.



The Group established AESI (HK) Limited in November 2005. Through the latest Internet technologies, AESI (HK) Limited provides its clients with real-time system maintenance and technical support. AESI (HK) Limited, together with A Power Limited and Create Tech Software Systems Limited, formed a professional IT management team and enables the Group to master the knowledge and technique in developing computer hardware, software as well as IT maintenance. As a result, the Group becomes the hub of the computer IT servicing industry, providing its clients with a one-stop IT management service.

In order to withstand the market competition in computer retail business, the Group started to reconstruct the organization of retail shops under  the branding in February 2006 by reducing the number of shops at the same point of sales. The Group also developed a regional strategy by opening new retail outlets in Yuen Long and Sheung Shui and categorized them into small-order wholesale and retail division so as to sustain the advantages for the development of  retail branding in the local industry.

OUTLOOK

For the Electronic Trading Business, the Group will continue to launch the "Satellite Development Strategy". Via professional knowledge and the powerful procurement team of the satellites, the Group's clients will be entitled to higher-quality and diversified products and services. Meanwhile, the Group will continue to enhance the connections between Hong Kong headquarters and all overseas branches for better information interchange and to keep up with the international market trend in order to internationalize local services and localize overseas markets.

To give worldwide distributors more convenient and efficient access to professional one-stop procurement services and to qualify the Group's competitiveness in the Asian network, it has set up a sales office in Taiwan in March 2006, increasing the number of sales and procurement points from four to five in Asia. Besides that, the Group will continue to acquire more agent lines for electronic components, automation parts and equipment, and become an authorized distribution hub for various renowned brands based on the trust from suppliers and clients.

Regarding the Computer Business, the Group will keep on implementing cautious operating cost control to maximize the efficiency of the Group's financial resources and strengthen the developing potentials of  retail branding. Looking ahead, the Group will try its best to open markets for highly-qualified digital earphones, computer memory cards and computer peripherals under its own brand, . Through the cooperation with local retailing chain stores, the opportunities for local electronic consumer products business will be fully explored.

APPRECIATION

I would like to thank our management team and all our staff for their efforts and significant contributions to the Group during the past year. In addition, I would like to express my heartfelt gratitude to our various shareholders, institutional investors, customers, bankers and business partners for their continued support for the confidence in the Group.

By order of the Board

Hung Kim Fung, Measure

Chairman

Hong Kong, 12th July 2006

MANAGEMENT DISCUSSION AND ANALYSIS



BUSINESS REVIEW

The Group's two core business operations, namely: (1) the distribution of electronic components, automation parts and equipment under the **MOBICON** serving branding (the "Electronic Trading Business"); and (2) computer related business (the "Computer Business") which includes (i) the retail sales of computer products and accessories under the **VideoCam** retail branding (the "Computer Retail Business") and (ii) the provision of IT outsourcing and solution services to small and medium enterprises in Hong Kong (the "IT Outsourcing Services"), respectively accounted for 69% and 31% of the Group's total turnover for the fiscal year ended 31st March 2006.

Electronic Trading Business

Hong Kong and China

During the year under review, the Group's sales performance in Electronic Trading Business remained stable and the gross profit margin experienced a slight increase. The growth is mainly due to the unification and standardization of the Group's product database. It also mass-produced product catalogues in full color and allowed distributors worldwide to access the most updated and comprehensive product information and prices in a more convenient and efficient way. This enabled the "Small Order Services" business mode to attain satisfactory development and broaden the Group's market coverage.

Under the direction of specialization, the sales performance of wafer chips for radio-controlled cars under Actions branding was satisfactory. With a turnover of HK\$11 million, Actions pushed the sales volume of other electronic products forward and brought the Group to become one of the key suppliers in the electronic toys industry.



Two satellites under the Group, Arkia Advance Limited and Milliard Devices Limited, were devoted to exploring the telecommunication market by providing clients with all-round and professional cordless telephone application solutions and Family Radio System solutions, which helped speed up the production processes. This raised the Group's turnover of telecommunication business from last year's figure of HK\$2.3 million to HK\$15 million of this year by a remarkable surge of 550%.

During the year under review, the Group signed agency contracts with a number of brand-name vendors. These included Hong Kong agents Inn chips (a provider of chip varistors), Anpec Electronics (a provider of mosfets and hall sensors), Arnold (a provider of flex magnetic), Pelikon (a provider of intuitive touch displays) as well as Singapore agent Linx Technologies (a provider of radio frequency transceivers and broad-band amplifiers).

Overseas

Within the year under review, the business of the Group's overseas subsidiaries also grew stably. With the infrastructure development in South Africa, the branch started to run the "Small Order Services" business model during the fiscal year. In total, the branch accounted for a pleasing growth of approximately 6% in its turnover.

To better construct the Asian supplying network, the Group set up a sales office at Neihsu district in Taiwan in March 2006, which is responsible for exploring the Taiwan SME market as well as purchasing and selling electronic components, automation parts and equipment. Taiwan, as an international information technology export centre and a manufacturing station of electronic industrial products, allowed the satellite companies to contribute positively on the satellites' procurement power and synergized Hong Kong Headquarters to become the central trading hub of the electronic industry.

As at 31st March 2006, the aggregate turnover of all the Group's overseas subsidiaries was approximately HK\$83 million, stating a growth of approximately 14% compared with last year's figure. In terms of geographical segments, the turnover of each region was almost as great as in the corresponding period of last year; and the contributions of Hong Kong, the Asia-Pacific region (other than Hong Kong), South Africa, Europe and other regions, accounted for: 86%, 8%, 3%, 2% and 1% respectively of the Group's total turnover.

Computer Business

Computer Retail Business

During the year under review, the continuous price drop of computer accessories and the corresponding rent surge, recorded a notable decrease in the turnover of Computer Retail Business. To improve the profit-making ability of Computer Retail Business, the Group began to restructure all outlets under  retail branding in February 2006 and developed a regional strategy. Two retail outlets were opened in Yuen Long area and Sheung Shui area with lower rental expenditure in September and December 2005 respectively to expand the retail network of computers and accessories.



MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

IT Outsourcing Services

The Group continued to amplify the scope of IT Outsourcing Services within the fiscal year. A Power Limited, one of the Group's subsidiaries, actively explored the SME market and engaged in the distribution and direct sales business in IT products. Simultaneously, with a strategic partnership with Fortress Limited, a local retailer with chain stores selling home appliances and communication equipment, A Power Limited promoted digital earphones, computer memory cards and computer accessories under **Jt** branding with all its strength, contributing to the success of A Power Limited as a key vendor of IT products.



With an aim to diversify and specialize the IT Outsourcing Services, the Group set up AESI (HK) Limited to launch IT maintenance business. Utilizing the latest internet technologies, AESI (HK) Limited focused on providing professional consulting services, including real-time technical support, basic system maintenance, sudden disaster handling, equipment acquisition and upgrade, business software development as well as e-commerce solutions to small and medium enterprises and organizations. Through the corporation of AESI (HK) Limited, A Power Limited and Create Tech Software Systems Limited, the Group initiated a one-stop IT maintenance system and became a qualified IT product solutions provider.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has a strong financial foundation. As at 31st March 2006, it had cash and bank balances of approximately HK\$50 million (as at 31st March 2005: HK\$48 million). About 45% and 39% were denominated in Hong Kong dollars and US dollars respectively. The balance of approximately 9%, 2%, 2%, 2% and 1% of its total cash and bank balances were correspondingly denominated in South African Rand, New Taiwan dollars, Malaysia Ringgit, Chinese Renminbi and Singapore dollars. The Group's total assets amounted to approximately HK\$322 million (as at 31st March 2005: HK\$352 million). Net assets per share amounted to approximately HK\$0.90 (as at 31st March 2005: HK\$0.84). Dividend earnings and basic earnings per share were approximately HK\$0.050 and HK\$0.097 respectively (as at 31st March 2005: HK\$0.060 and HK\$0.162 respectively).

As at 31st March 2006, the Group had banking facilities for overdrafts, loans and trade finance from several banks totaling approximately HK\$228 million (as at 31st March 2005: HK\$202 million), with an unused balance of approximately HK\$174 million (as at 31st March 2005: HK\$122 million).

The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and working capital requirements.

CAPITAL STRUCTURE

As at 31st March 2006, the total borrowings of the Group were approximately HK\$54 million (as at 31st March 2005: HK\$80 million). These were in the form of short-term bank loans (including short-term loans and trade finance) for financing the daily business operations and future development plans. The Group's bank borrowings as at 31st March 2006 were denominated in Hong Kong dollars. The short-term loans and trade finance were secured by the Company's corporate guarantees of around HK\$234 million (as at 31st March 2005: HK\$202 million), with a maturity term of two to three months, and such short-term loans can be rolled over afterwards at the Group's discretion. During the year under review, the Group's borrowings bore interest at rates ranging from 3.2% to 6.1% per annum (as at 31st March 2005: ranging from 1.7% to 4.1% per annum).

GEARING RATIO

As at 31st March 2006, the Group's gross borrowing, which was repayable within one year, amounted to approximately HK\$54 million (as at 31st March 2005: HK\$80 million). After deducting cash and cash equivalents of approximately HK\$50 million, the Group's net borrowings amounted to approximately HK\$4 million (as at 31st March 2005: HK\$32 million). The decrease in borrowings was mainly due to the decrease in inventory. Total equity at 31st March 2006 was approximately HK\$180 million (as at 31st March 2005: HK\$167 million). Accordingly, the Group's net gearing ratio, based on net borrowings to total equity, decreased to 1.9% (as at 31st March 2005: 19.0%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the Group's transactions were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rate of Hong Kong dollars against the RMB has been and is likely to remain stable, the HKSAR Government's policy of linking the Hong Kong dollars to the US dollars remains in effect, the directors consider that the Group's risk on foreign exchange will remain minimal. In order to properly hedge against its demand for US dollars, the Group has entered into a forward contract to buy US\$500,000 per month at a rate of HK\$7.75 for the coming eleven months. Other than that, as at 31st March 2006, the Group had no significant risk exposure pertaining to foreign exchange contracts, interest rates, currency swaps, or other financial derivatives.

CHARGES ON ASSETS

The Group did not have any charge on its assets as at 31st March 2006.

COMMITMENTS AND CONTINGENT LIABILITIES

During the year under review, two successive forward contracts were enforced, whereby the Group has committed to buy US dollars on each specified monthly settlement date and the subsisting contract will be enforced up to 15th February 2007. Pursuant to the contract, the Group is committed to buy US\$500,000 in the event that the spot USD-HKD rate at expiration date is greater than or equal to the contract forward rate (i.e. US\$1.00 = HK\$7.75). Otherwise, the Group is committed to buy US\$1,000,000 in the event that the spot USD-HKD rate at expiration date is less than the contract forward rate.

As at 31st March 2006, the Group had total outstanding operating lease commitments of approximately HK\$29 million (as at 31st March 2005: HK\$13 million). In view of the Group's high level of liquid funds, it is expected that the Group will be able to fulfill all these commitments without any difficulty.

The Group had no contingent liabilities as at 31st March 2006.



EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 31st March 2006, the Group had a total of 455 full-time employees. The Group has also developed its human resources policies and procedures based on performance, merits and market conditions. Discretionary bonus is linked to the performance of the Group as well as individual performances. Benefits include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund Scheme for employees in Hong Kong, Employee Provident Fund Scheme for employees in Malaysia, Central Provident Fund Scheme for employees in Singapore, and state-sponsored retirement plans for employees in the PRC.

