

Mobicon Group Limited
萬保剛集團有限公司

(Stock code: 1213)

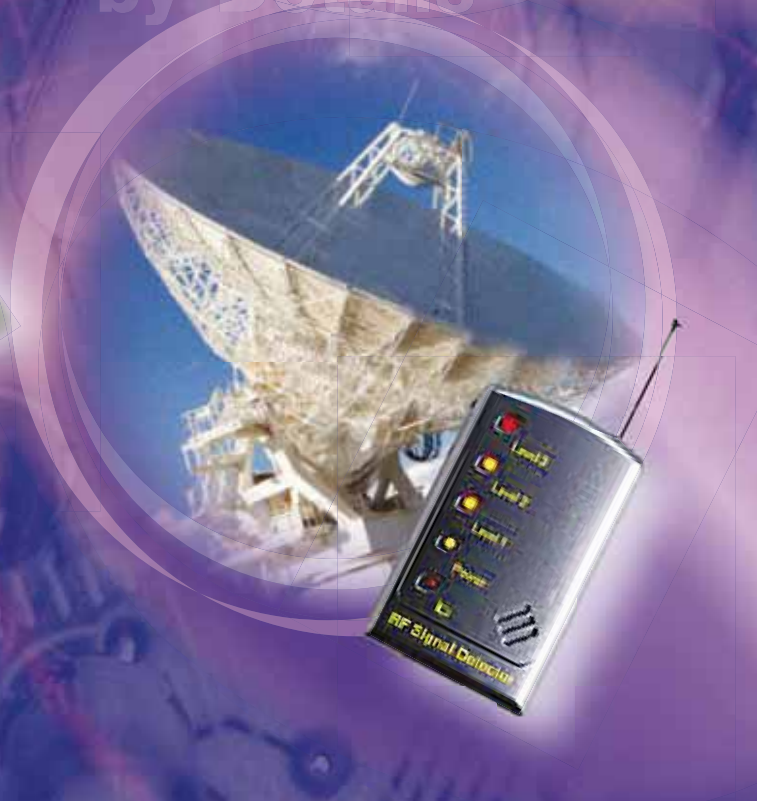
MOBICON
Electronic Components

Interim Report 2006/2007

Achievement by Details

成就，
源於細節

成就，源於細節



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CORPORATE INFORMATION

Directors

Executive directors

Dr. Hung Kim Fung, Measure
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[#]

[#] *Audit Committee Member*

Company secretary

Mr. Yeung Kin Kwan, Alvan

Registered office

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Head office and principal place of business

7/F New Trend Centre
704 Prince Edward Road East
San Po Kong
Kowloon
Hong Kong

Auditors

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants
31/F Gloucester Tower
The Landmark
11 Pedder Street, Central
Hong Kong

Share registrars and transfer office

Principal registrars in Bermuda
Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Branch registrars in Hong Kong

Hong Kong Registrars Limited
Shops 1712-1716, 17/F
Hopewell Centre
183 Queen's Road East
Hong Kong

Principal bankers

The Hong Kong and Shanghai Banking
Corporation Limited
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

Legal advisers

F. Zimmern & Co.
Suites 1501-1503, 15/F
Gloucester Tower
The Landmark
15 Queen's Road, Central
Hong Kong

Company homepage/website

<http://www.mobicon.com>

Stock code

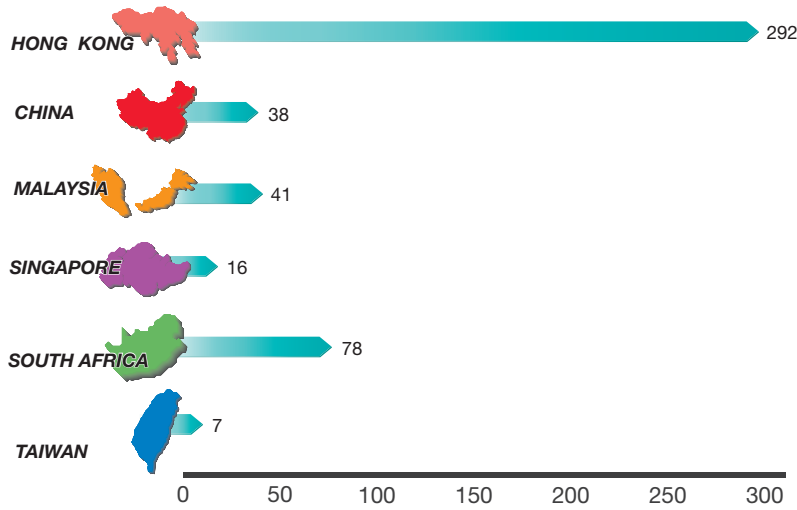
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FINANCIAL SUMMARY

