Annual Report 2006/2007

Mobicon Group Limited
萬保剛集團有限公司
(Stock code:1213)

MOBICON
Electronic Components

Enterprising - Pragmatic - Aspiring

Contents

Corporate Information

BOARD OF DIRECTORS

Executive directors

Hung Kim Fung, Measure *(Chairman)*
Yeung Man Yi, Beryl
Hung Ying Fung
Yeung Kwok Leung, Allix

Independent non-executive directors

Charles E. Chapman
Leung Wai Cheung
Chow Shek Fai

COMPANY SECRETARY

Yeung Kin Kwan, Alvan

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

7th Floor, 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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

LEGAL ADVISER

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

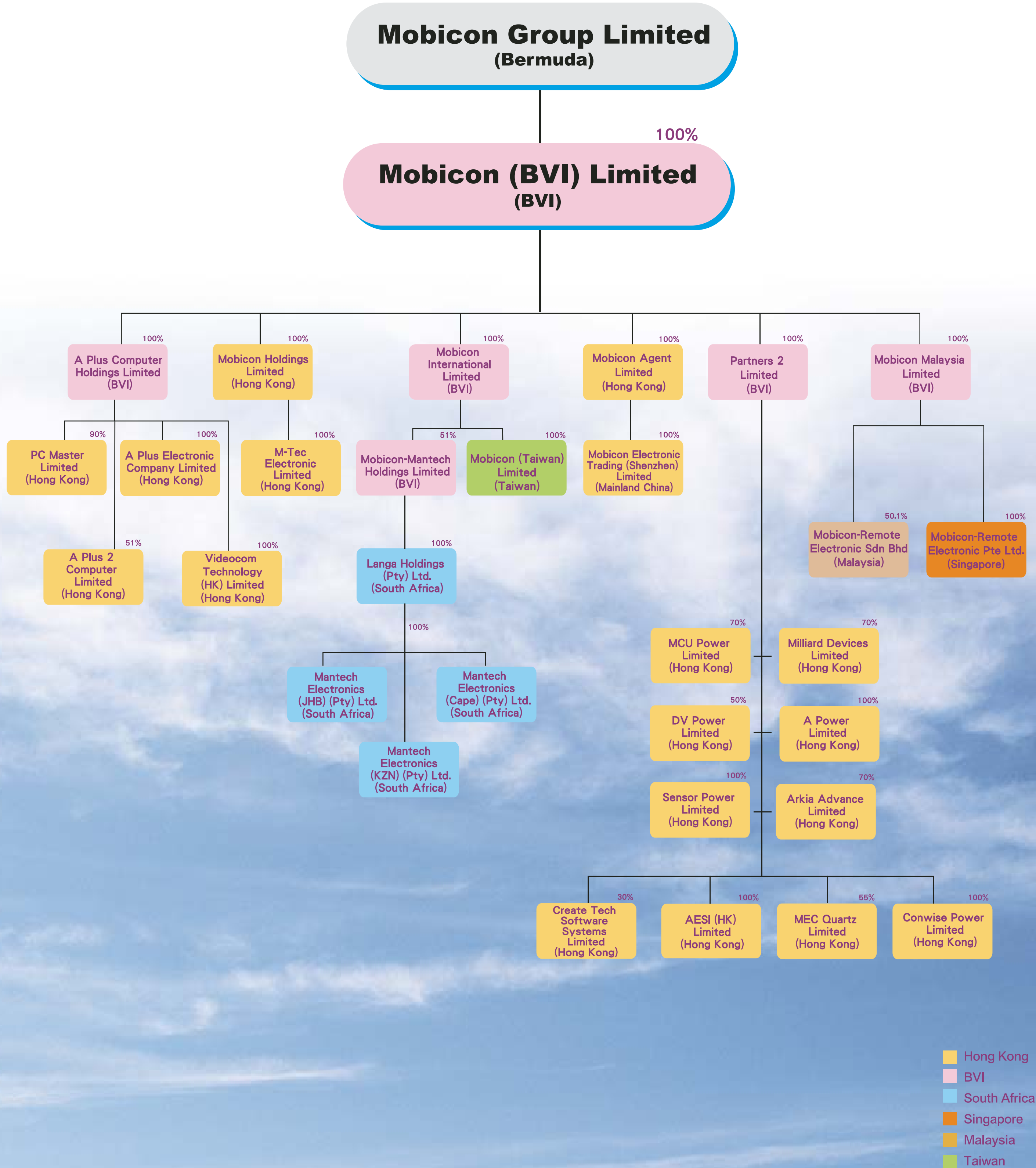
CORPORATE WEBSITE

http://www.mobicon.com

STOCK CODE

1213

MOBICON GROUP LIMITED

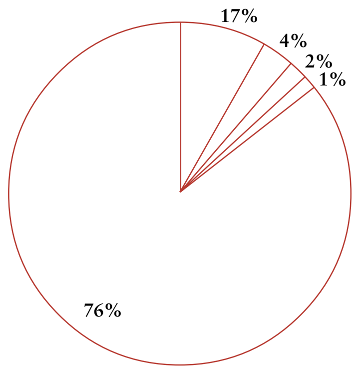


Financial Highlights

MAJOR FINANCIAL INDICATORS AND RATIOS

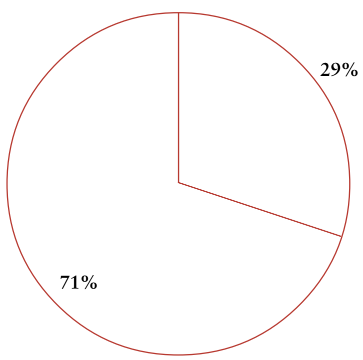
	2007	2006	2005	2004	2003
Net gearing ratio	0.06	0.02	0.19	0.19	–
Inventory turnover days	67 days	66 days	54 days	43 days	51 days
Accounts receivable turnover days	33 days	32 days	29 days	26 days	28 days
	HK$	HK$	HK$	HK$	HK$
Earnings per share – basic	0.07	0.10	0.16	0.14	0.09
	HK$ million	HK$ million	HK$ million	HK$ million	HK$ million
Net assets	186	180	167	147	120

TURNOVER BY GEOGRAPHICAL SEGMENTS (BY %)



Hong Kong 76%
Asia-Pacific region (other than Hong Kong) 17%
South Africa 4%
Europe 2%
Others 1%