In February 2006, the Group held its second Asian Sales Conference in Indonesia to introduce and share the Group's development strategies and product knowledge with its overseas staff. More than 60 staff members from Hong Kong, Malaysia, Singapore and South Africa gathered to exchange experience about the operation systems in the Group's different regional offices. The event greatly enhanced communication over business development and market trend between local and overseas staff.

In order to commend their contributions to the Group and to boost their morale, the Group awards certificates to staff members in each department who perform outstandingly every quarter. It also presents rewards of the best attendance, the cleanest working environment and the greatest breakthrough in sales performance according to staff's attendance record, the sanitation of different departments and the results recorded in turnover of all satellites respectively. Monthly birthday parties and festival celebrations are regularly held to strengthen the bonds between staff members and enhance their sense of belonging.

SOCIAL RESPONSIBILITIES

The Group is committed to contributing to the community, and it fosters a corporate team spirit by encouraging staff to take part in various charitable activities. Every year, the Group helps those in need by taking part in the Yan Chai Charity Walk, The Community Chest's 'Hong Kong and Kowloon Walk' and the Hong Kong Red Cross Blood Donation Day. Last year, the Group also participated in the Outward Bound Competition which raises funds for Outward Bound Hong Kong. In addition, the chairman of the Group fully supported the establishment of the Development Fund of De LaSalle Secondary School, N.T. by offering scholarships to students and actively participated in activities on poverty via subsidizing the Candlelight Educational Fund in China to set up a primary school in remote areas.

Apart from actively participating in the Industrial Attachment Scheme of the City University of Hong Kong, the Group also provided graduates of the Yan Chai Hospital Tung Chi Ying Memorial Secondary School with 30-day on-the-job training as part of a career-orientation programme. The Group will maintain its caring spirit and continuous support for the society, as its enterprise culture through developing consecutive strategic cooperation with tertiary educational associations and charity organizations for positive contribution to the society.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE



Hung Kim Fung, Measure

DIRECTORS

Executive Directors

Hung Kim Fung, Measure, aged 45, was the Group's founder and is the Chairman of the Company. He has more than 25 years of experience in the electronics industry, and he is responsible for the Group's strategic planning and corporate policies.

Since 1995, Dr. Hung has been a member of the Executive Committee of the Hong Kong Electronic Industries Association (HKEIA) Limited. Ever since then, he has been committed to helping traders gain enhanced recognition within the industry, and promoting awareness of the important role they play in the supply chain. Dr. Hung was nominated as Vice-chairman of the Hong Kong Semiconductor Industry Council, a council under the HKEIA in August 2004.

In 2005, he was appointed by City University of Hong Kong as Honorary Chairman of the Advisory Committee of the Industry Co-operative Education Centre. He has also served as an Alternate Member of the General Committee of the Federation of Hong Kong Industries (2003-2007) and in 2005 was re-elected as the Vice Chairman of the Hong Kong Trade Services Council of the Federation (2003-2007). In addition, since 2004, Dr. Hung has become a Member of the Import/Export/Wholesale Trades Training Board of the Vocational Training Council.

Dr. Hung obtained an Honorary Doctorate in Business Administration from Newsport University in the United States and is a Fellow Member of Asian Knowledge Management Association and a Certified Industrial Engineer of Canadian Institute of Industrial Engineers. In 2006, Dr. Hung was appointed by the Community Chest as Co-Chairman of the 2006/2007 Community for the Chest Organising Committee. He was given the responsibility of helping with the organisation and promotion of public welfare in Hong Kong.

In the community, Dr. Hung resigned the post of Director of the Yan Chai Hospital (2003-2006), and has been appointed as a Current Advisor of the 39th Yan Chai Hospital Board. He is devoted in the development of local secondary and pre-school education, and serves as the School Manager of the Yan Chai Hospital Tung Chi Ying Memorial Secondary School, De La Salle Secondary School and the School Supervisor of five Yan Chai Kindergartens cum Child Care Centres.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE (CONTINUED)



Yeung Man Yi, Beryl

Hung Ying Fung



Yeung Kwok Leung, Allix

DIRECTORS (Continued)

Executive Directors (Continued)

Yeung Man Yi, Beryl, aged 44, was the founder of the Group and is an executive director of the Company. With more than 25 years of experience in the electronics industry, Ms. Yeung is responsible for the Group's finance, administration and internal control. She is the wife of the Group's Chairman, Dr. Hung Kim Fung, Measure.

In 2004, Ms. Yeung was also made an Associate (Electronics Industry) by The Professional Validation Council of Hong Kong, in recognition of her professional knowledge in electronics, extensive application of existing and new technology, achievements and contributions to the industry. In December 2004, Ms. Yeung became a Full Member and received professional qualifications from the Executive Council of Canadian Chartered Institute of Business Administration, and she was thereby designated as Chartered Manager. Ms. Yeung acquired the Fellowship of Business Administration and became a Fellow Member of Asian Knowledge Management Association in 2006.

Ms. Yeung has actively supported tertiary educational activities in recent years. Whilst serving as an Industrial Advisor at a course of 'Master of Arts in Operations and Supply Chain Management' of the City University of Hong Kong in 2006, she also conducted a seminar entitled "Engineers in Society" for the University's Electronic Engineering students on 21st April 2006, and also donated her honorarium to the Department for educational development purposes.

Hung Ying Fung, aged 42, was the founder of the Group and is an executive director of the Company. He is responsible for the management and the computer retail business development of the Group and has over 20 years of experience in the electronics industry. In 2001, he was nominated as the director of the Chamber of Hong Kong Computer Industry Company Limited. Mr. Hung was nominated as an Executive member of the Sham Shui Po District Commerce & Industrial Liaison Committee (2006 – 2007), Sham Shui Po District Fight Crime Committee (2006 – 2007) and the Local Customer Advisory Committee of Sham Shui Po District Tenure of Office (2005 – 2006). He is the brother of Dr. Hung Kim Fung, Measure.

Yeung Kwok Leung, Allix, aged 43, was the founder of the Group and is an executive director of the Company. Mr. Yeung is responsible for the management and business development of the retail business in PRC of the Group. He has over 20 years of experience in the electronics and computer industry. He is the brother of Ms. Yeung Man Yi, Beryl.

DIRECTORS *(Continued)*

Independent Non-executive Directors

Charles E. Chapman, aged 57, is an independent non-executive director of the Company. He joined HKEIA as Executive Director in May 1988 and is also the Managing Director of the HKEIA's subsidiary publishing company, the Hong Kong Electronics Promotions Ltd. which publishes the annual "Directory of Hong Kong Electronics Industry". Prior to joining HKEIA, Mr. Chapman worked for 11 years as Economics Editor at the Hong Kong Trade Development Council and for 8 years as Business Editor in a local English-language newspaper.

Leung Wai Cheung, aged 41, is an independent non-executive director of the Company. He is currently the chief financial officer of FlexSystem Holdings Limited a Company Listed on the Growth Enterprise Market of the Stock Exchange and the independent non-executive director of Wing Hing International (Holdings) Limited and Sino Prosper Holdings Ltd which are listed companies on the Main Board of the Stock Exchange. Dr. Leung is a qualified accountant and chartered secretary with over 20 years of experience in accounting, auditing and financial management. He graduated from Curtin University with a Bachelor of Commerce degree majoring in accounting and subsequently obtained a postgraduate diploma in corporate administration, Master of Professional Accounting from the Hong Kong Polytechnic University and Doctor of Philosophy degree in Management from the Empresavial University of Costa Rica. He is an associate member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute Secretaries and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Dr. Leung is also a visiting lecturer of the Open University of Hong Kong (LiPACE), Hong Kong University (SPACE), and Hong Kong Baptist University (SCE).

Chow Shek Fai, aged 55, is an independent non-executive director of the Company appointed on 18th August 2004. He graduated from The Chinese University of Hong Kong with a Bachelor Degree of Social Science and subsequently obtained a diploma of education there. He had served in De La Salle Secondary School, New Territories for 29 years and held final position as Principal for ten years. Mr. Chow had been the Registered Manager of Lo Wu Public School for years. Mr. Chow also held a number of education and community positions, including Member of the Management Board of the Hong Kong Schools Sports Federation (HKSSF), Vice-Chairman of the Executive Committee as well as the Chairman of the Competition Committee of the HKSSF (Tai Po & North Districts) and Senator of Hong Kong Professional Teachers' Union. He is the Village Representative of Lo Wu Village, Ta Kwu Ling.

DIRECTORS AND SENIOR MANAGEMENT'S PROFILE (CONTINUED)



Yan Chi Kuen

Tsang Ka Man



Cheung Kam Wa

Lam Kam Wo



Chu Wing Sang

DIRECTORS (Continued)

Senior Management

Yan Chi Kuen, aged 33, is the marketing director of MCU Power Limited. Mr. Yan graduated from the City University of Hong Kong with 1st Class Honour, bachelor degree in electronic engineering. Mr. Yan also completed the diploma course in information and quality management jointly organized by the Faculty of Business Administration and Asia Pacific Institution, the Chinese University of Hong Kong. He has 10 years' experience in electronic components business. Mr. Yan joined the Company in November 2001 and is responsible for the sales and marketing of micro-controller unit business in both HK and PRC.

Tsang Ka Man, aged 37, is the Sales & Marketing Director of Milliard Devices Limited. Mr. Tsang graduated from the University of Sunderland with a Bachelor (Hons) Degree in Digital Systems and Electronic Engineering. Before he joined the Company in September 2001, he worked for a number of electronic companies as Sales and Marketing Manager. He is responsible for sales and marketing activities of I.C. & electronic components of the Company.

Cheung Kam Wa, aged 41, is the sales director of Arkia Advance Limited. Mr. Cheung graduated from the City University of Hong Kong with a bachelor (Hons) degree in electronic engineering. Before he joined the Company in September 2001, he had over 15 years' experience in electronics component distribution. He is responsible for the sales of the electronics components of the Company.

Lam Kam Wo, aged 49, is the managing director of DV Power Limited. Mr. Lam graduated from the Hong Kong Polytechnic University with a higher certificate in electronic engineering and hold a certificate of management studies as well. Besides, he completed a MBA course in University of East Asia, Macau. Before he joined the Company in November 2001, he had operated his component trading business for 11 years. Mr. Lam possess remarkable sales and marketing experience in electronic industry for over 24 years.

Chu Wing Sang, aged 34, is the marketing manager of Conwise Power Limited. Mr. Chu graduated from the University of Auckland (New Zealand) with a master degree in electrical and electronics engineering. He joined the Company in May 2003 and is responsible for the marketing activities of radio frequency component business of the Company.



Lam Sun Hung

Yu Wah Keung



Ho Siu Wan

DIRECTORS *(Continued)*

Senior Management *(Continued)*

Lam Sun Hung, aged 37, is the general sales director of A Power Limited. He has engaged in IT outsourcing service for more than 16 years and has in depth understanding on its market trend and customer needs so as to upgrade the quality of service being offered. Mr. Lam joined the Company in April 2002 and is focus on the development of agent line product and solution service business.

Yu Wah Keung, aged 36, is the general marketing director of A Power Limited. He began his career by selling microcomputer hardware, and he established his own computer product retail business in 1990. With 19 years of experience of marketing in the industry, Mr. Yu is an expert in computer product sales and distribution in Hong Kong. He is one of the Founding Directors of The Chamber of Hong Kong Computer Industry and is actively working for the Hong Kong Computer and Information Technology Industry. Meanwhile, Mr. Yu is in charge of developing the Group's wholesale computer product business and is implementing the philosophy of "One-stop location for all products and more excellence services" as the Company's development strategy.