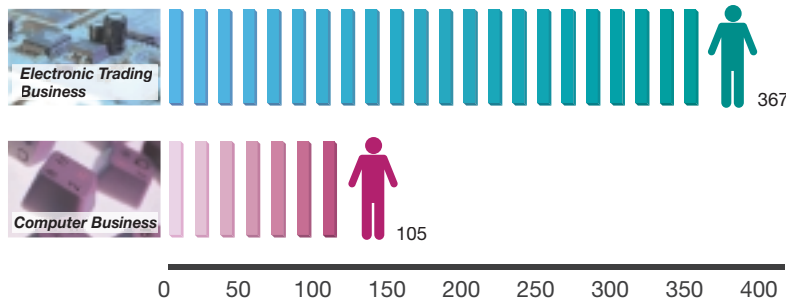
Turnover by business segments (by percentage)



Distribution of workforce* by geographical location



Distribution of workforce* by line of business



*Total no. of employees = 472

REPORT OF THE DIRECTORS

The Board of Directors (the “Board”) of Mobicon Group Limited (the “Company”) is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) as at and for the six months ended 30 September 2006 (the “Period”) together with comparative figures and explanatory notes in this interim report.

INTERIM DIVIDEND

By a Board resolution passed on 20 December 2006, the directors had resolved to declare an interim dividend of HK\$0.025 per ordinary share for the six months ended 30 September 2006 (2005: HK\$0.025 per ordinary share). The interim dividend will be payable on 26 January 2007 to shareholders whose names appear on the Register of Members of the Company as at 19 January 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 18 January 2007 (Thursday) to 19 January 2007 (Friday), both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificate must be lodged with the Company's branch share registrar 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 17 January 2007 (Wednesday).

SHARE OPTION SCHEME

On 8 August 2003, the Company adopted a new share option scheme (the “New Share Option Scheme”) pursuant to which the eligible persons may be granted options to subscribe for shares of the Company upon and subject to the terms and conditions of the rules of the New Share Option Scheme. The New Share Option Scheme is in line with the current Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

Since the adoption, no options have been granted under the New Share Option Scheme up to the date of this interim report.

DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 30 September 2006, the interests and short positions of each director and chief executive of the Company 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 or the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”), were as follows:

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

Name of director	Long/short position	Number of shares			Percentage
		Personal interests	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%

DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES (Continued)

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

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 shares capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.
- (b) These shares are held by Bestmark Management Limited, a wholly-owned subsidiary of Holford Group Corporation which, in turn, is wholly and beneficially owned by Mr. Yeung Kwok Leung, Allix and his spouse, Ms. Wan Lam Keng. Holford Group Corporation is the trustee of A&W Unit Trust set up by its shareholders. The assets of A&W Unit Trust include the entire issued share capital of Bestmark Management Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Trinity Trust, which is a discretionary trust.

(ii) Non-voting deferred shares of HK\$1.00 each in a subsidiary – A Plus Electronic Company Limited (“A Plus”)

As at 30 September 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 of director	Long/short position	Number of non-voting deferred shares	Percentage
Dr. Hung Kim Fung, Measure	Long	300,000	30%
Ms. Yeung Man Yi, Beryl	Long	300,000	30%
Mr. Hung Ying Fung	Long	200,000	20%
Mr. Yeung Kwok Leung, Allix	Long	200,000	20%

Save as disclosed above and other than certain non-beneficial ordinary shares of the subsidiaries held in bare trust for the Group, as at 30 September 2006, none of the directors or the chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the 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 pursuant to Divisions 7 and 8 of Part XV of the SFO or the Model Code.

Save as disclosed above and under the section headed “Share Option Scheme”, at no time during the Period, 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 Option Scheme”, at no time during the Period 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 the 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

During the Period, the Company had adopted a Code of Conduct regarding directors' transactions in securities of the Company on terms no less exacting than the required standard set out in the Model Code under Appendix 10 to the Listing Rules. Having made all reasonable enquires with the directors of the Company, the Company was of view that the directors had complied with the said Code of Conduct throughout the Period.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 15 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 Period or at any time during the Period.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 September 2006, so far as is known to the directors of the Company, the following persons (other than a director or the chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Long/short position	Number of shares			Percentage
		Trusts and similar interests	Beneficial owner	Total interests	
M2B Holding Limited	Long	–	90,000,000 <i>(Note (a))</i>	90,000,000	45%
Action 2 Limited	Long	90,000,000 <i>(Note (a))</i>	–	90,000,000	45%
Bestmark Management Limited	Long	–	30,000,000 <i>(Note (b))</i>	30,000,000	15%
Holford Group Corporation	Long	30,000,000 <i>(Note (b))</i>	–	30,000,000	15%
Trident Trust Company (Cayman) Limited	Long	120,000,000 <i>(Notes (a) & (b))</i>	–	120,000,000	60%

Notes:

- (a) Please refer to Note (a) under the section headed “Directors’ Interests in Equity and Debt Securities”. The interests of M2B Holding Limited, Action 2 Limited and part of the interests of Trident Trust Company (Cayman) Limited were in respect of the same 90,000,000 shares and duplicated each other.
- (b) Please refer to Note (b) under the section headed “Directors’ Interests in Equity and Debt Securities”. The interests of Bestmark Management Limited, Holford Group Corporation and part of the interests of Trident Trust Company (Cayman) Limited were in respect of the same 30,000,000 shares and duplicated each other.