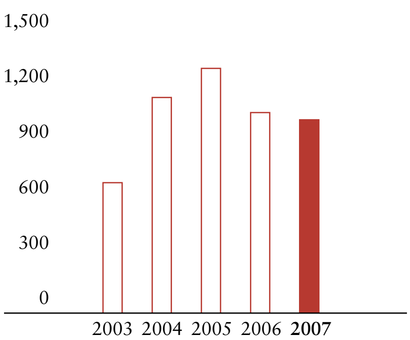
TURNOVER BY BUSINESS SEGMENTS (BY %)



Electronic Trading Business 71%
Computer Business 29%

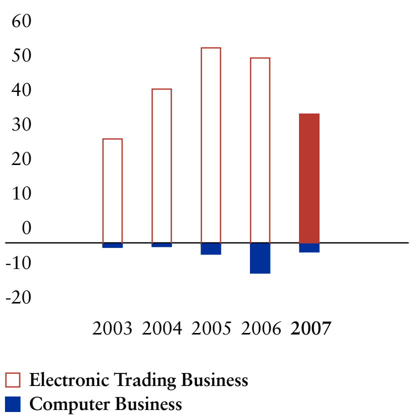
TURNOVER

HK$ in million



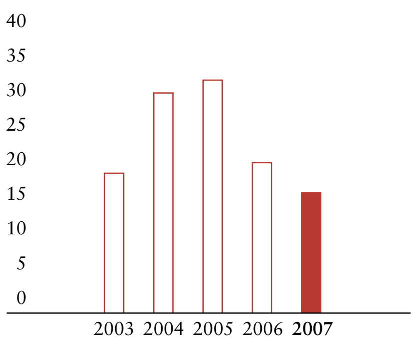
SEGMENT RESULTS

HK$ in million



PROFIT ATTRIBUTABLE TO SHAREHOLDERS

HK$ in million



Chairman's Statement

The Group recorded a turnover of around

HK$1.01 billion

during the fiscal year ended 31st March 2007

Hung Kim Fung, Measure
Chairman

FINANCIAL RESULTS

The Group recorded a turnover of around HK$1.01 billion during the fiscal year ended 31st March 2007. This represents a decrease of about 7.5% compared to the figure of around HK$1.09 billion in the previous year. Gross profit dropped by approximately 5.9% to around HK$147 million, compared to last year's figure of about HK$156 million while the gross profit margin slightly grew by approximately 0.2% to around 14.6%, compared to previous year's figure of about 14.4%. The Group's operating profit amounted to approximately HK$29 million (31st March 2006: HK$36 million), while the profit attributable to shareholders was approximately HK$15 million (31st March 2006: HK$19 million), representing earnings per share of HK$0.074 (31st March 2006: HK$0.097 per share). The Board has resolved to declare a final dividend of HK$2.5 cents per ordinary share for the year under review, totaling HK$5 million.

During the year under review, the Group continued to develop its two core business lines, namely (1) the distribution of electronic components, automation parts and equipment under the MOBICON service branding (the "Electronics Trading Business") and (2) computer related business (the "Computer Business") which includes (i) the retail sales of computer products and accessories under the VideoCom retail branding (the "Computer Retail Business"), (ii) the distribution on computer products under the (the "Computer Distribution Business") and (iii) the provision of IT outsourcing and solution services to small and medium enterprises in Hong Kong (the "IT Outsourcing Services"). The Group's turnover of Electronics Trading Business amounted to about HK$715 million, dropping approximately by 5% compared with last year figure of about HK$752 million, while turnover of Computer Business recorded a decrease of 13% to HK$292 million from previous year's figure of about HK$337 million.

During the year under review, the Group's total operating expenses for the year slightly decreased by 2% to around HK$119 million (31st March 2006: HK$121 million). Financial costs for the year maintained at the level of approximately HK$4.6 million (31st March 2006: HK$4.3 million).

DEVELOPMENT STRATEGY AND OUTLOOK

Because of the rapidly changing business environment and keen competition in the market, brand management becomes crucial for a corporation. The Group believes effective brand management can differentiate its products among competitors and build up the customers' preference for and loyalty the brand; and therefore, it can raise the market share. The Group's brands include electronic components MOBICON and electronic consumer products JT. The Group will continuously develop various promotion strategies to raise the brand acceptance in the market and ultimately to reach the targeted market share.

For the strategy of Hong Kong product distribution development, the Group will focus on acquiring brand-named agentship contracts on electronic components, automation parts and equipments respectively. The Group aims to become as the market leader of electronic relevant agentship and distribution by taking the advantage of the mutual – trust relationship among the business partners. For the overseas aspect, the Group now has 5 overseas operation units in total including the operation in Taiwan branch in 2006. The Group will strive to develop Singapore unit as the central administration of the ASEAN units aiming to strengthen Singapore and Taiwan brand agentship operation and successfully build up the ASEAN electronic components distribution business.

In order to protect the Computer Business from the threats of fierce market competition and strengthen the profit making ability, the Group will restructure the operation of VideoCom . The Group's strategy is to reduce the high rental retail branches and shift to spend efforts on developing the website platform including a series of strategic online promotion actions so as to increase the recognition of VideoCom via the e-channels. The Group believes this strategy can maintain the competitive edge for VideoCom future development.

A Power Limited, one of the subsidiaries of the Group, has successfully acquired the Hong Kong & Macau exclusive agentship for German Brand Camelion Battery in May, 2007 and Kingsoft Internet Security 2007 in June, 2007. With the support of powerful and experienced sales and marketing team together with sufficient business networks, A Power Limited will continuously pay efforts on strengthening its computer retailing distribution channels and developing agentship business.

APPRECIATION

I would like to thank our management team and all our staff members for their efforts and significant contributions to the Group during the past year. In addition, I would like to express my heartfelt gratitude to our various shareholders, institutional investors, customers, bankers and business partners for their continued support to and confidence in the Group.

By order of the Board
Hung Kim Fung, Measure
Chairman

Hong Kong, 18th July 2007

Management Discussion and Analysis

BUSINESS REVIEW

During the year under review, 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 VideoCom retail branding (the "Computer Retail Business"), (ii) the distribution on computer products under the (the "Computer Distribution Business") and (iii) the provision of IT outsourcing and solution services to small and medium enterprises in Hong Kong (the "IT Outsourcing Services"). The Electrical Trading Business and the Computer Business accounted for 71% and 29% of the Group's total turnover for the Year respectively. According to the analysis on the two core business operations, the gross profit margin of the Electronic Trading Business was approximately 17.1% (31st March 2006: about 17.7%) while that of the Computer Business stood at around 8.5% (31st March 2006: about 6.8%).