Ho Siu Wan, aged 38, is the financial controller of the Group. She is responsible for the financial management as well as human resources functions of the Group. Ms. Ho holds a professional diploma in accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She joined the Group in May 2001 and has over 16 years of experience in auditing, accounting, taxation and financial management.

Yeung Kin Kwan, Alvan, aged 38, is the company secretary and the principal advisor to the board of directors of the Company. Mr. Yeung holds a professional diploma in accountancy from the Hong Kong Polytechnic University. He is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the IT Accountants Association and the Hong Kong Institute of Directors, an associate member of the Institute of Chartered Accountants in England and Wales and the Taxation Institute of Hong Kong and the full member of the Singapore Institute of Directors. He has over 16 years of experience in auditing, accounting, taxation and financial management.

Cheung Chiu Hing, aged 45, is the general marketing manager of the Group. Mr. Cheung is mainly responsible for sourcing new products for the Group from Taiwan and the business development of the Company in Taiwan. He joined the Group in May 1996 and has over 19 years of experience in the sales of electronic components used in toy and watch industries.



DIRECTORS *(Continued)*

Senior Management *(Continued)*

Tam Kwok Wai, aged 46, is the general export manager of the Group. Mr. Tam graduated from the Hong Kong Polytechnic University with higher certificate in electronic engineering. Mr. Tam joined the Group in January 1992 and has over 10 years' experience in consumer products design and 15 years experience in sales and marketing of electronic components business. He is responsible for creating and developing new product lines.

Low Mee Seng, Wesley, aged 38, is the general manager of Mobicon-Remote Electronic Sdn Bhd in Malaysia. He was graduated from TAFE College in Malaysia with a diploma in electrical and electronic. Before joining the Company in July 2001, he has a combined experience of more than 12 years in sales and marketing, manufacturing and purchasing and he is now responsible for the overall operation of the Company.

Chooi Chow Sek, Jasmond, aged 39, is the sales manager of Mobicon-Remote Electronic Sdn Bhd in Malaysia. He was graduated from Federal Institute of Technology with a diploma in electronic engineering. Mr. Chooi joined the Company in July 2001 and has over 12 years of experience in distribution and trading in electronic components.

Manny Moutinho, aged 48, is the chief executive officer of the Group's South Africa operations. Mr. Moutinho qualified in electronics and has a business management diploma from Wits University Business School and has over 21 years' experience in the electronic industry, mostly in components distribution. He joined the Company in December 2001, through our merger with Mantech in South Africa.

Li Yiu Leung, Franky, aged 39, is the senior business manager of Mobicon-Remote Electronic Pte Ltd. in Singapore. Mr. Li graduated from the University of Western Ontario with a bachelor degree in electronic engineering. Before he joined the Company in April 2000, he had over 13 years' experience in manufacturing, engineering and sales and marketing in various industries. He is responsible for the business development of the Company.

Ng Teck Kong, Kelvin, aged 44, is the sales manager of Mobicon-Remote Electronic Pte Ltd in Singapore. He was graduated from the Singapore Polytechnic with a diploma in Electronics Engineering. He also graduated from Marketing Institute of Singapore with Diploma on Sales and marketing. Before joined the company in Dec 2002, he has 16 years of experience in Electronic components distribution. He is responsible for sales and marketing activities of the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to principles of corporate governance practices and procedures. The corporate governance principles of the Company emphasize transparency, accountability and independence.

The Group has complied with the Code Provisions set out in the Code of Corporate Governance Practices ("CGP") as set out in Appendix 14 to the Listing Rules during the year under review except for the following deviations:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company did not have a separate Chairman and Chief Executive Officer as Dr. Hung Kim Fung, Measure held both positions during the year under review. The Board believed that vesting the roles of Chairman and Chief Executive Officer in the same individual provided the Group with strong and consistent leadership in the development and execution of long-term business strategies.

The independent non-executive directors ("INEDs") of the Company are not appointed for specific terms but are subject to retirement by rotation under Bye-law 111 of the Company's Bye-laws.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted its own Securities Dealing Code on terms no less exacting than the required standard as set out in the Model Code in Appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all Directors have confirmed that they fully complied with the required standard set out in the Securities Dealing Code throughout the year under review.

BOARD OF DIRECTORS

The Board comprises a total of seven Directors, with four Executive Directors, namely Dr. Hung Kim Fung, Measure (Chairman), Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix and three INEDs, namely, Mr. Charles E. Chapman, Dr. Leung Wai Cheung and Mr. Chow Shek Fai. One of the INEDs has appropriate professional qualifications, or accounting or related financial management expertise, which is required by the Listing Rules.

During the year under review, five regular Board meetings were held and the attendance of each Director is set out as follows:

Name of Director	Attendance in 2005/2006
Hung Kim Fung, Measure	5/5
Yeung Man Yi, Beryl	5/5
Hung Ying Fung	5/5
Yeung Kwok Leung, Allix	5/5
Charles E. Chapman	5/5
Leung Wai Cheung	5/5
Chow Shek Fai	5/5

CORPORATE GOVERNANCE REPORT (CONTINUED)

BOARD OF DIRECTORS (CONTINUED)

Three regular Board meetings of the year under review were scheduled in advance. Two of the Board meetings had been convened by the Chairman to discuss two continuing connected transactions which were required to be disclosed under the Listing Rules. The Directors can attend meetings in persons or by means of a conference telephone or other communications facilities in accordance with Bye-law 136 of the Company's Bye-laws.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's long term and short term investments, business strategies and annual budgets, evaluating the performance of the Group and oversight of the management. One of the important roles of the Chairman is to provide leadership to the Board such that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information is given to the Board in a timely manner.

The Board is collectively responsible for the oversight of the management of the business and affairs of the Group with the objective of enhancing shareholders value.

Each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board composition will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business of the Group. The Directors' biographical information is set out on pages 13 to 15.

The Company Secretary shall convene a Board meeting on the request of any one Director and 14 days' notice of Board meeting will be given to all Directors. The Company Secretary shall circulate the Board papers not less than three days before the Board meeting to enable the Directors to make informed of all on matters to be raised, discussed and resolved at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and arrangement has been in place to enable Directors to obtain independent professional advice whenever deemed necessary. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

The senior management is responsible for the daily operations of the Group under the leadership of the Board. The senior management of each business unit is responsible for the communication of company goal and objectives from top to bottom, the execution of company policies and the implementation of business strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Dr. Hung Kim Fung, Measure currently holds both positions of Chairman and Chief Executive Officer.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

There is no specific term of the appointment of INEDs. But they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provision of the Bye-laws of the Company. This deviates from the Code Provision A.4.1 of CGP which requires that non-executive directors be appointed for specific terms subject to rotation and re-election by shareholders. The Board considers that this current practice is fair and reasonable and does not intend to change this practice at the moment.

According to Bye-law 111 of the Company's Bye-laws, one third of the Directors for the time being (excluding the Chairman of the Board) shall retire from office by rotation at each annual general meeting. According to Bye-law 115, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. These deviate from the Code Provision A.4.2 of CGP which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, be subject to retirement by rotation at least once every three years. Having reviewed Bye-law 115, the Board considers that the requirement under Bye-law 115 is similar to the that required under the said Code Provision. Though the Chairman will not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire, as continuation is a key factor to the successful implementation of any long term business plan, the Board believes that present arrangement is most beneficial to the Company and the shareholders as a whole. Currently, three Directors are subject to retirement by rotation at the annual general meeting. On the basis that there is no addition to the Board and there is no unforeseen resignation/retirement during a year, each Director (other than the Chairman) is effectively subject to retirement by rotation once every two years.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The Remuneration Committee was established on 20th February 2006 and would start to review the remuneration policy for the financial year starting from 2006/07 onwards. The members of the Remuneration Committee comprise Ms. Yeung Man Yi, Beryl, Dr. Leung Wai Cheung and Mr. Chow Shek Fai. The principal responsibilities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and members of the senior management of the Company and to determine the specific remuneration packages of all executive Directors and members of the senior management of the Company. Prior to the establishment of the Remuneration Committee, all the remuneration matters (including the remuneration package of the executive Directors and senior management) are discussed and approved by the Board.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee but will consider setting up one at an appropriate time. Currently all new appointments and re-appointments to the Board are subject to the concurrence of all Board members whose deliberations are based on the following criteria:

- Integrity
- Independent mindedness
- Possess core competencies that meet the current needs of the Company and complement the skills and competencies of the existing Directors on the Board
- Able to commit time and effort to carry out duties and responsibilities effectively
- A good track record of experience at a senior level in corporations/organizations
- Financially literate

AUDIT COMMITTEE

The Audit Committee was established in 2001 to consider the appointment of auditors and audit fee, to discuss with the auditors the nature and scope of audit, to review the Group's financial reporting, internal controls and corporate governance issues and to make relevant recommendations to the Board. Its current members include:

Charles E. Chapman
Leung Wai Cheung (*Chairman*)
Chow Shek Fai

All members of the Audit Committee are the INEDs. One member has appropriate professional qualifications, accounting and related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company.

The Audit Committee held three meetings during the year under review. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate. The attendance of each member is set out as follows:

Name of Director	Attendance in 2005/2006
Charles E. Chapman	3/3
Leung Wai Cheung	3/3
Chow Shek Fai	3/3

The major duties of the Audit Committee are as follows:

- (i) to consider the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal of the external auditors;
- (ii) to discuss with the external auditors before the audit commences, the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;
- (iii) to review the half year and annual financial statements before submission to the Board;
- (iv) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);
- (v) to review the external auditor's management letter and management's response;
- (vi) to review the Company's statement on internal control systems prior to endorsement by the Board; and
- (vii) to consider the major findings of internal investigations and management's response; and to consider other topics, as defined by the Board.

AUDIT COMMITTEE *(CONTINUED)*

During the meetings held in the year under review, the Audit Committee had performed the following work:

- (i) reviewed annual results and the financial reports for the year ended 31st March 2006 and the interim results and the financial reports for the six months ended 30th September 2005;
- (ii) reviewed the accounting principles and practices adopted by the Group and ensured the Company to comply with the Listing Rules and other statutory compliance;
- (iii) reviewed the effectiveness of internal control system;
- (iv) reviewed the external auditors' management letter and management's response;
- (v) reviewed and recommended for approval to the Board the change of auditor, the 2005/2006 audit scope and auditors' remuneration; and
- (vi) reviewed the connected transactions entered into by the Group during the year under review.

AUDITORS' REMUNERATION

For the year ended 31st March 2006, the remuneration paid to the Company's auditors, HLB Hodgson Impey Cheng, is set out as follows:

Services rendered	Fee paid/payable HK\$'000
Audit services	600
Non-audit services i.e. taxation	100
	700

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

As at 31st March 2006, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 33.

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group. The Group's system of internal control includes a defined management structure with limits of authority for the achievement of business objectives, safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance with relevant legislation and regulations. The system is designed to manage, but not absolute, assurance against the risks of material misstatement, fraud or losses.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with its shareholders, the Company provides extensive information in its annual report and press release. Also, the Group disseminates information relating to its business electronically through its website at www.mobicon.com.

The Company regards the AGM as an important event as it provides an opportunity for direct communications between the Board and the Company's shareholders. All Directors and senior management will make an effort to attend. All shareholders will be given at least 21 days' notice of the AGM and are encouraged to attend the AGM and other shareholders' meetings of the Company.