Save as disclosed above, as at 30 September 2006, according to the register of interests required to be kept by the Company under Section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

DEALINGS IN COMPANY’S LISTED SECURITIES

During the Period, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the “Code”) throughout the Period, except for the deviations stated below:

- (i) According to the code provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The roles of the Chairman and the CEO of the Company are not separated and are performed by the same individual, Dr. Hung Kim Fung, Measure. The directors consider that this structure provides the Group with strong and consistent leadership in the Company’s decision making and operational efficiency.

- (ii) According to the code provisions A.4.1 and A.4.2 of the Code, (a) non-executive directors should be appointed for a specific term, subject to re-election; and (b) all directors appointed to fill a causal vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. None of the independent non-executive directors of the Company was appointed for specific term but all of them are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws. In accordance with the provisions of the Bye-laws of the Company, any director appointed by the Board during the year shall retire and submit himself/herself for re-election at the first annual general meeting immediately following his / her appointment. Further, at each annual general meeting, one third of the directors for the time being, or if their number is not three or multiple of three, then the number nearest to but not exceeding one-third, shall retire from office. The directors to retire by rotation shall be those who have been longest in office since their last re-election or appointment. As such, the Company considers that the Company's corporate governance practices in this regard are similar to those in the Code. According to the Bye-laws of the Company, the Chairman and Managing Director are not subject to retirement by rotation or be taken into account in determining the number of directors to retire which deviated from code provision A.4.2 of the Code. As continuation is a key factor to the successful implementation of any long term business plans, the Board believes that the present arrangement is most beneficial to the Company and the shareholders as a whole.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed consolidated financial statements for the six months ended 30 September 2006 with the directors. The Audit Committee comprises three independent non-executive directors, namely Mr. Charles E. Chapman, Dr. Leung Wai Cheung and Mr. Chow Shek Fai.

PUBLICATION OF FURTHER INFORMATION

The Group's interim report for the six months ended 30 September 2006 containing the interim financial statements and all the applicable information required by Appendix 16 to the Listing Rules will be dispatched to shareholders and published on the website of the Stock Exchange in late December 2006.

MEMBERS OF THE BOARD

As at the date of this report, the Board comprises Dr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix as executive directors and Mr. Charles E. Chapman, Dr. Leung Wai Cheung and Mr. Chow Shek Fai as independent non-executive directors.

APPRECIATION

I would like to take this opportunity to express my gratitude to my fellow directors and all members of the staff for their loyalty and dedication and the continuous support from our customers, suppliers, banks and shareholders.

By order of the Board
Hung Kim Fung, Measure
Chairman

Hong Kong, 20 December 2006

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS

The Group recorded a turnover of around HK\$548 million during the Period. This represents a decrease of about 9% on the figure of around HK\$600 million for the six months ended 30 September 2005 (the “Corresponding Period”). The decrease in turnover was mainly due to the drop in the Computer Business by HK\$49 million approximately during the Period.

The Group’s gross profit dropped by approximately 8% to around HK\$82 million during the Period, down from last year’s figure of about HK\$89 million while the gross profit margin maintained at around 14.9% (Corresponding Period: about 14.8%). Analysed by the two core business operations, the gross profit margin of Electronic Trading Business was approximately 16.9% (Corresponding Period: about 17.8%) while that of Computer Business stood at around 9.4% (Corresponding Period: about 8.6%).

During the Period, the Group’s operating profit amounted to around HK\$18.9 million as compared with approximately HK\$29.8 million in the Corresponding Period, which resulted in a decrease of 37%. Total operating expenses for the Period increased by 6% to around HK\$62.9 million (Corresponding Period: approximately HK\$59.5 million). Financial costs for the Period maintained at the level of approximately HK\$2.1 million (Corresponding Period: approximately HK\$2.0 million).

As a result of above, the profit attributable to equity holders of the Company was approximately HK\$10.4 million (Corresponding Period: HK\$19.4 million), resulting a decrease of 46% compared with the Corresponding Period, representing basic earnings per share of HK\$0.05. The Board has resolved to declare an interim dividend of HK2.5 cents per ordinary share (Corresponding Period: HK2.5 cents per ordinary share) for the period ended 30 September 2006, totaling HK\$5 million.

