

REPORT OF THE DIRECTORS

The Directors are pleased to present their annual 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 31 March 2002.

GROUP REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in Bermuda on 11 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Pursuant to a group reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the Group on 18 April 2001.

On 7 May 2001, pursuant to the Company's initial public offering exercise, the shares of the Company were listed on the Stock Exchange.

Details of the group reorganisation and basis of presentation of the financial statements are set out in Note 1 to the accompanying financial statements.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

Details of segment information of the Group set out in Note 23 to the accompanying financial statements

CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2002, the five largest customers of the Group accounted for approximately 11.2% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 21.6% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 4.9% of the Group's turnover while the largest supplier of the Group accounted for approximately 13.9% of the Group's total purchases.

None of the directors, their associates, or any shareholders (which, to the knowledge of the Company's Directors, owned more than 5% of the Company's share capital) had a beneficial interest in any of the Group's five largest customers and suppliers.

REPORT OF THE DIRECTORS

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 March 2002 are set out in the consolidated income statement on page 27 of this annual report.

During the year, the Directors recommended the payment of an interim dividend of 2.5 cents per share, totalling \$5,000,000 in respect of the year ended 31 March 2002. The Directors do not recommend the payment of a final dividend.

SHARE CAPITAL

Details of share capital of the Company are set out in Note 19 to the accompanying financial statements.

RESERVES AND RETAINED PROFIT

Movements in reserves of the Group and the Company during the year are set out in Note 21 to the accompanying financial statements. Movements in retained profit of the Group during the year are set out in the consolidated income statement on page 27 of this annual report.

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 12 to the accompanying financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accompanying financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2002.

REPORT OF THE DIRECTORS

RETIREMENT SCHEMES

Details of the retirement schemes are set out in Note 26 to the accompanying financial statements.

DIRECTORS

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

Executive directors

Hung Kim Fung, Measure (*Chairman*)
Yeung Man Yi, Beryl (*Deputy Chairman*)
Hung Ying Fung
Yeung Kwok Leung, Allix

Independent non-executive directors

Charles E. Chapman
Leung Wai Cheung

Mr. Charles E. Chapman and Mr. Leung Wai Cheung will retire by rotation in accordance with Clause 111 (A) of the Company's Bye-laws and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All other remaining directors continue in office.

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 1 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 terminable by the employing company within one year without payment of compensation other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES

As at 31 March 2002, the Directors had the following interests in the shares of the Company and its subsidiaries within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

(i) The Company

Director	Corporate interest	Personal interest	Family interests	Total interest	Percentage of issued shares
Mr. Hung Kim Fung, <i>Measure</i>	-	-	90,000,000 <i>(Note 1)</i>	90,000,000	45%
Ms. Yeung Man Yi, Beryl	-	-	90,000,000 <i>(Note 1)</i>	90,000,000	45%
Mr. Hung Ying Fung	-	30,000,000	-	30,000,000	15%
Mr. Yeung Kwok Leung, Allix	-	-	30,000,000 <i>(Note 2)</i>	30,000,000	15%

Notes:

- 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 Mr. 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.
- 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES *(Continued)*

(ii) Subsidiary – A Plus Electronic Company Limited ("A Plus")

Each of Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix have beneficial interests in their personal capacity in the following number of non-voting deferred shares in A Plus:

Name	Number of non-voting deferred shares
Mr. Hung Kim Fung, Measure	300,000 shares of \$1.00 each
Ms. Yeung Man Yi, Beryl	300,000 shares of \$1.00 each
Mr. Hung Ying Fung	200,000 shares of \$1.00 each
Mr. Yeung Kwok Leung, Allix	200,000 shares of \$1.00 each

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURE

Under the terms of the Company's share option scheme approved by the shareholders on 18 April 2001, the Board of Directors may, at their discretion, invite any employee of the Company or any of the group companies, including any executive directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's shares on 7 May 2001. No options have been granted to the directors up to the date of this report.

Save as disclosed above, and other than in connection with the group reorganisation in preparation for the Company's listing of shares, at no time during the year was the Company or any of its subsidiaries was a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance in relation to the Group's business to which the Company or any of the companies comprising the Group was a party and in which any of the Company's directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 March 2002, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders having an interest of 10% or more of the issued share capital of the Company are as follows:

Name	Number of Shares	Approximate percentage of issued shares
M2B Holding Limited	90,000,000	45%
Mr. Hung Ying Fung	30,000,000	15%
Bestmark Management Limited	30,000,000	15%

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance.

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.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited since 7 May 2001, except that the independent non-executive directors are not appointed for specific terms. However, the independent non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's Bye-laws.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in Note 3.a to the accompanying financial statements constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). Details of such connected transactions are as follows:

M-Bar Limited ("M-Bar") is owned as to 30% by Mr. Hung Kim Fung, Measure, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and 20% by Mr. Yeung Kwok Leung, Allix, directors of the Company, and is principally engaged in property holding.

During the year, the Group paid rental expenses amounting to \$2,772,000 and \$480,000 to M-Bar, and Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl, respectively.

These transactions are of a recurring nature and would continue after the listing of the shares of the Company on the Stock Exchange. The Directors consider these 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.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 64 of the annual report.

AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts and half-year reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive directors, namely Mr. Charles E. Chapman and Mr. Leung Wai Cheung.

REPORT OF THE DIRECTORS

USE OF PROCEEDS

The proceeds from the issue of new shares for the listing on The Stock Exchange of Hong Kong Limited, after deduction of related expenses, amounted to approximately \$36,506,000 and have been applied as follows:

	Original plan	Amount utilised up to date of this report
	<u>\$'000</u>	<u>\$'000</u>
Setting up of sales offices in Malaysia, South Africa and Singapore to capture the growing overseas market	15,000	8,000
Setting up of a product database and product development centre in Shenzhen, the PRC	4,000	2,000
Development of new products lines through co-operation with strategic business partners in the electronics industry, most of the amounts have been used for building up inventory and working capital of the business	15,000	11,000
Additional general working capital for the Group	2,506	5,506
	<u>36,506</u>	<u>26,506</u>

The balance of the net proceeds of the new issue of approximately HK\$10 million are being placed on short-term interest bearing deposits with licensed banks in Hong Kong.

REPORT OF THE DIRECTORS

AUDITORS

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co, which do not seek re-appointment upon their retirement at the forthcoming annual general meeting. A resolution to appoint PricewaterhouseCoopers as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board of Directors,

Hung Kim Fung, Measure
Chairman

Hong Kong
25 June 2002