Electronic Trading Business

Hong Kong

The turnover of the Group's Electronic Trading Business during the year slightly decreased by 5% to approximately HK$715 million, compared to approximately HK$752 million in the last year.

During the year under review, the Group has been remarkably affected by the implementation of RoHS (Restriction of the Use of Certain Hazardous Substances) in Electrical and Electronic Equipment launched by European Union. Starting from the end of 2005, RoHS regulation has been carried out. The Group effectively purchased components with RoHS certificates to comply with the RoHS restriction on particular hazardous electrical and electronic equipment. Most of the manufacturers from PRC and Hong Kong have been comprehensively and promptly incorporating the RoHS condition into their operation. However, the practice of RoHS still unavoidably attacked the Group's export markets leading to the poor sale performances and the stocks accumulation. During the year under review, the Group has adopted the price reduction to clear the inventories.

Meanwhile, the Group entered into agentship contracts with a number of brand-name vendors during the year under review including Taiwan Agent System General Corporation (a provider of power supply solution), APEC (a provider of power supply solution) as well as E2V (a provider of RF solution).

Overseas

The business of the Group's overseas subsidiaries during the year under review has achieved steady growth and the turnover raised 34% to approximately HK$111 million, compared to approximately HK$83 million in the last year. The increase was mainly attributable to the established business operation of subsidiaries in Singapore and South Africa. Singapore unit has entered into the agentship contract with Agilent Technologies in the December of 2006. The Group's turnover in Hong Kong, the Asia-Pacific region (other than Hong Kong), South Africa, Europe and other regions, respectively accounted for 76%, 17%, 4%, 2% and 1% of the Group's total turnover during the year under review.

Computer Business

Computer Retail Business

The computer retail business, mainly the VideoCom operation, recorded a loss of around HK$4.2 million during the year under review as a result of the keen market competition. The Group kept on implementing cautious operating cost control and emphasized on the restructuring of all outlets under the VideoCom retail branding during the year under review. The group aimed at minimizing the number of retail shops and shifting to spend efforts on developing the Online and website platform including a series of strategic online promotion actions to maintain the Group's computer retail business competitive edge.

Computer Distribution Business

During the year under review, A Power Limited, one of the subsidiaries of the Group demonstrated a satisfactory performance with an increase in turnover of 46% from HK$101 million in the last year to HK$147 million. A Power Limited actively promoted highly-qualifies digital earphones, computer memory cards and computer peripherals under its own Jt branding. During the year under review, A Power Limited became the wholesaler of trendy game players and related accessories successfully developing the market on game industry.

IT Outsourcing Services

AESI (HK) Ltd and Create Tech Software Systems Ltd, a subsidiary and an associated company within the Group respectively, provided the professional IT maintenance and solution to small and medium size enterprises. AESI (HK) Ltd has demonstrated an obvious improvement in the performance during the year under review as a result of the rising demand on one-stop IT maintenance system on the SME market. Create Tech Software Systems Ltd offers and cultivates the most effective, user-friendly and reliable business management systems to facilitate the development of all industries and sectors in the community. Its product, Mega-Retail is designed to keep track on the stocks status to enable corporations to strengthen the control on operation cost and the supply chain management.

LIQUIDITY AND FINANCIAL RESOURCES

The Group has a strong financial foundation. As at 31st March 2007, it had cash and bank balances of approximately HK$48 million (as at 31st March 2006: HK$50 million). About 64% and 16% were denominated in Hong Kong dollars and US dollars respectively. The balance of approximately 8%, 5%, 3%, 2% and 2% of its total cash and back balances were correspondingly denominated in South African Rand, Malaysia Ringgit, Chinese Renminbi, New Taiwan dollars and Singapore dollars. The Group's total assets amounted to approximately HK$319 million (as at 31st March 2006: HK$322 million). Net assets per share amounted to approximately HK$0.93 (as at 31st March 2006: HK$0.90). Dividend earnings and basic earnings per share were approximately HK$0.050 and HK$0.074 respectively (as at 31st March 2006: HK$0.050 and HK$0.097 respectively).

As at 31st March 2007, the Group had banking facilities for overdrafts, loans and trade finance from several banks totaling approximately HK$272 million (as at 31st March 2006: HK$228 million), with an unused balance of approximately HK$213 million (as at 31st March 2006: HK$174 million).

The Directors believe the Group's existing financial resources are sufficient to fulfill its commitments and working capital requirements.

CAPITAL STRUCTURE

As at 31st March 2007, the total borrowings of the Group were approximately HK$59 million (as at 31st March 2006: HK$54 million). These were in the form of short-term bank loans (including short-term loans and trade finance) for financing the daily business operations and future development plans. The Group's bank borrowings as at 31st March 2007 were denominated in Hong Kong dollars. The short-term loans and trade finance were secured by the Company's corporate guarantees of around HK$279 million (as at 31st March 2006: HK$234 million), with a maturity term of two to three months, and such short-term loans can be rolled over afterwards at the Group's discretion. During the year under review, the Group's borrowings bore interest at rates ranging from 4.6% to 6.7% per annum (as at 31st March 2006: 3.2% to 6.1% per annum).

GEARING RATIO

As at 31st March 2007, the Group's gross borrowing, which was repayable within one year, amounted to approximately HK$59 million (as at 31st March 2006: HK$54 million). After deduction of cash and cash equivalents of approximately HK$48 million, the Group's net borrowings amounted to approximately HK$11 million (as at 31st March 2006: HK$4 million). Total equity at 31st March 2007 was approximately HK$186 million (as at 31st March 2006: HK$180 million). Accordingly, the Group's net gearing ratio, based on net borrowings to total equity, increased to 6% (as at 31st 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 and no hedging or other alternative measures have been undertaken by the Group. As at 31st March 2007, 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 31st March 2007.

COMMITMENTS AND CONTINGENT LIABILITIES

During the year under review, one successive forward contract entered into last year was still in force, whereby the Group has committed to buy US dollars in each specified monthly settlement date from 15th March 2006 to 15th February 2007. Pursuant to the contract, the Group is committed to buy US$500,000 in the event that the spot USD-HKD rate at expiration date is greater than or equal to the contact 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 expiration date is less than the contract forward rate.

