

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

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.