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements of Mobicon Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st March 2006.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the trading and distribution of electronic parts, components and equipment and computer products and accessories.

An analysis of the Group’s performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2006 are set out in the consolidated income statement on page 34.

The directors have declared an interim dividend of HK2.5 cents per ordinary share, totalling HK\$5,000,000, which was paid on 20th January 2006.

The directors recommend the payment of a final dividend of HK2.5 cents per ordinary share, totalling HK\$5,000,000 in respect of the year ended 31st March 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14th August 2006 to 15th August 2006, during which no transfer of shares will be effected, and the final dividend will be paid on 25th August 2006. In order to qualify for the final dividend, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company’s branch share registrars in Hong Kong, Hong Kong Registrars Limited at its office situated at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:00 p.m. on 11th August 2006.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$170,000.

REPORT OF THE DIRECTORS (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in Note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31st March 2006.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors

Dr. Hung Kim Fung, Measure (*Chairman*)

Ms. Yeung Man Yi, Beryl

Mr. Hung Ying Fung

Mr. Yeung Kwok Leung, Allix

Independent non-executive directors

Mr. Charles E. Chapman

Dr. Leung Wai Cheung

Mr. Chow Shek Fai

Mr. Hung Ying Fung, Mr. Charles E. Chapman and Dr. Leung Wai Cheung retire by rotation under the Company's bye-laws and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st April 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other, which notice shall not expire until after the fixed term.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

SHARE OPTIONS

On 8th August 2003, the Company terminated the share option scheme which was adopted by the Company on 18th April 2001 and adopted a new share option scheme (the “New Scheme”), pursuant to which eligible persons may be granted options to subscribe for shares of the Company upon and subject to the terms and conditions of the rules of the New Scheme. The New Scheme is in line with Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The New Scheme is set up for the purpose of recognising and motivating the contribution of the eligible persons to the Company and/or any of its subsidiaries (the “Subsidiary”) and or any entity in which the Group holds any equity interest (“the Invested Entity”). Pursuant to the New Scheme, the board of directors of the Company (the “Board”) may grant options to (aa) any employee (whether full time or part time including any executive director but excluding any non-executive director) of the Company, any Subsidiary or any Invested Entity; (bb) any non-executive director (including the independent non-executive director) of the Company, any Subsidiary or any Invested Entity; (cc) any supplier of goods or services to any member of the Company, any Subsidiary or any Invested Entity; (dd) any customer of the Company, any Subsidiary or any Invested Entity; (ee) any person or entity that provides research, development or other technological support to the Company, any Subsidiary or any Invested Entity; (ff) any shareholder of any member of the Company, any Subsidiary or any Invested Entity or any holder of any securities issued by any member of the Company, any Subsidiary or any Invested Entity; (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Company, any Subsidiary or any Invested Entity; and (hh) any joint venture partner or business alliance that co-operates with any member of the Company, any Subsidiary or any Invested Entity in any area of business operation or development.

The total number of Shares available for issue under options which may be granted under the New Scheme must not exceed 20,000,000 Shares, representing 10 per cent of the Shares in issue as at the date of this report. No option may be granted to any one person in any 12-month period which, if exercised in full, would result in the total number of Shares already issued to him/her under all the options previously granted to him/her which have been exercised and, issuable to him/her under all the options previously granted to him/her which are for the time being subsisting and unexercised, exceeding 1% of the share capital of the Company in issue on the last date of such 12-month period unless approval by the shareholders of the Company in a general meeting with such person and his/her associates abstaining from voting has been obtained in accordance with the Listing Rules.

Subject to the provisions governing expiry of options, an option may be exercised during the period to be notified by the Board to each grantee but shall in any event not more than 10 years from the date of grant of the option. The Board has discretion to set a minimum period for which an option has to be held before the exercise of the subscriptions rights attaching thereto. A consideration of HK\$1.00 is payable on acceptance of the offer of grant of options. The subscription price for Shares under the New Scheme will be a price determined by the Board and notified to each grantee and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange’s daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange’s daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of the Shares. Subject to the termination provisions, the New Scheme shall remain in force for a period of 10 years commencing on the date of its adoption.

No options have been granted under the New Scheme since its adoption and up to the date of this report.

REPORT OF THE DIRECTORS (CONTINUED)

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31st March 2006, the interests and short positions of each director and his/her associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(i) Ordinary shares of HK\$0.10 each in the Company

Director	Long/short position	Personal Interests	Number of shares		Percentage
			Family interests	Total interests	
Dr. Hung Kim Fung, Measure	Long	—	90,000,000 (Note a)	90,000,000	45%
Ms. Yeung Man Yi, Beryl	Long	—	90,000,000 (Note a)	90,000,000	45%
Mr. Hung Ying Fung	Long	22,500,000	—	22,500,000	11.25%
Mr. Yeung Kwok Leung, Allix	Long	—	30,000,000 (Note b)	30,000,000	15%

Notes:

- (a) These shares are held by M2B Holding Limited, a wholly-owned subsidiary of Action 2 Limited which, in turn, is wholly and beneficially owned by Dr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl. Action 2 Limited is the trustee of Beryl Unit Trust set up by its shareholders. The assets of Beryl Unit Trust include the entire issued share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.
- (b) These shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A&W Unit Trust set up by its shareholders. The assets of A&W Unit Trust include the entire issued share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(CONTINUED)*

(ii) Non-voting deferred shares in a subsidiary – A Plus Electronic Company Limited ("A Plus")

As at 31st March 2006, each of Dr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix has beneficial interests in his/her personal capacity in the following number of non-voting deferred shares in A Plus:

Name	Long/short position	Number of non-voting deferred shares	Percentage
Dr. Hung Kim Fung, Measure	Long	300,000 shares of HK\$1.00 each	30%
Ms. Yeung Man Yi, Beryl	Long	300,000 shares of HK\$1.00 each	30%
Mr. Hung Ying Fung	Long	200,000 shares of HK\$1.00 each	20%
Mr. Yeung Kwok Leung, Allix	Long	200,000 shares of HK\$1.00 each	20%

Save as disclosed above and under the section headed "Share Options", at no time during the year, the directors and chief executive of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Company and/or its associated corporations (within the meaning of the SFO).

Save as disclosed above and under the section headed "Share Options", at no time during the year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of the SFO).

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 29 to the financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31st March 2006, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executive as disclosed above.

REPORT OF THE DIRECTORS (CONTINUED)

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in Note 29 to the financial statements also constituted continuing connected transactions for the purpose of Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Details of such connected transactions are as follows:

1. The Group occupies the following shops and premises leased from M-Bar Limited ("M-Bar"). M-Bar is a company beneficially owned as to 30% by Dr. Hung Kim Fung, Measure, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and as to the remaining 20% by Mr. Yeung Kwok Leung, Allix, all of whom being the executive directors of the Company, and is principally engaged in property holding.
 - (a) On 2nd April 2001, Mobicon Holdings Limited ("MHL"), a wholly-owned subsidiary of the Company, had entered into certain leases which were subsisting during the year under review (the "Subsisting Leases") with M-Bar in respect of Private Car Parking Space Nos. 6, 7, 24 and 25 on 3rd Floor, Private Car Parking Space Nos. 6 and 13 on 4th Floor, Units 1-11 on 7th Floor, Units 1-4 on 8th Floor and Units 5-9 on 23rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon (collectively, the "Properties") for a term of five years from 1st February 2001 to 31st January 2006 at an aggregate monthly rental of HK\$156,000. MHL exercised the option to renew the Subsisting Leases and on 11th May 2006, entered into a new lease with M-Bar in respect of the Properties for a term from 1st February 2006 to 30th June 2008 at an aggregate monthly rental of HK\$168,000. The leased premises are used as the headquarters of the Group and ancillary use.
 - (b) On 20th October 2004, MHL entered into a lease agreement with M-Bar in respect of Units 1-2 on 23rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon for a term of one year from 1st July 2004 to 30th June 2005 at a monthly rental of HK\$22,500. The leased premises are used for office purpose.
 - (c) On 20th October 2004, MHL entered into a lease agreement with M-Bar in respect of Units 1-4 on 23rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon for a term of three years from 1st July 2005 to 30th June 2008 at a monthly rental of HK\$45,000. The leased premises are used for office purpose.

CONNECTED TRANSACTIONS *(CONTINUED)*

- (d) On 1st February 2005, Videcom Technology (HK) Limited ("Videocom"), an indirect 80%-owned subsidiary of the Company, entered into certain lease agreements with M-Bar in respect of Unit No.32, 1st Floor, Golden Shopping Centre, Golden Building, 94A Yen Chow Street, Sham Shui Po, Kowloon, Hong Kong and Shop Nos. 7, 8, 32 and 36, 1st Floor, Wonder Building, Nos.161-175 Fuk Wa Street, Shamshuipo, Kowloon, Hong Kong for a term of 3 years from 1st February 2005 to 31st January 2008 at an aggregate monthly rental of HK\$53,000. The leased premises are used for shop purpose.
- (e) On 1st October 2005, MHL entered into certain lease agreements with M-Bar in respect of 1st Floor and Portion of 3rd Floor, Efficiency House, 35 Tai Yau Street, San Po Kong, Kowloon, Hong Kong for a term of 3 years from 1st October 2005 to 30th September 2008 at an aggregate monthly rental of HK\$105,000. The leased premises are used as office for administrative purpose and godown for storage (in respect of 1st Floor) and godown for storage (in respect of Portion of 3rd Floor).

During the year, the Group paid rental expenses amounting to HK\$3,555,000 (Note 29) to M-Bar.

- 2. On 1st October 2005, Videocom as tenant entered into certain lease agreements with Mr. Yeung Kwok Leung, Allix ("Mr. Allix Yeung"), the executive director of the Company, in respect of Shop Nos.13 and 14, Ground Floor, Wonder Building, Nos.161-175 Fuk Wa Street, Shamshuipo, Kowloon, Hong Kong for a term of 3 years from 1st October 2005 to 30th September 2008 at an aggregate monthly rental of HK\$11,000. The leased shops are used for retail shop purpose.

During the year, the Group paid rental expenses amounting to HK\$66,000 (Note 29) to Mr. Allix Yeung.

- 3. On 1st October 2005, Videocom as tenant entered into certain lease agreements with Madam Wan Lam Keng, the wife of Mr. Allix Yeung in respect of Shop Nos.8 and 15, Ground Floor, Wonder Building, Nos.161-175 Fuk Wa Street, Shamshuipo, Kowloon, Hong Kong for a term of 3 years from 1st October 2005 to 30th September 2008 at an aggregate monthly rental of HK\$8,500. The leased shops are used for retail shop purpose.

During the year, the Group paid rental expenses amounting to HK\$51,000 (Note 29) to Madam Wan.

The directors (including the independent non-executive directors) consider these continuing connected transactions have been conducted in the ordinary and usual course of business of the Group on normal commercial terms and continuation of these transactions in the future will be beneficial to the Group.

These continuing connected transactions have also been reviewed by the independent non-executive directors of the Company who have confirmed that such continuing connected transactions have been (a) entered into by the Group in the ordinary and usual course of business of the Group; (b) conducted on normal commercial terms; and (c) entered into in accordance with the terms of the lease agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The independent non-executive directors of the Company have also confirmed that the aggregate value of the transactions were within the respective maximum amounts as agreed with the Stock Exchange.