As at 31st March 2007, the Group had total outstanding operating lease commitments of approximately HK$14 million (as at 31st March 2006: 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 contingent liabilities as at 31st March 2007.

EMPLOYMENT, TRAINING AND REMUNERATION POLICY

As at 31st March 2007, the Group had a total of 468 full-time employees. The Group has also developed its human resources policies and procedures based on performance, merits and market conditions. Discretionary bonus is linked to the performance of the Group as well as individual performances. The Benefits provided by the Group to its employees include staff accommodation, medical schemes, share option scheme, Mandatory Provident Fund Scheme for employees in Hong Kong, Employee 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.

To support the trend of life long learning, the Group encourages the staff members to take value-added courses in spare time. In order to give the staff members the most updated marketing trend and industrial information, the Group arranged tours, seminars, workshops, forums and lunch talks organized by The Hong Kong Electronic Industries Association and The Federation of Hong Kong Industries for the staff and encouraged staff's participation. Product training held by oversea suppliers in Malaysia, Singapore, Beijing and etc are also available to the staff members to enhance their product knowledge and broaden their horizon.

EMPLOYMENT, TRAINING AND REMUNERATION POLICY

(Continued)

The Group's business network reaches globally and the management teams of the Group believe interactions between the staff members always have mutual benefits. The Group has organized S3 International Conference annually since last year. The conference aims at generating new idea for the Group's development. Managements and front line staffs from every branch shared opinions, strategic planning, and policies implementation during the conference.

The Group values its staff members as important assets. To recognize their contributions and to boost their morale, the Group awards certificates to staff members in each department who perform outstandingly every quarter. It also presents rewards of the best attendance, the cleanest working environment and the greatest breakthrough in sales performance according to staff's attendance record, the sanitation of different departments and the results of recorded in turnover of all satellites respectively. A number of activities and functions including monthly birthday parties and festival celebrations are regularly held to strengthen the bonds between staff members and enhance their sense of belonging to the Group.

SOCIAL RESPONSIBILITIES

The Group is committed to contributing to the community, and it fosters a corporate team spirit by encouraging staff to take part in various charitable activities to help the people in need. Every year, the Group participated in the Yan Chai Charity Walk, The Community Chest of Hong Kong and Kowloon Walk and the Hong Kong Red Cross Blood Donation Day and continues to organise a representative team to join the Outward Bound Competition which raises funds for Outward Bound Hong Kong.

In addition, the Group is keen on nurturing the next generation. The Group was actively participating in the Undergraduate Student Synergistic Innovation Scheme organised by Faculty of Science and Engineering of the City University of Hong Kong which aims at encouraging and motivating students to explore creative ideas in scientific innovations that can enhance quality of life in a significant way. Moreover, the Group provided graduates of the Yan Chai Hospital Tung Chi Ying Memorial Secondary School with 30-day on-the-job training as part of career-orientation programs. Meanwhile, the Group was actively involved in the programme organised by Candlelight Educational Fund which was about poverty alleviation and prevention and encouraging greater efforts to tackle the problem of poverty in China.

The Group will maintain its caring spirit and continuous support for the society, developing consecutive strategic cooperation relationship with tertiary educational associations and charities for the contribution to the society.

Directors and Senior Management's Profile

Since 1995, Dr. Hung has been a member of the Executive Committee of the Hong Kong Electronic Industries Association (HKEIA) Limited

Hung Kim Fung, Measure

Hung Kim Fung, Measure, aged 46, Executive Director

was the Group's founder and is the Chairman of the Company. He obtained an Honorary Doctorate in Business Administration from Newport University in the United States and is a Certified Industrial Engineer of Canadian Institute of Industrial Engineers. Since 1995, Dr. Hung has been a member of the Executive Committee of the Hong Kong Electronic Industries Association (HKEIA) Limited and was nominated as Vice-chairman of the Hong Kong Semiconductor Industry Council, a council under the HKEIA in August 2004.

Dr. Hung has more than 26 years of experience in the electronics industry, and he is responsible for the Group's strategic planning and corporate policies. He has served as an Alternate Member of the General Committee of the Federation (2003 – 2009) and as the Vice Chairman of the Hong Kong Trade Services Council of the Federation (2003 – 2009). In addition, since 2004, Dr. Hung has become a Member of the Import/Export/ Wholesale Trades Training Board of the Vocational Training Council.

Dr. Hung has been devoted on new products' research and development and cultivating students' entrepreneurship throughout the years. Besides, he has also spent huge efforts on public communication and local education development. He was appointed by the City University of Hong Kong as Chairman of FSE Undergraduate Student Synergistic Innovation Scheme and as Honorary Chairman of the Advisory Committee of the Industry Co-operative Education Centre. He has also served as the member of Electronic Engineering Departmental Advisory Committee of the City University of Hong Kong (2005 – 2007). Dr. Hung has been appointed as a Current Advisor of the 36th, 37th, 38th and 40th Yan Chai Hospital Board and serves as the School Manager of the Yan Chai Hospital Tung Chi Ying Memorial Secondary School and De La Salle Secondary School.

Yeung Man Yi, Beryl   Hung Ying Fung   Yeung Kwok Leung, Allix

Yeung Man Yi, Beryl,
aged 45, Executive Director

was the founder of the Group and is an executive director of the Company. With more than 26 years of experience in the electronics industry, Ms. Yeung is responsible for the Group's finance, administration and internal control. She is the wife of the Group's Chairman, Dr. Hung Kim Fung, Measure.

In 2004, Ms. Yeung was also made an Associate (Electronics Industry) by The Professional Validation Council of Hong Kong, in recognition of her professional knowledge in electronics, extensive application of existing and new technology, achievements and contributions to the industry. In December 2004, Ms. Yeung became a Full Member and received professional qualifications from the Executive Council of Canadian Chartered Institute of Business Administration, and she was thereby designated as Chartered Manager. In 2006, Ms. Yeung acquired the Fellowship of Business Administration and became a Fellow Member of Asian Knowledge Management Association. In the same year, Ms. Yeung obtained the Master Degree of Business Administration from Lincoln University.

Ms. Yeung has actively supported tertiary educational activities in recent years. Whilst serving as an Industrial Advisor at a course of 'Master of Arts in Operations and Supply Chain Management' of the City University of Hong Kong in 2006, she also conducted a seminar entitled "Engineers in Society" for the University's Electronic Engineering students on 21st April 2006, and also donated her honorarium to the Department for educational development purposes. In recognition of her valuable experience and knowledge in the electronics engineering industry, she was invited to be the Adjunct Professor in the Department of Electronic Engineering, the City University of Hong Kong in 2007.