BUSINESS REVIEW

During the Period, the Group’s continued to focus on its two core business operations, namely: (1) the distribution of electronic components, automation parts and equipment under the **MOBICON** serving branding (the “Electronic Trading Business”); and (2) computer related business (the “Computer Business”) which includes (i) the retail sales of computer products and accessories under the **SOS** retail branding (the “Computer Retail Business”) and (ii) the provision of IT outsourcing and solution services to small and medium enterprises in Hong Kong (the “IT Outsourcing Services”), respectively accounted for 74% and 26% of the Group’s total turnover for the Period.



Electronic Trading Business

The turnover of the Group’s Electronic Trading Business during the Period slightly decreased by 1% to approximately HK\$405 million, which compared to approximately HK\$409 million in the Corresponding Period.

Hong Kong

During the Period, the Group maintained its “Satellite Development Strategy” business model. Apart from being devoted to the sales of MP3 clips, one satellite under the Group, MCU Power Limited, focused on a comprehensive marketing project of the design of LCM (Liquid Crystal Module) for both MP3 and MP4 manufacturers. Meanwhile, one other satellite, Conwise Power Limited, worked mainly on the sales of Pelikon flexible EL solution which has been applied in the design of a fashionable watches manufacturer in Hong Kong. The application was proven a fruitful success and helped Pelikon with the exploration of Asian market.

To comply with the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) Directive launched by the European Union, the Group provided a stock provision about HK\$2 million additionally for RoHS during the Period.

Meanwhile, the Group signed agentship contracts with a number of brand-name vendors during the Period. These included Hong Kong agents Cosmo (a provider of photo couplers) and Mornsun (a provider of DC/DC converters) as well as Singapore agent Calogic (a provider of DMOS).

Overseas

The business of the Group’s overseas subsidiaries during the Period also grew stably. As the business operation in Singapore subsidiary became more mature, it started to run the “Small Order Services” business model during the Period. In total, the company accounted for a pleasing growth of approximately 94% to HK\$21 million in its turnover during the Period when compared with its turnover in the Corresponding Period.

During the Period, the aggregate turnover of all the Group’s overseas subsidiaries was approximately HK\$54 million, stating a growth of approximately 32% compared with the figure of the Corresponding Period. In terms of geographical segments, the turnover of each region was almost as great as that in the Corresponding Period; and the contributions of Hong Kong, the Asia-Pacific region (other than Hong Kong), South Africa, Europe and other regions, accounted for: 79%, 14%, 4%, 2% and 1% respectively of the Group’s total turnover during the Period.

BUSINESS REVIEW (Continued)

Computer Business

During the Period, a notable decrease in the turnover by 25% from approximately HK\$191 million in the Corresponding Period to approximately HK\$143 million was recorded in Computer Business. The drop was the result of the continuous realignment of the operation strategy of the Computer Business by scaling down of the computer retail business with low profit margin so that the Group can increase its overall profitability and operation efficiency.

Computer Retail Business

The computer retail business recorded a loss of around HK\$3 million during the Period, resulting from the keen market competition. To improve the profit-making ability and maximise the efficiency of the Group's financial resources in computer retail business, the Group kept on implementing cautious operating cost control and emphasised on the restructuring of all outlets under **Shenzhen** retail branding during the Period. Minimising the inventory value and operating expense of **Shenzhen** branding, it aimed to take these advantages for its further development in computer retail business.



IT Outsourcing Services

During the Period, A Power Limited, one of the subsidiaries of the Company, demonstrated a satisfactory performance of an increase in turnover by 31% from HK\$46 million in the Corresponding Period to HK\$60 million. Meanwhile, A Power Limited successfully acquired the dealership of the uninterrupted power supply (UPS) product series under AEG branding and actively promoted highly-qualified digital earphones, computer memory cards and computer peripherals under its own **JP** branding which were to open the electronic consumer product market for its USB mobile memory sticks.

OUTLOOK

To give worldwide customers a more convenient and efficient access to professional one-stop procurement services and to prove the Group's competitiveness in the Asian network, the Group has set up a sales office in Taiwan in March 2006. Looking ahead, the Group will continue to acquire more agent lines for electronic components, automation parts and equipment in China and other Asian regions, and aims to become a procurement and distribution hub for various renowned brands.

For the marketing strategy, the Group will concentrate on the project of unifying its online product database for launching e-marketing solution in order to achieve effective promotion. On the other hand, the Group will emphasise on the training of all staff in Shenzhen and turn Shenzhen to be the business liaison centre of all provinces in China.



