

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