Hung Ying Fung,
aged 43, Executive Director

was the founder of the Group and is an executive director of the Company. He is responsible for the management and the computer retail business development of the Group and has over 21 years of experience in the electronics industry. In 2001, he was nominated as the director of the Chamber of Hong Kong Computer Industry Company Limited. Mr. Hung was nominated as an Executive member of the Sham Shui Po District Commerce & Industrial Liaison Committee (2006 – 2007), Sham Shui Po District Fight Crime Committee (2006 – 2007) and the Local Customer Advisory Committee of Sham Shui Po District Tenure of Office (2005 – 2006). He is the brother of Dr. Hung Kim Fung, Measure.

Yeung Kwok Leung, Allix,
aged 44, Executive Director

was the founder of the Group and is an executive director of the Company. Mr. Yeung is responsible for the management and business development of the retail business in PRC of the Group. He has over 21 years of experience in the electronics and computing industry. He is the brother of Ms. Yeung Man Yi, Beryl.

Charles E. Chapman,
aged 58, Independent Non-executive Director

is an independent non-executive director of the Company. He joined HKEIA as Executive Director in May 1988 and is also the Managing Director of the HKEIA's subsidiary publishing company, the Hong Kong Electronics Promotions Ltd. which publishes the annual "Directory of Hong Kong Electronics Industry". Prior to joining HKEIA, Mr. Chapman worked for 11 years as Economics Editor at the Hong Kong Trade Development Council and for 8 years as Business Editor in a local English-language newspaper.

Leung Wai Cheung,
aged 42, Independent Non-executive Director

is an independent non-executive director of the Company. He is currently the chief financial officer of FlexSystem Holdings Limited a Company Listed on the Growth Enterprise Market of the Stock Exchange and the independent non-executive director of Wing Hing International (Holdings) Limited and Sino Prosper Holdings Ltd which are listed companies on the Main Board of the Stock Exchange. Dr. Leung is qualified accountant and chartered secretary with over 20 years of experience in accounting, auditing and financial management. He graduated from Curtin University with a Bachelor of Commerce degree majoring in accounting and subsequently obtained a postgraduate diploma in corporate administration, Master of Professional Accounting from the Hong Kong Polytechnic University and Doctor of Philosophy degree in Management from the Empresavial University of Costa Rice. He is an associate member of each of the Hong Kong Institute of Certified Public Accountants, CPA Australia, the Institute of Chartered Secretaries and Administrators, the Hong Kong Institute Secretaries and the Taxation Institute of Hong Kong and a fellow member of the Association of Chartered Certified Accountants. Dr. Leung is also a visiting lecturer of the Open University of Hong Kong (LiPACE), Hong Kong University (SPACE), and Hong Kong Baptist University (SCE).

Chow Shek Fai,
aged 56, Independent Non-executive Director

is an independent non-executive director of the Company appointed on 18th August 2004. He graduated from The Chinese University of Hong Kong with a Bachelor Degree of Social Science and subsequently obtained a diploma of education there. He had served in De La Salle Secondary School, New Territories for 29 years and held final position as Principal for ten years. Mr. Chow had been the Registered Manager of Lo Wu Public School for years. Mr. Chow also held a number of education and community positions, including Member of the Management Board of the Hong Kong Schools Sports Federation (HKSSF), Vice-Chairman of the Executive Committee as well as the Chairman of the Competition Committee of the HKSSF (Tai Po & North Districts) and Senator of Hong Kong Professional Teachers' Union. He has been the village representative of Lo Wu Village, Ta Kwu Ling from 1999 to 2007.

Tsang Ka Man | Cheung Kam Wa | Lam Kam Wo | Chu Wing Sang

Tsang Ka Man, aged 38, Senior Management is the Sales & Marketing Director of Millard Devices Limited. Mr. Tsang graduated from the University of Sunderland with a Bachelor (Hons) Degree in Digital Systems and Electronic Engineering. Before he joined the Company in September 2001, he worked for a number of electronic component companies as Sales and Marketing Manager. He is responsible for sales and marketing activities of I.C. & electronic components of the Company in both H.K. & China.

Cheung Kam Wa, aged 42, Senior Management is the sales director of Arkia Advance Limited. Mr. Cheung graduated from the City University of Hong Kong with a bachelor (Hons) degree in electronic engineering. Before he joined the Company in September 2001, he has over 15 years' experience in electronics components distribution. He is responsible for the sales of the electronics components of the Company.

Lam Kam Wo, aged 50, Senior Management is the managing director of DV Power Limited. Mr. Lam graduated from the Hong Kong Polytechnic University with a higher certificate in electronic engineering and hold a certificate of management studies as well. Besides, he completed a MBA course in University of East Asia, Macau. Before he joined the Company in November 2001, he had operated his component trading business for 10 years. Mr. Lam possessed remarkable sales and marketing experience in electronic industry for over 25 years.

Chu Wing Sang, aged 35, Senior Management is the marketing manager of Conwise Power Limited. Mr. Chu graduated from the University of Auckland (New Zealand) with a master degree in electrical and electronics engineering. He joined the Company in May 2003 and is responsible for the marketing activities of radio frequency component business of the Company.

Lam Sun Hung　　Yu Wah Keng　　Ho Siu Wan

Lam Sun Hung, aged 38, Senior Management is the general sales director of A Power Limited. He has engaged in IT outsourcing service for more than 17 years and has in depth understanding on its market trend and customer needs so as to upgrade the quality of service being offered. Mr. Lam joined the Company in April 2002 and is focus on the development of agent line product and solution service business.

Yu Wah Keung, aged 37, Senior Management is the managing director of A Power Limited. He began his career by selling microcomputer hardware, and he established his own computer product retail business in 1986. With 20 years of experience of marketing in the industry, Mr. Yu is an expert in computer product sales and distribution in Hong Kong. He is one of the Founding Directors of The Chamber of Hong Kong Computer Industry and is actively working for the Hong Kong Computer and Information Technology Industry. Meanwhile, Mr. Yu is in charge of developing the Group's wholesale computer product business and is implementing the philosophy of "One-Stop location for all products and more excellent services" as the Company's development strategy.