The auditors of the Company have also confirmed to the board of directors of the Company (the "Board") that these continuing connected transactions have received the approval of the Board and have been entered into in accordance with the terms of the lease agreements governing the transactions. The auditors of the Company have also confirmed that the aggregate value of the transactions were within the respective maximum amounts as agreed with the Stock Exchange.

REPORT OF THE DIRECTORS (CONTINUED)

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda (as amended), retained profit and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of retained profit and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

Distributable reserves of the Company as at 31st March 2006 amounted to approximately HK\$73,700,000 (2005: HK\$80,285,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years is set out on page 76.

AUDITORS

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. PricewaterhouseCoopers with effect from 9th December 2005. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the reappointment of Messrs. HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board of directors,

Hung Kim Fung, Measure

Chairman

Hong Kong, 12th July 2006

AUDITORS' REPORT



國 衛 會 計 師 事 務 所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

AUDITORS' REPORT TO THE SHAREHOLDERS OF MOBICON GROUP LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 34 to 75 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors of the Company are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2006 and the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng

*Chartered Accountants
Certified Public Accountants*

Hong Kong, 12th July 2006

CONSOLIDATED INCOME STATEMENT

For the year ended 31st March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	5	1,088,526	1,280,392
Cost of sales		(932,246)	(1,118,280)
Gross profit		156,280	162,112
Other revenue	5	471	232
Distribution and selling expenses		(45,765)	(39,864)
General and administrative expenses		(74,779)	(75,845)
Operating profit	6	36,207	46,635
Finance costs	7	(4,333)	(1,710)
Share of profit/(loss) of an associated company		68	(132)
Profit before income tax		31,942	44,793
Income tax	8	(8,089)	(9,502)
Profit for the year		23,853	35,291
Attributable to:			
Equity holders of the Company	9	19,384	32,455
Minority interests		4,469	2,836
		23,853	35,291
Earnings per share for profit attributable to the equity holders of the Company during the year			
– Basic	11	9.7 cents	16.2 cents
Dividends	10	10,000	12,000

BALANCE SHEETS

As at 31st March 2006

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current assets					
Property, plant and equipment	14	11,028	7,194	—	—
Intangible assets	15	3,325	4,534	—	—
Interests in subsidiaries	16	—	—	93,987	104,985
Interest in an associated company	17	632	849	—	—
Total non-current assets		14,985	12,577	93,987	104,985
Current assets					
Inventories	18	159,305	178,156	—	—
Trade receivables	19	89,432	104,317	—	—
Prepayments, deposits and other receivables	29(b)	7,807	8,391	—	—
Dividends receivable		—	—	16,415	12,000
Cash and bank balances	20	50,268	48,456	563	298
Total current assets		306,812	339,320	16,978	12,298
Total assets		321,797	351,897	110,965	117,283
Current liabilities					
Trade payables	21	65,190	74,402	—	—
Accruals and other payables	29(c)	21,529	25,780	559	292
Short-term bank loans	22	53,712	80,306	—	—
Income tax liabilities		608	3,815	—	—
Total current liabilities		141,039	184,303	559	292
Net current assets		165,773	155,017	16,419	12,006
Total assets less current liabilities		180,758	167,594	110,406	116,991
Non-current liabilities					
Deferred income tax liabilities	23	317	164	—	—
Net assets		180,441	167,430	110,406	116,991

BALANCE SHEETS (CONTINUED)

As at 31st March 2006

	Note	Group		Company	
		2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Capital and reserves					
Equity attributable to equity holders of the Company					
Share capital	24	20,000	20,000	20,000	20,000
Reserves	25	147,285	138,721	90,406	96,991
		167,285	158,721	110,406	116,991
Minority interests		13,156	8,709	—	—
Total equity		180,441	167,430	110,406	116,991

The financial statements on pages 34 to 75 were approved and authorised for issue by the Board of Directors on 12th July 2006 and signed on its behalf by:

HUNG KIM FUNG, MEASURE
Chairman

YEUNG MAN YI, BERYL
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st March 2006

	Attributable to equity holders of the Company							
	Reserves						Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Exchange reserve	Retained profits	Total reserves		
	HK\$'000 (Note 24)	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April 2004								
As previously reported as equity	20,000	16,706	800	511	100,263	118,280	—	138,280
As previously separately reported as minority interests	—	—	—	—	—	—	8,660	8,660
As restated	20,000	16,706	800	511	100,263	118,280	8,660	146,940
Currency translation differences	—	—	—	(14)	—	(14)	(30)	(44)
Total income and expenses recognised directly in equity	—	—	—	(14)	—	(14)	(30)	(44)
Profit for the year	—	—	—	—	32,455	32,455	2,836	35,291
Total income and expenses for the year	—	—	—	(14)	32,455	32,441	2,806	35,247
Loss on dilution of interest in a subsidiary	—	—	—	—	—	—	2,161	2,161
Capital contributions from minority shareholders	—	—	—	—	—	—	300	300
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(1,698)	(1,698)
Dividends paid to minority shareholders	—	—	—	—	—	—	(3,520)	(3,520)
Dividends of the Company:								
2004 final dividend	—	—	—	—	(6,000)	(6,000)	—	(6,000)
2005 interim dividend	—	—	—	—	(6,000)	(6,000)	—	(6,000)
	—	—	—	—	(12,000)	(12,000)	(2,757)	(14,757)
As at 31st March 2005	20,000	16,706	800	497	120,718	138,721	8,709	167,430
Representing:								
2005 final dividend					6,000			
Others					114,718			
					<u>120,718</u>			

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31st March 2006

	Attributable to equity holders of the Company							
	Reserves							
	Share capital	Share premium	Capital reserve	Exchange reserve	Retained profits	Total reserves	Minority interests	Total equity
	HK\$'000 (Note 24)	HK\$'000	HK\$'000 (Note)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1st April 2005, as per above	20,000	16,706	800	497	120,718	138,721	8,709	167,430
Currency translation differences	—	—	—	180	—	180	143	323
Total income and expenses recognised directly in equity	—	—	—	180	—	180	143	323
Profit for the year	—	—	—	—	19,384	19,384	4,469	23,853
Total income and expenses for the year	—	—	—	180	19,384	19,564	4,612	24,176
Capital contributions from minority shareholders	—	—	—	—	—	—	300	300
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(465)	(465)
Dividends of the Company:								
2005 final dividend	—	—	—	—	(6,000)	(6,000)	—	(6,000)
2006 interim dividend	—	—	—	—	(5,000)	(5,000)	—	(5,000)
	—	—	—	—	(11,000)	(11,000)	(165)	(11,165)
As at 31st March 2006	20,000	16,706	800	677	129,102	147,285	13,156	180,441

Representing:

2006 final dividend 5,000

Others 124,102

129,102

Note:

Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the reorganisation which took place on 18th April 2001.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st March 2006

	Note	2006 HK\$'000	2005 HK\$'000
Cash flows from operating activities			
Net cash generated from operations	26	61,011	33,344
Overseas income tax paid		(1,984)	(2,298)
Hong Kong profits tax paid		(9,156)	(7,020)
Net cash generated from operating activities		49,871	24,026
Cash flows from investing activities			
Purchase of intangible assets		–	(4,836)
Purchase of property, plant and equipment		(7,570)	(4,392)
Proceeds from disposals of property, plant and equipment		495	106
Decrease/(increase) in amount due from an associated company		285	(489)
Acquisition of additional interests in subsidiaries		(562)	(1,960)
Interest received		342	77
Net cash used in investing activities		(7,010)	(11,494)
Cash flows from financing activities			
Interest paid		(4,333)	(1,710)
Dividends paid		(10,733)	(11,717)
Dividends paid to minority shareholders of subsidiaries		–	(3,520)
Capital contributions from minority shareholders of subsidiaries		300	300
Repayment of short-term loans		(138,592)	(164,758)
New short-term loans raised		111,998	187,823
Net cash (used in)/generated from financing activities		(41,360)	6,418
Net increase in cash and cash equivalents		1,501	18,950
Cash and cash equivalents, beginning of year		48,456	29,549
Effect of foreign exchange rate changes		311	(43)
Cash and cash equivalents, end of year		50,268	48,456
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		50,268	48,456

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Mobicon Group Limited (the “Company”) and its subsidiaries (collectively, the “Group”) are principally engaged in the trading and distribution of electronic parts, components and equipment and computer products and accessories.

The Company is a limited liability company incorporated in Bermuda as an exempted company under the Companies Act 1981 of Bermuda. The addresses of its registered office and principal place of business are set out in the Company’s annual report.

The Company’s shares have been listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 7th May 2001.

These financial statements are presented in Hong Kong dollars (HK\$) and all values are rounded to the nearest thousand (HK\$’000) unless otherwise stated.

The financial statements were approved and authorised for issue by the Company’s Board of Directors on 12th July 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which also include Hong Kong Accounting Standards (“HKASs”) and interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). In addition, the financial statements also include applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company’s accounting policies. The areas where assumptions and estimates are significant to the financial statements are disclosed in Note 4 to the financial statements.

Adoption of new/revised HKFRSs and changes in accounting policies

In the current year, the Group adopted the new/revised standards and interpretations of HKFRSs below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs and changes in accounting policies (Continued)

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transitional and Initial Recognition of Financial Assets and Financial Liabilities
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37 and 38 and HKFRS 3 did not result in substantial changes to the Group's accounting policies. In summary:

- HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.
- HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 28, 33, 36, 37 and 38 and HKFRS 3 had no material effect on the Group's policies.
- HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for the respective entity financial statements.
- HKAS 24 has affected the identification of related parties and some other related party disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (Continued)

Adoption of new/revised HKFRSs and changes in accounting policies (Continued)

- The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification and accounting treatment of financial assets and liabilities commencing from the current year.
- The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. In prior years, the provision of share options to employees did not result in an expense in the income statement. Commencing from the current year, the Group expenses the cost of share options in the income statement. The transitional provision of HKFRS 2 requires the cost of share options granted after 7th November 2002 and had not yet vested on 1st January 2005 be expensed retrospectively in the income statement of the respective periods. However, as no share options have been granted under the Company's share option scheme, the adoption of HKFRS 2 had no material effect on the Group's accounting policy.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, whenever applicable. All standards adopted by the Group require retrospective application other than:

- HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;
- HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;
- HKAS 39 – does not permit recognition, derecognition and measurement of financial assets and liabilities in accordance with this standard on a retrospective basis;
- HKFRS 2 – only retrospective application for equity instruments granted after 7th November 2002 and not vested at 1st January 2005; and
- HKFRS 3 – prospectively after 1st January 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(a) Basis of preparation *(Continued)*

Adoption of new/revised HKFRSs and changes in accounting policies (Continued)

The Group has not early adopted the following new standards or interpretations or amendments that have been issued but are not yet effective. The Company's directors and the Group's management anticipate that the adoption of these standards or interpretations or amendments in future periods will have no material impact on the financial statements of the Group:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HKFRSs 1 & 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31st March.

(i) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(ii) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates includes goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(b) Basis of consolidation *(Continued)*

(iii) Associates (Continued)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(iii) Group companies

The results and financial positions of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (1) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (2) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (3) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Distribution rights

Expenditures on rights acquired for manufacturing and distribution of certain integrated circuit ("IC") products are recognised as an asset and amortised on a straight-line basis over 4 years to reflect the pattern in which the related economic benefits are recognised.

(e) Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives of 4 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are charged to the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(g) Investments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity.