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2006, the Group's cash and bank balances amounted to approximately HK\$43 million and the net current assets were approximately HK\$172 million. As at 30 September 2006, the current ratio stood at 2.02 which was slightly deteriorated from 2.18 as recorded as at 31 March 2006. Out of the Group's cash and bank balances, about 52% and 28% were denominated in Hong Kong dollars and US dollars respectively and the balance of approximately 9%, 5%, 3%, 2% and 1% were correspondingly denominated in South African Rand, Malaysia Ringgit, Chinese Renminbi, Singapore dollars and New Taiwan dollars.

The Group generally finances its operation by internally generated resources and banking facilities provided by several banks in Hong Kong. As at 30 September 2006, the Group had banking facilities for overdrafts, loans and trade finance from several banks totaling approximately HK\$238 million (as at 31 March 2006: approximately HK\$228 million), with an unused balance of approximately HK\$162 million (as at 31 March 2006: approximately HK\$174 million). During the Period, the Group's borrowings bore interest at rates ranging from 4.9% to 6.7% per annum (as at 31 March 2006: ranging from 3.2% to 6.1% per annum). The directors of the Company believe the Group's existing financial resources are sufficient to fulfill its commitments and working capital requirements.

Compared with audited balances as at 31 March 2006, the Group's trade receivables increased by 38% to HK\$123 million whereas trade payables and inventories increased by 8% and 4% respectively. The substantial increase in trade receivables was in line with the traditional trend of stronger sales performance in the third quarter than that in the first quarter of each calendar year which gave a higher trade receivables balance as at 30 September 2006. The debtor turnover days and creditor turnover days for the Period was 35 days and 26 days respectively (as at 31 March 2006: 32 days and 28 days respectively).

CAPITAL STRUCTURE

As at 30 September 2006, the Group's gross borrowing, which was repayable within one year, amounted to approximately HK\$76 million (as at 31 March 2006: approximately HK\$54 million). After deducting cash and cash equivalents of approximately HK\$43 million, the Group's net borrowings amounted to approximately HK\$33 million (as at 31 March 2006: approximately HK\$4 million). The increase in borrowings was mainly due to the increase in working capital requirement in the third quarter of 2006 which was the Group's traditional peak season. Total equity as at 30 September 2006 was approximately HK\$186 million (as at 31 March 2006: approximately HK\$180 million). Accordingly, the Group's net gearing ratio, based on net borrowings to total equity, increased to 17.6% (as at 31 March 2006: 1.9%).

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Most of the Group's transactions were denominated in Hong Kong dollars, RMB and US dollars. Given that the exchange rate of Hong Kong dollars against the RMB has been and is likely to remain stable and the HKSAR Government's policy of linking the Hong Kong dollars to the US dollars remains in effect, the directors consider that the Group's risk on foreign exchange will remain minimal. In order to properly hedge against its demand for US dollars, the Group has adopted a forward contract to buy US\$500,000 per month at a rate of HK\$7.75 which will be continued for the coming five months (i.e. from October 2006 to February 2007). Other than that, as at 30 September 2006, the Group had no significant risk exposure pertaining to foreign exchange contracts, interest rates, currency swaps, or other financial derivatives.

CHARGES ON ASSETS

The Group did not have any charge on its assets as at 30 September 2006.

COMMITMENT AND CONTINGENT LIABILITIES

During the Period, one forward contract was in force, whereby the Group has committed to buy US dollars on each specified monthly settlement date and it will be in force up to 15 February 2007. Pursuant to the terms of the contract, the Group is committed to buy US\$500,000 in the event that the spot USD-HKD rate at the expiration date is greater than or equal to the contract forward rate (i.e. US\$1.00 = HK\$7.75). Otherwise, the Group is committed to buy US\$1,000,000 in the event that the spot USD-HKD rate at the expiration date is less than the contract forward rate.

As at 30 September 2006, the Group had total outstanding operating lease commitments of approximately HK\$17 million (as at 31 March 2006: approximately HK\$29 million). In view of the Group's high level of liquid funds, it is expected that the Group will be able to fulfill all these commitments without any difficulty.

The Group had no significant contingent liabilities as at 30 September 2006.

EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 30 September 2006, the Group's operations engaged a total of 472 full time employees. The Group has also developed its human resources policies and procedures based on performance, merits and market condition. Discretionary bonus is linked to the performance of the Group as well as individual performance. Benefits include staff accommodation, medical scheme, share option scheme, Mandatory Provident Fund Scheme for employees in Hong Kong, Employment Provident Fund Scheme for employees in Malaysia, Central Provident Fund Scheme for employees in Singapore, and state-sponsored retirement plans for employees in the PRC.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September 2006