Ho Siu Wan, aged 39, Senior Management is the financial controller of the Group. She is responsible for the financial management as well as human resources functions of the Group. Ms. Ho holds a professional diploma in accountancy from the Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She joined the Group in May 2001 and has over 17 years of experience in auditing, accounting, taxation and financial management.

Yeung Kin Kwan, Alvan,
aged 39, Senior Management

is the company secretary and the principal advisor to the board of directors of the Company. Mr. Yeung holds a professional diploma in accountancy from the Hong Kong Polytechnic University. He has a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the IT Accountants Association and the Hong Kong Institute of Directors, an associate member of the Institute of Chartered Accountants in England and Wales and the Taxation Institute of Hong Kong and the full member of the Singapore Institute of Directors. He has over 17 years of experience in auditing, accounting, taxation and financial management.

Cheung Chiu Hing,
aged 47, Senior Management

he has over 21 years of experience in the sales and marketing of electronic components. He is the general marketing manager of the Group and General Manager in Mobicon (Taiwan) Ltd which is the Taiwan branch of the Group. Mr. Cheung is responsible for the development of Taiwan service business and IPO in the Taiwan and overseas branches. We provide Taiwan, Hong Kong and China logistic and customer service. We foreseen Taiwan Branch will generate contribution in the Group in coming year 2007- 2008.

Tam Kwok Wai,
aged 47, Senior Management

is the general export manager of the Group. Mr. Tam graduated from the Hong Kong Polytechnic University with higher certificate in electronic engineering. Mr. Tam joined the Group in January 1992 and has over 11 years' experience in consumer products design and 15 years experience in sales and marketing of electronic components business. He is responsible for creating and developing new product line.

Low Mee Seng Wesley,
aged 39, Senior Management

is the general manager of Mobicon-Remote Electronic Sdn Bhd in Malaysia. He graduated from TAFE College in Malaysia with a diploma in electrical and electronic. Before joining the Company in July 2001, he has a combined experience of more than 15 years in sales and marketing, manufacturing and purchasing and he is now responsible for the overall operation of the Company.

Chooi Chow Sek, Jasmond,
aged 40, Senior Management

is the sales manager of Mobicon-Remote Electronic Sdn Bhd in Malaysia. He graduated from Federal Institute of Technology with a diploma in electronic engineering. Mr. Chooi joined the Company in July 2001 and has over 15 years of experience in distribution and trading in electronic components.

Manny Moutinho,
aged 49, Senior Management

is the chief executive officer the Group's South Africa operations. Mr. Moutinho qualified in electronics and has a business management diploma from Wits University Business School and has over 22 years' experience in the electronic industry, mostly in components distribution. He joined the Company in December 2001, through our merger with Mantech in South Africa.

Li Yiu Leung, Franky,
aged 41, Senior Management

is the senior business manager of Mobicon-Remote Electronic Pte Ltd. in Singapore. Mr. Li graduated from the University of Western Ontario with a bachelor degree in electronic engineering. Before he joined the Company in April 2000, he has over 14 years' experience in manufacturing, engineering and sales and marketing in various industries. He is responsible for the business development of the Company.

Ng Teck Kong, Kelvin,
aged 45, Senior Management

is the sales manager of Mobicon-Remote Electronic Pte Ltd. in Singapore. He graduated from the Singapore Polytechnic with a diploma in Electronics Engineering. He also graduated from Marketing Institute of Singapore with Diploma on Sales and marketing. Before joined the Company in Dec 2002, he has 17 years of experience in Electronic components distribution. He is responsible for sales and marketing activities of the Company.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board of Directors is committed to principles of corporate governance practices and procedures. The corporate governance principles of the Company emphasize transparency, accountability and independence.

The Company has complied with the Code Provisions as set out in the Code of Corporate Governance Practices ("CGP") in Appendix 14 to the Listing Rules during the year under review except for the following deviations:

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same individual. The Company did not have a separate Chairman and Chief Executive Officer as Dr. Hung Kim Fung, Measure held both positions during the year under review. The Board believed that vesting the roles of Chairman and Chief Executive Officer in the same individual provided the Group with strong and consistent leadership in the development and execution of long-term business strategies.

According to Bye-law 115, any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next annual general meeting of the Company and shall retire and be subject to re-election. These deviate from the Code Provision A.4.2 of CGP which requires all directors appointed to fill casual vacancy be subject to election by shareholders at the first general meeting after their appointment. Having reviewed Bye-law 115, the Board considers that the requirement under Bye-law 115 is similar to the that required under the said Code Provision. Code Provision A.4.2 also provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Though the Chairman will not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire, as continuation is a key factor to the successful implementation of any long term business plan, the Board believes that present arrangement is most beneficial to the Company and the shareholders as a whole.

The independent non-executive directors of the Company ("INEDs") are not appointed for specific terms but are subject to retirement by rotation under Bye-law 111 of the Company's Bye-laws.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its own Securities Dealing Code on terms no less exacting than the required standard as set out in the Model Code in Appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all Directors have confirmed that they fully complied with the required standard set out in the Securities Dealing Code throughout the year under review.

BOARD OF DIRECTORS

The Board is collectively responsible for overseeing the management of the business and affairs of the Group with the objective of enhancing share value.

The Board comprises a total of seven Directors, with four Executive Directors, namely Dr. Hung Kim Fung, Measure (Chairman), Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix and three INEDs, namely, Mr. Charles E. Chapman, Dr. Leung Wai Cheung and Mr. Chow Shek Fai. One of the INEDs has appropriate professional qualifications, or accounting or related financial management expertise, which is required by the Listing Rules. Ms. Yeung Man Yi, Beryl is the wife of Dr. Hung Kim Fung, Measure. She is also the sister of Mr. Yeung Kwok Leung, Allix. Mr. Hung Ying Fung is the brother of Dr. Hung Kim Fung, Measure.

Each of the INEDs has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

The Board composition will be reviewed regularly to ensure that it has a balance of skills and experience appropriate for the requirements of the business of the Group. The Directors' biographical information is set out on pages 13 to 15.

The Board, led by the Chairman, is responsible for the approval and monitoring of the Group's long term and short term investments, business strategies and annual budgets, evaluating the performance of the Group and oversight of the management. One of the important roles of the Chairman is to provide leadership to the Board such that the Board acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed and approved by the Board before execution. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each Board meeting to the Company Secretary. With the support of the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at Board meetings and adequate and reliable information is given to the Board in a timely manner. Dr. Hung Kim Fung, Measure held the both positions of Chairman and Chief Executive Officer during the period under review. On 18 July 2007, Ms. Yeung Man Yi, Beryl has been appointed as the Chief Executive Officer of the company.