(iv) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Investments *(Continued)*

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(h) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method and comprises the direct costs of merchandise and costs that have been incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(l) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(m) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Employee benefits (Continued)

(ii) Profit sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for profit sharing and bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

(iii) Pension obligations

The Group operates a number of defined contribution plans, the assets of which are generally held in independently administered funds. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions.

(iv) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(o) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

(p) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

Management fee and commission income are recognised when the services are rendered.

(q) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(r) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

3. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow interest-rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(i) Foreign exchange risk

The Group operates mainly in Hong Kong, Mainland China, South Africa, Malaysia and Singapore and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollars and Chinese Renminbi. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Except for the purpose of hedging against the foreign exchange risks arising from the exposure of US Dollars, the management of the Group considers the foreign exchange risk of the Group is not significant, and thus does not have any other active policies to hedge against foreign exchange risk arising from other currencies.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that credits are granted to customers with an appropriate credit history. Sales to retail customers are made in cash or through major credit cards. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure the adequate impairment losses are made for irrecoverable amounts.

(iii) Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

(iv) Cash flow interest-rate risk

The Group's exposure to changes in interest rates is mainly attributable to its interest-bearing bank borrowings. Borrowings issued at variable rates expose the Group to cash flow interest-rate risk. Details of the Group's interest-bearing borrowings have been disclosed in Note 22 to the financial statements. The Group currently does not have any interest rate hedging policies. However, management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(b) Fair value estimation

The nominal value less estimated impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(d) to the financial statements. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less variable selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer demand and competitor actions. Management reassesses these estimates at each balance sheet date.

(c) Estimated recoverability of trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables based on ongoing assessment of the recoverability of the receivables. This assessment is based on the credit history of its customers and other debtors and current market conditions, and requires the use of judgements and estimates. Management reassesses the provision for impairment of trade and other receivables at each balance sheet date.

(d) Income tax

The Group is subject to income taxes in a number of jurisdictions including Hong Kong, Mainland China, South Africa, Malaysia and Singapore. Significant judgement is required in determining the amount of the provision for income taxes. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. TURNOVER, REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the trading and distribution of electronic parts, components and equipment and computer products and accessories. Revenue recognised during the year is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
Turnover		
Sales of electronic parts, components and equipment	751,597	798,211
Sales of computer products and accessories	336,929	482,181
	1,088,526	1,280,392
Other revenue		
Management fee from an associated company (Note 29(a))	120	129
Commission income	9	26
Interest income from bank deposits	250	16
Interest income from an associated company (Note 29(a))	92	61
	471	232
Total revenue	1,088,997	1,280,624

Segment information

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

(a) Primary reporting format – business segments

The Group is organised into two main business segments:

Electronic products – Trading and distribution of electronic parts, components and equipment

Computer products – Trading and distribution of computer products and accessories

	2006		
	Electronic products HK\$'000	Computer products HK\$'000	Total HK\$'000
Turnover	751,597	336,929	1,088,526
Segment results	49,168	(12,864)	36,304
Unallocated costs			(97)
Operating profit			36,207
Finance costs			(4,333)
Share of profit of an associated company			68
Profit before income tax			31,942
Income tax			(8,089)
Profit for the year			23,853
Segment assets	286,687	33,915	320,602
Interest in an associated company			632
Unallocated assets			563
Total assets			321,797
Segment liabilities	127,905	12,837	140,742
Unallocated liabilities			614
Total liabilities			141,356
Other information:			
Capital expenditures	6,594	976	7,570
Depreciation	2,718	798	3,516
Amortisation	1,209	–	1,209
Write off of goodwill arising from acquisition of additional interests in subsidiaries	–	97	97

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

5. TURNOVER, REVENUE AND SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format – business segments (Continued)

	2005		Total HK\$'000
	Electronic products HK\$'000	Computer products HK\$'000	
Turnover	798,211	482,181	1,280,392
Segment results	53,268	(3,859)	49,409
Unallocated costs			(2,774)
Operating profit			46,635
Finance costs			(1,710)
Share of loss of an associated company			(132)
Profit before income tax			44,793
Income tax			(9,502)
Profit for the year			35,291
Segment assets	294,813	55,936	350,749
Interest in an associated company			849
Unallocated assets			299
Total assets			351,897
Segment liabilities	151,037	28,745	179,782
Unallocated liabilities			4,685
Total liabilities			184,467
Other information:			
Capital expenditures	8,149	1,079	9,228
Depreciation	2,200	302	2,502
Amortisation	302	—	302
Write off of goodwill arising from acquisition of additional interests in subsidiaries	116	146	262

5. TURNOVER, REVENUE AND SEGMENT INFORMATION *(CONTINUED)*

(b) Secondary reporting format – geographical segments

The Group operates in the following main geographical areas:

	2006					
	Hong Kong HK\$'000	Asia Pacific HK\$'000	South Africa HK\$'000	Europe HK\$'000	Others HK\$'000	Total HK\$'000
Gross turnover	1,037,214	115,671	45,908	22,210	6,278	1,227,281
Less: inter-segments sales	(98,667)	(32,330)	(7,758)	–	–	(138,755)
Segment turnover	938,547	83,341	38,150	22,210	6,278	1,088,526
Segment results	30,173	1,131	4,085	713	202	36,304
Unallocated costs						(97)
Operating profit						36,207
Segment assets	252,433	39,555	29,809	–	–	321,797
Capital expenditures	6,809	468	293	–	–	7,570

	2005					
	Hong Kong HK\$'000	Asia Pacific HK\$'000	South Africa HK\$'000	Europe HK\$'000	Others HK\$'000	Total HK\$'000
Gross turnover	1,360,430	89,497	35,983	30,262	6,872	1,523,044
Less: inter-segments sales	(227,315)	(15,337)	–	–	–	(242,652)
Segment turnover	1,133,115	74,160	35,983	30,262	6,872	1,280,392
Segment results	40,419	3,798	3,868	1,079	245	49,409
Unallocated costs						(2,774)
Operating profit						46,635
Segment assets	302,673	25,876	23,348	–	–	351,897
Capital expenditures	8,218	231	779	–	–	9,228

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

6. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2006 HK\$'000	2005 HK\$'000
Charging		
Staff costs (Note 12)	63,720	59,957
Amortisation of intangible assets (included in general and administrative expenses)	1,209	302
Provision for impairment of trade receivables (included in general and administrative expenses)	1,439	121
Provision for slow-moving inventories (included in cost of sales)	270	3,272
Depreciation	3,516	2,502
Write off of goodwill (Note 15)	97	262
Loss on dilution of interest in a subsidiary (Note)	—	2,161
Operating lease rentals in respect of rented premises	16,650	15,809
Auditors' remuneration	600	829
Crediting		
Gain on disposal of property, plant and equipment	266	22
Net exchange gain	1,444	850

Note:

On 13th May 2004, MCU Power Limited ("MCU"), a subsidiary incorporated in Hong Kong, allotted 300,000 of its new ordinary shares of HK\$1 each to a director and a senior executive of MCU, at consideration of HK\$300,000. As a result of this share allotment, the Group's equity interest in MCU was reduced from 100% to 70% and accordingly, a loss on dilution of interest in a subsidiary amounting to approximately HK\$2,161,000 was recorded.

7. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interests on short-term bank loans	4,333	1,710

8. INCOME TAX

The amount of taxation charged to the consolidated income statement represents:

	2006 HK\$'000	2005 HK\$'000
Current income tax:		
– Hong Kong profits tax	6,966	7,771
– Overseas taxation	1,301	1,933
– Over-provision in prior years	(329)	(202)
Deferred income tax	151	–
Income tax charges	8,089	9,502

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before income tax	31,942	44,793
Calculated at a taxation rate of 17.5% (2005: 17.5%)	5,590	7,839
Effect of different taxation rates in other countries	606	750
Tax losses of subsidiaries not recognised	2,089	552
Utilisation of previously unrecognised tax losses	(123)	(118)
Over-provision in prior years	(330)	(202)
Others	257	681
Income tax charges	8,089	9,502

The Company is exempted from taxation in Bermuda until 2016.

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong.

Mobicon Electronic Trading (Shenzhen) Limited ("MET"), being a foreign investment enterprise established in the free trade zone of Futian, Shenzhen, PRC, and with a financial year end date falling on 31st December, is subject to PRC enterprise income tax at the rate of 15%. No provision for PRC enterprise income tax has been made as MET is still in a tax loss position.

Taxation on profits of the other overseas subsidiaries has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the subsidiaries operate.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately HK\$4,415,000 (2005: HK\$16,900,000).

10. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim, paid, of HK2.5 cents (2005: HK3 cents) per ordinary share	5,000	6,000
Final, proposed, of HK2.5 cents (2005: HK3 cents) per ordinary share	5,000	6,000
	10,000	12,000

At a meeting held on 7th July 2005, the directors of the Company proposed a final dividend of HK3 cents per ordinary share in respect of the year ended 31st March 2005.

At a meeting held on 12th July 2006, the directors of the Company proposed a final dividend of HK2.5 cents per ordinary share in respect of the year ended 31st March 2006. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March 2007.

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st March 2006 is based on the Group's profit attributable to equity holders of the Company of approximately HK\$19,384,000 (2005: HK\$32,455,000) and on the weighted average number of 200,000,000 (2005: 200,000,000) ordinary shares in issue during the year.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the years ended 31st March 2006 and 2005.

12. STAFF COSTS

Staff costs, including directors' remuneration, represent:

	2006 HK\$'000	2005 HK\$'000
Wages and salaries	60,433	56,916
Pension costs – defined contribution plans	3,056	2,447
Provision for long-service payments	231	594
	63,720	59,957

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"). The MPF Scheme is a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees makes monthly contribution to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. The employer's and employees' contribution is subject to a cap of monthly earnings of HK\$20,000.

12. STAFF COSTS *(CONTINUED)*

Mobicon-Remote Electronic Sdn Bhd, a 50.1% owned subsidiary of the Group, has arranged for its employees in Malaysia to join the Employee Provident Fund Scheme ("the EPF Scheme"). The EPF Scheme is a defined contribution scheme managed by the government of Malaysia. Under the EPF Scheme, the employer and its employees make monthly contribution to the scheme at 12% and 11%, respectively, of the employees' earnings as defined under the Employee Provident Fund Act 1991, and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions. The relevant government agency is responsible for the pension obligation payable to the retired employees.

Mobicon-Remote Electronic Pte Ltd., a wholly-owned subsidiary of the Group, has arranged for its employees in Singapore to join the Central Provident Fund Scheme ("the CPF Scheme"). The CPF Scheme is a defined contribution scheme managed by the government of Singapore. Under the CPF Scheme, the employer and its employees make monthly contribution to the scheme at 13% and 20%, respectively, of the employees' earnings as defined under the Central Provident Fund Act, and the Group has no further obligations for the actual pension payments or post-retirement benefits beyond its contributions. The relevant government agency is responsible for the pension obligation payable to the retired employees.

As stipulated by rules and regulations in the PRC, the Group contributes to state-sponsored retirement plans for its employees in Mainland China as determined by the relevant local governments, which are defined contribution plans. The Group contributes approximately 10% to 17% of the basic salaries of its employees in Mainland China and has no further obligations for the actual payment of pensions or post-retirement benefits beyond the annual contributions. The state-sponsored retirement plans are responsible for the pension obligations payable to the retired employees.

The other group companies do not have any employee retirement schemes for their employees.