		Six months ended 30 September	
		2006	2005
		(Unaudited)	(Unaudited)
	Note	HK\$'000	HK\$'000
Turnover	2	547,732	600,468
Cost of sales		(465,977)	(511,180)
Gross profit		81,755	89,288
Other revenue		1,176	1,410
Distribution and selling expenses		(23,801)	(26,776)
General and administrative expenses		(40,235)	(34,144)
Operating profit	2, 3	18,895	29,778
Finance costs	4	(2,103)	(2,039)
Share of (loss)/profit of an associate		(9)	261
Profit before income tax		16,783	28,000
Income tax	5	(4,164)	(5,924)
Profit for the period		12,619	22,076
Attributable to:			
Equity holders of the Company		10,427	19,404
Minority interests		2,192	2,672
		12,619	22,076
Earnings per share for profit attributable to the equity holders of the Company during the period			
- Basic	7	5.2 cents	9.7 cents
Dividends	6	5,000	5,000

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

	Note	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	9	10,314	11,028
Intangible assets	10	2,720	3,325
Interest in an associate		705	632
Total non-current assets		<u>13,739</u>	<u>14,985</u>
Current assets			
Inventories		165,685	159,305
Trade receivables	11	123,246	89,432
Prepayments, deposits and other receivables		9,397	7,807
Cash and bank balances		42,976	50,268
Total current assets		<u>341,304</u>	<u>306,812</u>
Total assets		<u>355,043</u>	<u>321,797</u>
Current liabilities			
Trade payables	12	70,092	65,190
Accruals and other payables		20,194	21,529
Short-term bank loans		75,661	53,712
Income tax liabilities		2,957	608
Total current liabilities		<u>168,904</u>	<u>141,039</u>
Net current assets		<u>172,400</u>	<u>165,773</u>
Total assets less current liabilities		<u>186,139</u>	<u>180,758</u>
Non-current liabilities			
Deferred income tax liabilities		319	317
Net assets		<u>185,820</u>	<u>180,441</u>
Capital and reserves			
Equity attributable to equity holders of the Company			
Share capital	13	20,000	20,000
Reserves		151,818	147,285
		<u>171,818</u>	<u>167,285</u>
Minority interests		14,002	13,156
Total equity		<u>185,820</u>	<u>180,441</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Attributable to equity holders of the Company								
	Share capital (Unaudited) HK\$'000	Share premium (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Reserves				Minority interests (Unaudited) HK\$'000	Total equity (Unaudited) HK\$'000
				Exchange reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Total reserves (Unaudited) HK\$'000			
As at 1 April 2006	20,000	16,706	800	677	129,102	147,285	13,156	180,441	
Currency translation differences	-	-	-	(894)	-	(894)	(1,831)	(2,725)	
Total income and expenses recognised directly in equity	-	-	-	(894)	-	(894)	(1,831)	(2,725)	
Profit for the period	-	-	-	-	10,427	10,427	2,192	12,619	
Total income and expenses for the period	-	-	-	(894)	10,427	9,533	361	9,894	
Capital contributions from minority shareholders	-	-	-	-	-	-	300	300	
Acquisition of additional interests in subsidiaries	-	-	-	-	-	-	635	635	
Dividends paid to minority shareholders	-	-	-	-	-	-	(450)	(450)	
Dividends paid	-	-	-	-	(5,000)	(5,000)	-	(5,000)	
	-	-	-	-	(5,000)	(5,000)	485	(4,515)	
As at 30 September 2006	20,000	16,706	800	(217)	134,529	151,818	14,002	185,820	
As at 1 April 2005	20,000	16,706	800	497	120,718	138,721	8,709	167,430	
Currency translation differences	-	-	-	(51)	-	(51)	-	(51)	
Total income and expenses recognised directly in equity	-	-	-	(51)	-	(51)	-	(51)	
Profit for the period	-	-	-	-	19,404	19,404	2,672	22,076	
Total income and expenses for the period	-	-	-	(51)	19,404	19,353	2,672	22,025	
Capital contributions from minority shareholders	-	-	-	-	-	-	300	300	
Dividends paid	-	-	-	-	(6,000)	(6,000)	-	(6,000)	
	-	-	-	-	(6,000)	(6,000)	300	(5,700)	
As at 30 September 2005	20,000	16,706	800	446	134,122	152,074	11,681	183,755	

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	(20,102)	430
Net cash used in investing activities	(2,069)	(2,452)
Net cash generated from/(used in) financing activities	16,799	(3,333)
Net decrease in cash and cash equivalents	(5,372)	(5,355)
Cash and cash equivalents, beginning of period	50,268	48,456
Effect of foreign exchange rate changes	(1,920)	(124)
Cash and cash equivalents, end of period	42,976	42,977
Analysis of the balances of cash and cash equivalents		
Cash and bank balances	42,976	42,977

NOTES TO THE INTERIM FINANCIAL REPORT

1. Basis of preparation and accounting policies

The unaudited condensed consolidated financial statements for the six months ended 30 September 2006 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The principal accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006.

These condensed consolidated financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2006.