The Company Secretary shall convene a Board meeting on the request of any one Director and 14 days' notice of Board meeting will be given to all Directors. The Company Secretary shall circulate the Board papers not less than three days before the Board meeting to enable the Directors to clearly understand and make informed decisions of all on matters to be raised, discussed and resolved at the Board meetings. The Company Secretary and Qualified Accountant shall attend all regular Board meetings to advise on corporate governance, statutory compliance, accounting and financial matters when necessary. The Directors shall have full access to information on the Group and arrangement has been in place to enable Directors to obtain independent professional advice whenever deemed necessary. The Company Secretary shall prepare minutes and keep records of matters discussed and decisions resolved at all Board meetings.

BOARD OF DIRECTORS

(Continued)

Four regular Board meetings of the year under review were scheduled in advance at approximately quarterly intervals and one Board meeting had been convened by the Chairman to discuss one continuing connected transaction which was required to be disclosed under the Listing Rules. The Directors can attend meetings in persons or by means of a conference telephone or other communications facilities in accordance with Bye-law 136 of the Company's Bye-laws.

The senior management is responsible for the daily operations of the Group under the leadership of the Board. The senior management of each business unit is responsible for the communication of company goals and objectives from top to bottom, the execution of company policies and the implementation of business strategies adopted by the Board and assuming full accountability to the Board for the operations of the Group.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

There is no specific term of the appointment of INEDs. But they are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the provision of the Bye-laws of the Company. This deviates from the Code Provision A.4.1 of CGP which requires that non-executive directors be appointed for specific terms subject to rotation and re-election by shareholders. The Board considers that this current practice is fair and reasonable and does not intend to change this practice at the moment.

According to Bye-law 111 of the Company's Bye-laws, one third of the Directors for the time being (excluding the Chairman of the Board) shall retire from office by rotation at each annual general meeting. Currently, three Directors are subject to retirement by rotation at the annual general meeting. On the basic that there is no addition to the Board and there is no unforeseen resignation/retirement during a year, each Director (other than the Chairman) is effectively subject to retirement by rotation once every two years.

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

The Remuneration Committee was established on 20th February 2006 to determine the remuneration structure of the executive Directors and senior management. Its current members include Ms. Yeung Man Yi, Beryl, Dr. Leung Wai Cheung and Mr. Chow Shek Fai. Ms Yeung is Chairman of the Remuneration Committee.

The main responsibilities of the Remuneration Committee are as follows:

(a) to decide, with consultation with the Chairman of the Board, where to position the Company relative to others in terms of remuneration level and board composition;

(b) to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments;

(c) to make recommendations to the Board on the remuneration of non-exeutive directors;

(d) to review and approve performance-based remuneration by reference to corporate goals and objectives resoived by the Board from time to time;

REMUNERATION COMMITTEE AND DIRECTORS' REMUNERATION

(Continued)

(e) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment;

(f) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct.

During the year, the Remuneration Committee approved the management bonus package mechanism of executive Directors which provides that the aggregate amount of management bonuses payable to all Directors in respect of any financial year of the Company shall not exceed 30 per cent. of the Excess. The "Excess" means the excess amount to be arrived at by deducting HK$35 million from the net profit of the Company (after taxation and minority interests and payment of management bonuses to all directors for the time being of the Company but excluding extraordinary and exceptional items).

NOMINATION OF DIRECTORS

The Company does not have a nomination committee but will consider setting up one at an appropriate time. Currently all new appointments and re-appointments to the Board are subject to the concurrence of all Board members whose deliberations are based on the following criteria:

- Integrity
- Independent mindedness
- Possess core competencies that meet the current needs of the Company and complement the skills and competencies of the existing Directors on the Board
- Able to commit time and effort to carry out duties and responsibilities effectively
- A good track record of experience at a senior level in corporations/organizations
- Financially literate

AUDIT COMMITTEE

The current members of the Audit Committee include: Mr. Charles E. Chapman, Dr. Leung Wai Cheung and Mr. Chow Shek Fai. Dr. Leung is Chairman of the Audit Committee.

All members of the Audit Committee are the INEDs. One member has appropriate professional qualifications, accounting and related financial management expertise as required under the Listing Rules. None of them is employed by or otherwise affiliated with former or existing auditors of the Company.

The Audit Committee held four meetings during the year under review. The minutes of the Audit Committee meetings were tabled to the Board for noting and for action by the Board where appropriate.

The major duties of the Audit Committee are as follows:

(i) to consider the appointment of the external auditors, the audit fee, and any questions of resignation or dismissal of the external auditors;

(ii) to discuss with the external auditors before the audit commences, the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;

AUDIT COMMITTEE

(Continued)

(iii) to review the half year and annual financial statements before submission to the Board;

(iv) to discuss problems and reservations arising from the interim and final audits, and any matters the auditors may wish to discuss (in the absence of management where necessary);

(v) to review the external auditor's management letter and management's response;

(vi) to review the Company's statement on internal control systems prior to endorsement by the Board; and

(vii) to consider the major findings of internal investigations and management's response; and to consider other topics, as defined by the Board.

During the meetings held in the year under review, the Audit Committee had performed the following work:

(i) reviewed annual results and the financial reports for the year ended 31st March 2007 and the interim results and the financial reports for the six months ended 30th September 2006;

(ii) reviewed the accounting principles and practices adopted by the Group and ensured the Company to comply with the Listing Rules and other statutory compliance;

(iii) reviewed the effectiveness of internal control system;

(iv) reviewed the external auditors' management letter and management's response;

(v) reviewed and recommended for approval to the Board the 2006/2007 audit scope and auditors' remuneration; and

(vi) reviewed the connected transactions entered into by the Group during the year under review.

ATTENDANCE OF INDIVIDUAL DIRECTORS

The attendance of individual Directors at the Board, Audit Committee and Remuneration Committee meetings is set out in the table below.

