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.

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

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

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

	2005		
	Electronic products HK$'000	Computer products HK$'000	Total 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

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	2005
	HK$'000	HK$'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	2005
	HK$'000	HK$'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.

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

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	2005
	HK$'000	HK$'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).

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	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'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.

16. INTERESTS IN SUBSIDIARIES

	Company 2006 HK$'000	Company 2005 HK$'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

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

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 polices 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.

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	2005
	HK$'000	HK$'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			
	Share premium	**Contributed surplus**	**Retained profits**	**Total**
	HK$'000	HK$'000 (Note)	HK$'000	HK$'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.

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** **HK$'000**	2005 HK$'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.