In the current period, the Group has adopted, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as the "new HKFRS") issued by HKICPA, which are effective for accounting periods beginning on or after 31 December 2005 or 1 January 2006. The adoption of these new HKFRSs has had no material effect on how the results of operations and financial position of the Group are prepared and presented. For those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position.

2. Segment information

(a) Primary segment

The Group is principally engaged in the trading and distribution of electronic parts, components and equipment and computer products and accessories.

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

There are no sales between the business segments.

	Six months ended 30 September 2006 (Unaudited)		
	Electronic products HK\$'000	Computer products HK\$'000	Total HK\$'000
Turnover	405,304	142,428	547,732
Segment results	22,317	(2,707)	19,610
Unallocated costs			(715)
Operating profit			18,895
Finance costs			(2,103)
Share of loss of an associate			(9)
Profit before income tax			16,783
Income tax			(4,164)
Profit for the period			12,619

	Six months ended 30 September 2005		
	(Unaudited)		
	Electronic products HK\$'000	Computer products HK\$'000	Total HK\$'000
Turnover	<u>409,318</u>	<u>191,150</u>	<u>600,468</u>
Segment results	<u>32,490</u>	<u>(1,240)</u>	31,250
Unallocated costs			<u>(1,472)</u>
Operating profit			29,778
Finance costs			(2,039)
Share of profit of an associate			<u>261</u>
Profit before income tax			28,000
Income tax			<u>(5,924)</u>
Profit for the period			<u>22,076</u>

(b) *Secondary segment*

The Group operates in the following main geographical areas.

	Six months ended 30 September 2006					Total HK\$'000
	(Unaudited)					
	Hong Kong HK\$'000	Asia Pacific HK\$'000	South Africa HK\$'000	Europe HK\$'000	Others HK\$'000	
Gross turnover	503,955	84,627	19,139	11,684	2,846	622,251
Less: inter-segments sales	<u>(68,871)</u>	<u>(5,638)</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>(74,519)</u>
Segment turnover	<u>435,084</u>	<u>78,989</u>	<u>19,129</u>	<u>11,684</u>	<u>2,846</u>	<u>547,732</u>
Segment results	<u>16,590</u>	<u>1,370</u>	<u>1,095</u>	<u>446</u>	<u>109</u>	19,610
Unallocated costs						<u>(715)</u>
Operating profit						<u>18,895</u>

	Six months ended 30 September 2005					Total HK\$'000
	(Unaudited)					
	Hong Kong HK\$'000	Asia Pacific HK\$'000	South Africa HK\$'000	Europe HK\$'000	Others HK\$'000	
Gross turnover	586,443	55,864	22,997	11,765	2,340	679,409
Less: inter-segments sales	<u>(58,992)</u>	<u>(16,223)</u>	<u>(3,726)</u>	<u>-</u>	<u>-</u>	<u>(78,941)</u>
Segment turnover	<u>527,451</u>	<u>39,641</u>	<u>19,271</u>	<u>11,765</u>	<u>2,340</u>	<u>600,468</u>
Segment results	<u>26,127</u>	<u>1,035</u>	<u>3,389</u>	<u>583</u>	<u>116</u>	31,250
Unallocated costs						<u>(1,472)</u>
Operating profit						<u>29,778</u>

The above geographical turnover and results are determined on the basis of the destination of delivery of merchandise to customers.

3. Operating profit

Operating profit is stated after charging and crediting the following:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
<u>Charging</u>		
Staff costs (Note 8)	29,376	32,886
Amortisation of intangible assets (included in general and administrative expenses)	605	605
Inventories write-down (included in cost of sales)	6,976	4,383
Depreciation	2,084	1,446
Write off of goodwill (Note 10)	715	-
Operating lease rentals in respect of rented premises	8,308	8,263
Bad debts written off	209	522
Net exchange loss	2,410	185
	<hr/>	<hr/>
<u>Crediting</u>		
Gain on disposal of property, plant and equipment	67	25
	<hr/>	<hr/>

4. Finance costs

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Interests on short-term bank loans	2,103	2,039
	<hr/>	<hr/>

5. Income tax

The amount of taxation charged to the condensed consolidated income statement represents:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current income tax:		
- Hong Kong profits tax	3,172	4,452
- Overseas taxation	992	1,703
- Over-provision in prior year	-	(231)
	<hr/>	<hr/>
Income tax charges	4,164	5,924
	<hr/>	<hr/>

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:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Profit before income tax	16,783	28,000
	<hr/>	<hr/>
Calculated at a taxation rate of 17.5% (2005: 17.5%)	2,937	7,261
Effect of different taxation rates in other countries	335	959
Expenses not deductible for tax purposes	520	229
Over-provision in prior year	-	(231)
Others	372	(2,294)
	<hr/>	<hr/>
Income tax charges	4,164	5,924
	<hr/>	<hr/>

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, People's Republic of China ("PRC"), and with a financial year end date falling on 31 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 on the other overseas subsidiaries has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the subsidiaries operate.