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL

	2006 HK\$'000	2005 HK\$'000
Short-term employee benefits	4,290	4,258
Post-employment benefits	48	48
	4,338	4,306

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL (CONTINUED)

(a) Directors' remuneration

The remuneration of every director of the Company for the year ended 31st March 2006 is set out below:

Name of director	Fee HK\$'000	Salaries, allowances and other benefits HK\$'000	Contributions to defined contribution scheme HK\$'000	Total HK\$'000
Executive directors				
Dr. Hung Kim Fung, Measure	—	1,300	12	1,312
Ms. Yeung Man Yi, Beryl	—	1,300	12	1,312
Mr. Hung Ying Fung	—	845	12	857
Mr. Yeung Kwok Leung, Allix	—	845	12	857
Independent non-executive directors				
Mr. Charles E. Chapman	80	—	—	80
Dr. Leung Wai Cheung	120	—	—	120
Mr. Chow Shek Fai	80	—	—	80
	280	4,290	48	4,618

The remuneration of every director of the Company for the year ended 31st March 2005 is set out below:

Name of director	Fee HK\$'000	Salaries, allowances and other benefits HK\$'000	Contributions to defined contribution scheme HK\$'000	Total HK\$'000
Executive directors				
Dr. Hung Kim Fung, Measure	—	1,300	12	1,312
Ms. Yeung Man Yi, Beryl	—	1,300	12	1,312
Mr. Hung Ying Fung	—	813	12	825
Mr. Yeung Kwok Leung, Allix	—	845	12	857
Independent non-executive directors				
Mr. Charles E. Chapman	80	—	—	80
Dr. Leung Wai Cheung	120	—	—	120
Mr. Chow Shek Fai (Note)	50	—	—	50
	250	4,258	48	4,556

Note:
Appointed on 18th August 2004.

13. COMPENSATION TO KEY MANAGEMENT PERSONNEL *(CONTINUED)*

(a) Directors' remuneration *(Continued)*

No directors waived any emoluments during the year (2005: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year (2005: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: three) executive directors whose emoluments have been disclosed above. Details of emoluments paid to the remaining individuals are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries and allowances	918	2,143
Contributions to defined contribution scheme	—	12
	918	2,155

The remuneration fell within the following bands:

	Number of employees	
	2006	2005
Nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	—	1
	1	2

During the year, no emoluments were paid to the above individuals as inducement to join or upon joining the Group or as compensation for loss of office (2005: Nil).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

14. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
As at 1st April 2004				
Cost	7,478	6,606	2,593	16,677
Accumulated depreciation	(6,083)	(3,360)	(1,845)	(11,288)
Net carrying amount	1,395	3,246	748	5,389
Year ended 31st March 2005				
Opening net carrying amount	1,395	3,246	748	5,389
Exchange adjustment	—	(1)	—	(1)
Additions	1,380	2,215	797	4,392
Disposals	(49)	(35)	—	(84)
Depreciation	(636)	(1,481)	(385)	(2,502)
Closing net carrying amount	2,090	3,944	1,160	7,194
As at 31st March 2005				
Cost	8,731	8,767	3,266	20,764
Accumulated depreciation	(6,641)	(4,823)	(2,106)	(13,570)
Net carrying amount	2,090	3,944	1,160	7,194
Year ended 31st March 2006				
Opening net carrying amount	2,090	3,944	1,160	7,194
Exchange adjustment	26	(14)	(3)	9
Additions	3,004	4,065	501	7,570
Disposals	(18)	(90)	(121)	(229)
Depreciation	(1,158)	(1,966)	(392)	(3,516)
Closing net carrying amount	3,944	5,939	1,145	11,028
As at 31st March 2006				
Cost	11,730	12,505	3,121	27,356
Accumulated depreciation	(7,786)	(6,566)	(1,976)	(16,328)
Net carrying amount	3,944	5,939	1,145	11,028

15. INTANGIBLE ASSETS

	Group					
	Goodwill		Distribution rights		Total	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
As at 1st April 2005/2004						
Cost	—	—	4,836	—	4,836	—
Accumulated amortisation	—	—	(302)	—	(302)	—
Net carrying amount	—	—	4,534	—	4,534	—
As at 1st April 2005/2004, net of accumulated amortisation	—	—	4,534	—	4,534	—
Acquisition of additional interests in subsidiaries (Note)	97	262	—	—	97	262
Additions	—	—	—	4,836	—	4,836
Amortisation during the year	—	—	(1,209)	(302)	(1,209)	(302)
Write off of goodwill	(97)	(262)	—	—	(97)	(262)
As at 31st March 2006/2005, net of accumulated amortisation	—	—	3,325	4,534	3,325	4,534
As at 31st March 2006/2005						
Cost	—	—	4,836	4,836	4,836	4,836
Accumulated amortisation	—	—	(1,511)	(302)	(1,511)	(302)
Net carrying amount	—	—	3,325	4,534	3,325	4,534

Note:

- (i) On 14th April 2004, the Group acquired the remaining 30% interest in A Power Limited, a subsidiary incorporated in Hong Kong, for cash consideration of HK\$150,000. The related goodwill resulting from the said acquisition amounting to approximately HK\$116,000 was written off. On 16th November 2004, the Group acquired an additional 29% interest in A Plus Computer Holdings Limited, a subsidiary incorporated in the British Virgin Islands, for cash consideration of approximately HK\$1,810,000. The related goodwill resulting from the said acquisition amounting to approximately HK\$146,000 was written off.
- (ii) On 23rd January 2006, the Group acquired an additional 10% interest in A Plus Computer Holdings Limited, a subsidiary incorporated in the British Virgin Islands, for cash consideration of approximately HK\$562,000. The related goodwill resulting from the said acquisition amounting to approximately HK\$97,000 was written off.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. INTERESTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares/investment, at cost	67,297	67,297
Due from a subsidiary	26,690	37,688
	93,987	104,985

The amount due from a subsidiary is unsecured, non-interest bearing and not repayable within one year. The directors consider that the carrying amount of the amount due approximate its fair value.

Details of the subsidiaries as at 31st March 2006, all of which are held indirectly by the Company (except for Mobicon (BVI) Limited which is held directly by the Company), are as follows:

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Percentage of equity interest held	Principal activities and place of operations
A Plus Electronic Company Limited	Hong Kong, limited liability company	Ordinary HK\$100 Non-voting deferred HK\$1,000,000 (Note (i))	90%	Trading and distribution of computer products and accessories in Hong Kong
A Plus Computer Holdings Limited	British Virgin Islands, limited liability company	Ordinary US\$800,000	90%	Investment holding in Hong Kong
A Plus 2 Computer Limited	Hong Kong, limited liability company	Ordinary HK\$1,000	45.9% (Note (ii))	Trading and distribution of computer products and accessories in Hong Kong
A Power Limited	Hong Kong, limited liability company	Ordinary HK\$500,000	100%	Trading and distribution of computer products and accessories in Hong Kong
AESI (HK) Limited	Hong Kong, limited liability company	Ordinary HK\$1,000	100%	Providing information technology services in Hong Kong

16. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Percentage of equity interest held	Principal activities and place of operations
Arkia Advance Limited	Hong Kong, limited liability company	Ordinary HK\$1,000,000	70%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Conwise Power Limited	Hong Kong, limited liability company	Ordinary HK\$1,000	100%	Trading and distribution of electronic parts, components and equipment in Hong Kong
DV Power Limited	Hong Kong, limited liability company	Ordinary HK\$10,000	50% (Note (iii))	Trading and distribution of electronic parts, components and equipment in Hong Kong
Langa Holdings (Pty) Ltd.	Republic of South Africa, limited liability company	Ordinary ZAR100	51%	Investment holding in South Africa
Mantech Electronics (Cape) (Pty) Ltd.	Republic of South Africa, limited liability company	Ordinary ZAR100	51%	Trading and distribution of electronic parts, components and equipment in South Africa
Mantech Electronics (JHB) (Pty) Ltd.	Republic of South Africa, limited liability company	Ordinary ZAR100	51%	Trading and distribution of electronic parts, components and equipment in South Africa
Mantech Electronics (KZN) (Pty) Ltd.	Republic of South Africa, limited liability company	Ordinary ZAR100	51%	Trading and distribution of electronic parts, components and equipment in South Africa
MCU Power Limited	Hong Kong, limited liability company	Ordinary HK\$1,000,000	70%	Trading and distribution of electronic parts, components and equipment in Hong Kong

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Percentage of equity interest held	Principal activities and place of operations
MEC Quartz Limited	Hong Kong, limited liability company	Ordinary HK\$10,000	55%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Milliard Devices Limited	Hong Kong, limited liability company	Ordinary HK\$1,000,000 (2005: HK\$1,000)	70%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Mobicon (BVI) Limited	British Virgin Islands, limited liability company	Ordinary US\$10,000	100%	Investment holding in Hong Kong
Mobicon (Taiwan) Limited	Republic of Taiwan, limited liability company	Ordinary NTD5,000,000	100%	Trading and distribution of electronic parts, components and equipment in Taiwan
Mobicon Agent Limited	Hong Kong, limited liability company	Ordinary HK\$10,000	100%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Mobicon Electronic Trading (Shenzhen) Limited (Note (iv))	PRC, wholly-owned foreign enterprise	Registered capital HK\$2,000,000	100%	Trading and distribution of electronic parts, components and equipment in the PRC
Mobicon Holdings Limited	Hong Kong, limited liability company	Ordinary HK\$10	100%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Mobicon International Ltd.	British Virgin Islands, limited liability company	Ordinary US\$100	100%	Investment holding in Hong Kong
Mobicon Malaysia Limited	British Virgin Islands, limited liability company	Ordinary US\$1	100%	Investment holding in Hong Kong

16. INTERESTS IN SUBSIDIARIES *(CONTINUED)*

Name	Place of incorporation and kind of legal entity	Issued and fully paid share capital/ registered capital	Percentage of equity interest held	Principal activities and place of operations
Mobicon-Mantech Holdings Limited	British Virgin Islands, limited liability company	Ordinary US\$1,000	51%	Investment holding in Hong Kong
Mobicon-Remote Electronic Pte Ltd.	Republic of Singapore, limited liability company	Ordinary S\$2	100%	Trading and distribution of electronic parts, components and equipment in Singapore
Mobicon-Remote Electronic Sdn Bhd	Malaysia, limited liability company	Ordinary RM1,000,000	50.1%	Trading and distribution of electronic parts, components and equipment in Malaysia
M-Tec Electronic Limited	Hong Kong, limited liability company	Ordinary HK\$100,000	100%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Partners 2 Limited	British Virgin Islands, limited liability company	Ordinary US\$100	100%	Investment holding in Hong Kong
PC Master Limited	Hong Kong, limited liability company	Ordinary HK\$1,000	81%	Trading and distribution of computer products and accessories in Hong Kong
Sensor Power Limited	Hong Kong, limited liability company	Ordinary HK\$1,000	100%	Trading and distribution of electronic parts, components and equipment in Hong Kong
Videocom Technology (HK) Limited	Hong Kong, limited liability company	Ordinary HK\$2	90%	Trading and distribution of computer products and accessories in Hong Kong

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16. INTERESTS IN SUBSIDIARIES (CONTINUED)

- (i) The non-voting deferred shares are not owned by the Group. The shares have no voting rights, are not entitled to dividend, and are not entitled to any distributions upon winding up unless a sum of HK\$10 billion had been distributed to the holders of ordinary shares.
- (ii) This company is a subsidiary of the Group as the majority of which is owned by A Plus Company Holdings Limited, a 90% subsidiary.
- (iii) The directors are of the view that the Group has control over the financial and operating policies of DV Power Limited and accordingly it is accounted for as a subsidiary.
- (iv) The subsidiary has a financial year-end date falling on 31st December in accordance with the local statutory requirements, which is not coterminous with the Group. The consolidated financial statements of the Group were prepared based on the financial statements of the subsidiary for the twelve months ended 31st March 2006.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2006.

17. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2006	2005
	HK\$'000	HK\$'000
Share of net assets	150	150
Due from an associated company	1,122	1,407
	1,272	1,557
Accumulated share of losses	(640)	(708)
	632	849

17. INTEREST IN AN ASSOCIATED COMPANY *(CONTINUED)*

Details of the associated company as at 31st March 2006, held indirectly by the Company, are as follows:

Name	Particular of issued shares held	Place of incorporation and kind of legal entity	Percentage of equity interest held	Principal activity and place of operation
Create Tech Software Systems Limited	Ordinary shares of HK\$1 each	Hong Kong, limited liability company	30%	Design of computer software in Hong Kong

The balance due from an associated company is unsecured, with interest charged based on the best lending rates of certain banks in Hong Kong and not repayable within one year. The directors consider that the carrying amount of the amount due approximates its fair value.

The following table illustrates the summarised financial information of the associate of the Group as extracted from its financial statements:

	2006 HK\$'000	2005 HK\$'000
Total assets	822	872
Total liabilities	1,289	1,590
Revenues	1,954	962
Profit/(loss)	327	(439)

18. INVENTORIES

Inventories consist of electronic parts, components and equipment and computer products and accessories.

19. TRADE RECEIVABLES

The Group normally grants to its customers credit periods for sales of goods ranging from 7 to 90 days. The aging analysis of trade receivables is as follows:

	Group 2006 HK\$'000	2005 HK\$'000
0 to 60 days	81,193	87,293
61 to 120 days	5,693	10,587
121 to 180 days	2,209	4,176
181 to 365 days	1,254	2,812
Trade receivables	90,349	104,868
Less: Provision for impairment of trade receivables	(917)	(551)
	89,432	104,317

The directors consider that the carrying amounts of the Group's trade receivables approximate their fair values.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20. CASH AND BANK BALANCES

Cash and bank balances of the Group include an amount of approximately HK\$997,000 (2005: HK\$1,389,000) denominated in Renminbi and kept in Mainland China. The conversion of these Renminbi denominated balances into foreign currencies and the remittance of these funds out of Mainland China is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

21. TRADE PAYABLES

The aging analysis of trade payables is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
0 to 60 days	62,677	71,852
61 to 120 days	1,309	1,473
121 to 180 days	288	185
181 to 365 days	916	892
	65,190	74,402

The directors consider that the carrying amounts of the Group's trade payables approximate their fair values.

22. SHORT-TERM BANK LOANS

All short-term bank loans are due within one year and denominated in Hong Kong dollars. The directors consider that the carrying amounts of the Group's short-term bank loans approximate their fair values.

The effective interest rates of the short-term bank loans at the balance sheet date range from approximately 5.14% to 6.06% (2005: 1.68% to 4.14%), except for a loan of approximately HK\$5,475,000 (2005: HK\$2,505,000) which bears interest at HIBOR plus 1% (2005: HIBOR plus 1.25%).

The Group's banking facilities are secured by corporate guarantees issued by the Company (Note 28).

23. DEFERRED INCOME TAX

Deferred income tax is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

The movement on the deferred income tax liabilities account is as follows:

	Group	
	2006	2005
	HK\$'000	HK\$'000
As at 1st April	164	164
Exchange alignment	2	—
Recognised in the income statement	151	—
As at 31st March	317	164

23. DEFERRED INCOME TAX *(CONTINUED)*

The deferred income tax represents the taxation effect of accelerated depreciation allowances for taxation purposes.

As at 31st March 2006, the Group had unprovided deferred tax asset, primarily representing the tax effect of cumulative tax losses (subject to the approval of the relevant tax authorities), amounting to approximately HK\$3,156,000 (2005: HK\$989,000), which have no expiry date.

24. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	200,000	200,000
Issued and fully paid:		
200,000,000 ordinary shares of HK\$0.10 each	20,000	20,000

25. RESERVES

	Company			Total HK\$'000
	Share premium HK\$'000	Contributed surplus HK\$'000 (Note)	Retained profits HK\$'000	
As at 1st April 2004	16,706	67,097	8,288	92,091
Profit for the year	—	—	16,900	16,900
Dividends	—	—	(12,000)	(12,000)
As at 31st March 2005	16,706	67,097	13,188	96,991
As at 1st April 2005	16,706	67,097	13,188	96,991
Profit for the year	—	—	4,415	4,415
Dividends	—	—	(11,000)	(11,000)
As at 31st March 2006	16,706	67,097	6,603	90,406
Representing:				
2006 final dividend			5,000	
Others			1,603	
			6,603	

Note:

Contributed surplus represents the difference between the nominal value of the ordinary shares issued by the Company and the net asset value of subsidiaries acquired through exchanges of shares pursuant to the reorganisation which took place on 18th April 2001.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26. RECONCILIATION OF PROFIT BEFORE INCOME TAX TO NET CASH GENERATED FROM OPERATIONS

	2006 HK\$'000	2005 HK\$'000
Profit before income tax	31,942	44,793
Adjustments for:		
Interest income	(342)	(77)
Interest expense	4,333	1,710
Amortisation of intangible assets	1,209	302
Depreciation of property, plant and equipment	3,516	2,502
Gain on disposals of property, plant and equipment	(266)	(22)
Write off of goodwill from acquisition of additional interests in subsidiaries	97	262
Loss on dilution of interest in a subsidiary	–	2,161
Share of (profit)/loss of an associated company	(68)	132
Operating profit before working capital changes	40,421	51,763
Decrease/(increase) in inventories	18,851	(23,326)
Decrease/(increase) in trade receivables	14,885	(3,249)
Decrease in prepayments, deposits and other receivables	584	204
Decrease in trade payables	(9,212)	(15)
(Decrease)/increase in accruals and other payables	(4,518)	7,967
Net cash generated from operations	61,011	33,344

27. COMMITMENTS UNDER OPERATING LEASES

As at 31st March 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
Not later than one year	17,502	8,895
Later than one year and not later than five years	11,769	3,991
	29,271	12,886

The Company had no commitments under operating leases as at 31st March 2006 (2005: Nil).

28. CONTINGENT LIABILITIES

	Company	
	2006	2005
	HK\$'000	HK\$'000
Guarantees provided by the Company in respect of banking facilities of subsidiaries	233,760	202,385

As at 31st March 2006, the amount of such facilities used by the subsidiaries and covered by the Company's guarantees amounted to approximately HK\$53,712,000 (2005: HK\$80,306,000).

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Particulars of significant transactions between the Group and related parties are summarised below:

	Note	2006	2005
		HK\$'000	HK\$'000
Management fee received from an associated company	(i)	120	129
Interest income received from an associated company		92	61
Maintenance fee paid to an associated company	(ii)	390	120
Purchase of property, plant and equipment from an associated company		888	—
Rentals paid/payable to M-Bar Limited	(iii)	3,555	2,458
Rentals paid/payable to a director	(iv)	66	—
Rentals paid/payable to spouse of a director	(v)	51	—

Note:

- (i) Management fee was received from an associated company, Create Tech Software Systems Limited at a fixed monthly rate of HK\$10,000 per month (2005: from HK\$10,000 to HK\$11,500 per month) for use and lease of facilities of the Group.
- (ii) Maintenance fee was paid to an associated company, Create Tech Software Systems Limited at fixed monthly rates in aggregate of HK\$20,000 per month from April 2005 to October 2005 and HK\$50,000 per month from November 2005 to March 2006 (2005: HK\$20,000 per month from October 2004 to March 2005) for providing maintenance of the accounting system.
- (iii) M-Bar Limited is a wholly-owned subsidiary of Mobicon Electronic Supplies Company Limited, a company beneficially owned by Dr. Hung Kim Fung, Measure (30%), Ms. Yeung Man Yi, Beryl (30%), Mr. Hung Ying Fung (20%) and Mr. Yeung Kwok Leung, Allix (20%), directors and substantial shareholders of the Company. The lease agreements with M-Bar Limited were entered into at terms agreed between the contracting parties.
- (iv) The lease agreements with Mr. Yeung Kwok Leung, Allix, a director of the Company, were entered into at terms agreed between the contracting parties.
- (v) The lease agreements with Madam Wan Lam Keng, spouse of Mr. Yeung Kwok Leung, Allix, were entered into at terms agreed between the contracting parties.

(b) Included in prepayments, deposits and other receivables of the Group were rental deposits paid to M-Bar Limited, Mr. Yeung Kwok Leung, Allix and Madam Wan Lam Keng of approximately HK\$777,000 (2005: HK\$498,000), HK\$22,000 (2005: HK\$Nil) and HK\$17,000 (2005: HK\$Nil) respectively.

(c) Included in accruals and other payables of the Group were amounts due to minority shareholders of certain subsidiaries of approximately HK\$6,792,000 (2005: HK\$5,554,000). The amounts are unsecured, interest-free and repayable on demand.

FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out below:

RESULTS

		Year ended 31st March			
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,088,526	1,280,392	1,159,929	655,699	307,233
Profit before income tax	31,942	44,793	38,495	22,132	5,584
Income tax	(8,089)	(9,502)	(6,723)	(2,894)	(1,538)
Profit for the year	23,853	35,291	31,772	19,238	4,046
Attributable to:					
Equity holders of the Company	19,384	32,455	28,635	17,929	4,403
Minority interests	4,469	2,836	3,137	1,309	(357)
	23,853	35,291	31,772	19,238	4,046

ASSETS AND LIABILITIES

		As at 31st March			
	2006	2005	2004	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property, plant and equipment	11,028	7,194	5,389	3,582	2,958
Intangible assets	3,325	4,534	—	—	—
Interest in an associated company	632	849	492	898	139
Current assets	306,812	339,320	294,042	177,357	136,427
Total assets	321,797	351,897	299,923	181,837	139,524
Current liabilities	(141,039)	(184,303)	(152,819)	(62,218)	(35,391)
Net current assets	165,773	155,017	141,223	115,139	101,036
Total assets less current liabilities	180,758	167,594	147,104	119,619	104,133
Deferred income tax liabilities	(317)	(164)	(164)	(108)	(108)
Net assets	180,441	167,430	146,940	119,511	104,025
Capital and reserves					
Equity attributable to equity holders of the Company					
Share capital	20,000	20,000	20,000	20,000	20,000
Reserves	147,285	138,721	118,280	97,258	83,205
	167,285	158,721	138,280	117,258	103,205
Minority interests	13,156	8,709	8,660	2,253	820
Total equity	180,441	167,430	146,940	119,511	104,025

Note:

Pursuant to a group reorganisation scheme in preparation for the listing of the Company's shares on the Stock Exchange (the "Reorganisation"), the Company became the holding company of the companies comprising the group (collectively referred to as the "Group") on 18 April 2001. The group reorganisation involved companies under common control, and the Company and its subsidiaries resulting from the Reorganisation are regarded as a continuing group. Accordingly, the Reorganisation has been accounted for on the basis of merger accounting, under which the consolidated accounts have been prepared as if the Company had been the holding company of the other companies comprising the group throughout the year ended 31 March 2002, rather than from the date on which the Reorganisation was completed.