

Report of the Directors

The directors submit their report together with the audited accounts of Mobicon Group Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for the year ended 31st March 2003.

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 3 to the accounts.

Results and appropriations

The results of the Group for the year ended 31st March 2003 are set out in the consolidated profit and loss account on page 26.

The directors have declared an interim dividend of HK2 cents per ordinary share, totalling HK\$4,000,000, which was paid on 3rd December 2002.

The directors recommend the payment of a final dividend of HK2 cents per ordinary share, totalling HK\$4,000,000 in respect of the year ended 31st March 2003.

Share capital

Details of the movements in share capital of the Company are set out in note 19 to the accounts.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 21 to the accounts.

Fixed assets

Details of the movements in fixed assets of the Group are set out in note 12 to the accounts.

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 purchased or sold any of the Company’s listed shares during the year ended 31st March 2003.

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Directors

The directors who held office during the year were:

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

Ms. Yeung Man Yi, Beryl and Mr. Charles E. Chapman 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 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

Pursuant to a share option scheme approved by the shareholders at an extraordinary general meeting held on 18th April 2001 (the "Share Option Scheme"), which became effective upon listing of the Company's shares on 7th May 2001, the directors of the Company may, at their discretion, grant options to directors of the Company and full time employees of the Group to subscribe for shares of the Company subject to the terms and conditions stipulated therein.

The options are exercisable in whole or in part at any time fixed by the board of directors. The subscription price is set at no less than the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five trading days immediately preceding the date of the grant of the option.

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Share options (Continued)

The maximum number of shares in respect of which options may be granted shall not exceed 10% of the share capital of the Company in issue from time to time but excluding shares issued pursuant to the Share Option Scheme and the maximum number of shares in respect of which options may be granted to any full time employee or director of the Company shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Share Option Scheme.

No options have been granted under the Share Option Scheme up to the date of this report.

At the forthcoming annual general meeting, an ordinary resolution will be proposed for the Company to approve the termination of the Share Option Scheme and the adoption of a new share option scheme (the "New Share Option Scheme") pursuant to which the 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 Share Option Scheme. The New Share Option Scheme is in line with the current Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Reasons for the adoption of the New Share Option Scheme and summary of the principal terms of the rules of the New Share Option Scheme have been set out in the circular to the shareholders of the Company of even date.

Directors' interests in equity or debt securities

As at 31st March 2003, the interest of the directors and chief executive in the shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interest) Ordinance ("SDI Ordinance")), as recorded in the register maintained by the Company under Section 29 of the SDI Ordinance or as notified to the Company were as follows:

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

Director	Number of shares		
	Personal interests	Family interests	Total interests
Mr. Hung Kim Fung, Measure	–	90,000,000 (Note a)	90,000,000
Ms. Yeung Man Yi, Beryl	–	90,000,000 (Note a)	90,000,000
Mr. Hung Ying Fung	30,000,000	–	30,000,000
Mr. Yeung Kwok Leung, Allix	–	30,000,000 (Note b)	30,000,000

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Directors' interests in equity or debt securities (Continued)

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

Note:

- (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 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.
- (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.

(ii) Non-voting deferred shares in a 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 has beneficial interests in his/her 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 HK\$1.00 each
Ms. Yeung Man Yi, Beryl	300,000 shares of HK\$1.00 each
Mr. Hung Ying Fung	200,000 shares of HK\$1.00 each
Mr. Yeung Kwok Leung, Allix	200,000 shares of HK\$1.00 each

Save as disclosed above and under the section headed “Share Options”, none of the directors and chief executive (including their spouse and children under 18 year of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SDI Ordinance).

Save as disclosed under the section headed “Share Options”, at no time during the year was the Company or any of its subsidiaries 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.

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Directors' interests in contracts

Save as disclosed in note 26(a) to the accounts, 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

As at 31st March 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the directors and chief executive as disclosed above.

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 from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

Code of best practice

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited, except that the non-executive directors are not appointed for specific terms. Instead, the non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Company's bye-laws.

Connected transactions

Certain related party transactions disclosed in note 26(a) to the accounts also 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 HK\$2,452,000 and HK\$440,000 to M-Bar, and Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl, respectively.

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.

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Distributable reserves

Distributable reserves of the Company as at 31st March 2003 amounted to approximately HK\$72,125,000 (2002: HK\$67,097,000).

Five year 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 66.

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.

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Use of proceeds

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

	Original plan	Amount utilised up to the date of this report
	\$'000	\$'000
Setting up of sales offices in Malaysia, South Africa and Singapore to capture the growing overseas market	15,000	15,300
Setting up of a product database and product development centre in Shenzhen, the Peoples Republic of China ("Mainland China")	4,000	3,700
Development of new products lines through co-operation with strategic business partners in the electronics industry, most of the amount have been used for building up inventory and working capital of the business	15,000	15,000
Balance as general working capital for the Group	<u>2,506</u>	<u>2,506</u>
	<u>36,506</u>	<u>36,506</u>

The application of the net proceeds from the issue of new shares are consistent with the plans set out in the prospectus of the Company dated 24th April 2001.

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Auditors

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

The accounts for the year ended 31st March 2001 and 2002 were audited by Arthur Andersen & Co. PricewaterhouseCoopers replaced Arthur Andersen & Co when it did not stand for re-appointment at the annual general meeting on 8th August 2002.

On behalf of the board of directors,

Hung Kim Fung, Measure

Chairman

Hong Kong, 3rd July 2003