6. Dividends

At a meeting held on 20 December 2006, the directors of the Company declared an interim dividend of HK\$0.025 per ordinary share (2005: HK\$0.025 per ordinary share) for the six months ended 30 September 2006. This interim dividend has not been recognised as a liability at the balance sheet date. The interim dividend will be payable on 26 January 2007 to shareholders whose names appear on the Register of Members of the Company on 19 January 2007.

7. Earnings per share

The calculation of basic earnings per share for the six months ended 30 September 2006 is based on the Group's profit attributable to equity holders of the Company of approximately HK\$10,427,000 (2005: HK\$19,404,000) and on the weighted average of 200,000,000 ordinary shares (2005: 200,000,000 ordinary shares) in issue during the period.

No diluted earnings per share is presented as there were no potential dilutive ordinary shares in issue during the six months ended 30 September 2006 and 2005.

8. Staff costs

Staff costs, including directors' remuneration, represent:

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Wages and salaries	27,729	31,356
Pension costs – defined contribution plans	1,292	1,368
Provision for long-service payments	355	162
	<u>29,376</u>	<u>32,886</u>

9. Property, plant and equipment

Movement of property, plant and equipment for the six months ended 30 September 2006:

	(Unaudited) HK\$'000
Net carrying amount as at 1 April 2006	11,028
Additions	1,643
Disposals	(105)
Depreciation	(2,084)
Exchange adjustment	(168)
	<u>10,314</u>

10. Intangible assets

Movement of intangible assets for the six months ended 30 September 2006:

	Goodwill (Unaudited) HK\$'000	Distribution rights (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Net carrying amount as at 1 April 2006	–	3,325	3,325
Acquisition of additional interests in a subsidiary	715	–	715
Amortisation during the period	–	(605)	(605)
Write off of goodwill	(715)	–	(715)
	<u>–</u>	<u>2,720</u>	<u>2,720</u>

11. 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:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
0 to 60 days	111,497	81,193
61 to 120 days	6,648	5,693
121 to 180 days	1,339	2,209
181 to 365 days	4,865	1,254
	<hr/>	<hr/>
Trade receivables	124,349	90,349
Less: Provision for impairment of trade receivables	(1,103)	(917)
	<hr/>	<hr/>
	123,246	89,432

12. Trade payables

The aging analysis of trade payables is as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
0 to 60 days	66,878	62,677
61 to 120 days	2,009	1,309
121 to 180 days	409	288
181 to 365 days	796	916
	<hr/>	<hr/>
	70,092	65,190

13. Share capital

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.10 each	<hr/> 200,000	<hr/> 200,000
<i>Issued and fully paid:</i>		
200,000,000 ordinary shares of HK\$0.10 each	<hr/> 20,000	<hr/> 20,000

14. Commitments and contingent liabilities*(a) Commitments under operating leases*

As at 30 September 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	As at 30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Not later than one year	10,941	17,502
Later than one year and not later than five years	6,389	11,769
	<hr/>	<hr/>
	17,330	29,271

(b) Contingent liabilities

As at 30 September 2006, the Group did not have any significant contingent liabilities.

15. 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:

		Six months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Management fee received from an associate	(i)	64	60
Interest income received from an associate	(ii)	48	47
Rentals paid/payable to M-Bar Limited	(iii)	2,226	1,139
Rentals paid/payable to a director	(iv)	66	-
Rentals paid/payable to the spouse of a director	(v)	51	-

Note:

- (i) Management fee was received from an associate, Create Tech Software Systems Limited at a fixed rate of HK\$10,000 per month for the period from 1 April 2006 to 31 May 2006 and HK\$11,000 per month for the period from 1 June 2006 to 30 September 2006 (2005: HK\$10,000 per month) for use and lease of facilities of the Group.
 - (ii) The balance due from an associate was unsecured, with interest based on the best lending rates of certain banks in Hong Kong. The balance due from an associate was approximately HK\$1,205,000 as at 30 September 2006 (as at 31 March 2006: HK\$1,122,000).
 - (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, the 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 were rental deposits paid to M-Bar Limited, Mr. Yeung Kwok Leung, Allix and Madam Wan Lam Keng of approximately HK\$742,000 (as at 31 March 2006: HK\$777,000), HK\$22,000 (as at 31 March 2006: HK\$22,000) and HK\$17,000 (as at 31 March 2006: HK\$17,000).
- (c) Included in accruals and other payables was an amount due to a minority shareholder of certain subsidiaries of approximately HK\$3,502,000 (as at 31 March 2006: HK\$6,792,000). The amounts were unsecured, interest-free and repayable on demand.