	Meetings attended/hold in 2006/2007		
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**
Dr. Hung Kim Fung, Measure	5/5	N/A	N/A
Ms. Yeung Man Yi, Beryl	5/5	N/A	3/3
Mr. Hung Ying Fung	5/5	N/A	N/A
Mr. Yeung Kwok Leung, Allix	5/5	N/A	N/A
Mr. Charles E. Chapman	5/5	4/4	N/A
Dr. Leung Wai Cheung	5/5	4/4	3/3
Mr. Chow Shek Fai	5/5	4/4	3/3

AUDITORS' REMUNERATION

For the year ended 31st March 2007, the remuneration paid to the Company's auditors, HLB Hodgson Impey Cheng, is set out as follows:

Services rendered	Fee paid/payable HK$'000
Audit services	600
Non-audit services i.e. taxation	100
	700

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group.

As at 31st March 2007, the Directors were not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors have prepared the financial statements of the Company on a going concern basis.

The responsibilities of the external auditors with respect to financial reporting are set out in the Report of the Auditors on page 33.

INTERNAL CONTROL

The Board is responsible for maintaining effective internal control systems of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to evaluate the Group's risk, achieve the division goals and business objectives, maintain proper accounting records for the provision of financial information for internal analysis or for publication, comply with relevant legislation and regulations.

During the year, the Directors had conducted a review of the effectiveness of the systems of internal control in respect of the financial, operational, compliance controls and risk management function of the Group.

COMMUNICATION WITH SHAREHOLDERS

To foster effective communications with its shareholders, the Company provides extensive information in its annual report and press release. Also, the Group disseminates information relating to its business electronically through its website at www.mobicon.com.

The Company regards the AGM as an important event as it provides an opportunity for direct communications between the Board and the Company's shareholders. All Directors and senior management will make an effort to attend.

Report of the Directors

The directors submit their report together with the audited financial statements of Mobicon Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st March 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Its subsidiaries are principally engaged in the trading and distribution of electronic parts, components and equipment and computer products and accessories.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2007 are set out in the consolidated income statement on page 34.

The directors have declared an interim dividend of HK2.5 cents per ordinary share, totalling HK$5,000,000, which was paid on 26th January 2007.

The directors recommend the payment of a final dividend of HK2.5 cents per ordinary share, totalling HK$5,000,000 in respect of the year ended 31st March 2007.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 14th August 2007 to 17th August 2007, during which no transfer of shares will be effected, and the final dividend will be paid on 23rd August 2007. In order to qualify for the final dividend, all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share 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 4:30 p.m. on 13th August 2007.

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 24 to the financial statements.

RESERVES

Details of the movements in the reserves of the Company and of the Group during the year are set out in Note 25 to the financial statements and in the consolidated statement of changes in equity, respectively.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$75,000.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group are set out in Note 14 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under the laws in Bermuda.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's listed shares during the year ended 31st March 2007.

DIRECTORS

The directors who held office during the year and up to the date of this report were:

Executive directors
Dr. Hung Kim Fung, Measure *(Chairman)*
Ms. Yeung Man Yi, Beryl
Mr. Hung Ying Fung
Mr. Yeung Kwok Leung, Allix

Independent non-executive directors
Mr. Charles E. Chapman
Dr. Leung Wai Cheung
Mr. Chow Shek Fai

Ms. Yeung Man Yi, Beryl, Mr. Yeung Kwok Leung, Allix and Mr. Chow Shek Fai retire by rotation under the Company's bye-laws and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' SERVICE CONTRACTS

Each of the executive directors of the Company has entered into a service contract with the Company for an initial fixed term of three years commencing from 1st April 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party on the other.

Save as disclosed above, none of the directors who are proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

SHARE OPTION SCHEME

On 8th 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 current Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The New Share Option Scheme is set up for the purpose of recognising and motivating the contribution of the eligible persons to the Company and/or any of its subsidiaries (the "Subsidiary") and or any entity in which the Group holds any equity interest ("the Invested Entity"). Pursuant to the New Share Option Scheme, the board of directors of the Company (the "Board") may grant options to (aa) any employee (whether full time or part time including any executive director but excluding any non-executive director) of the Company, any Subsidiary or any Invested Entity; (bb) any non-executive director (including the independent non-executive director) of the Company, any Subsidiary or any Invested Entity; (cc) any supplier of goods or services to any member of the Company, any Subsidiary or any Invested Entity; (dd) any customer of the Company, any Subsidiary or any Invested Entity; (ee) any person or entity that provides research, development or other technological support to the Company, any Subsidiary or any Invested Entity; (ff) any shareholder of any member of the Company, any Subsidiary or any Invested Entity or any holder of any securities issued by any member of the Company, any Subsidiary or any Invested Entity; (gg) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Company, any Subsidiary or any Invested Entity; and (hh) any joint venture partner or business alliance that co-operates with any member of the Company, any Subsidiary or any Invested Entity in any area of business operation or development.

SHARE OPTION SCHEME

(Continued)

The total number of Shares available for issue under options which may be granted under the New Share Option Scheme must not exceed 20,000,000 Shares, representing 10 per cent of the Shares in issue as at the date of this report. No option may be granted to any one person in any 12-month period which, if exercised in full, would result in the total number of Shares already issued to him/her under all the options previously granted to him/her which have been exercised and, issuable to him/her under all the options previously granted to him/her which are for the time being subsisting and unexercised, exceeding 1% of the share capital of the Company in issue on the last date of such 12-month period unless approval by the shareholders of the Company in a general meeting with such person and his/her associates abstaining from voting has been obtained in accordance with the Listing Rules.

Subject to the provisions governing expiry of options, an option may be exercised during the period to be notified by the Board to each grantee but shall in any event not more than 10 years from the date of grant of the option. The Board has discretion to set a minimum period for which an option has to be held before the exercise of the subscriptions rights attaching thereto. A consideration of HK$1.00 is payable on acceptance of the offer of grant of options. The subscription price for Shares under the New Share Option Scheme will be a price determined by the Board and notified to each grantee and will not be less than the highest of (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of the Shares. Subject to the termination provisions, the New Share Option Scheme shall remain in force for a period of 10 years commencing on the date of its adoption.

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

DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

As at 31st March 2007, 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

		Number of shares			
Name of directors	**Long/short position**	**Personal interests**	**Family interests**	**Total interests**	**Percentage**
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	24,502,000	–	24,502,000	12.25%
Mr. Yeung Kwok Leung, Allix	Long	–	30,000,000 (Note b)	30,000,000	15%

DIRECTORS' INTERESTS IN EQUITY AND DEBT SECURITIES

(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 share capital of M2B Holding Limited, which are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit and upon trust for the Measure & Beryl Trust, which is a discretionary trust.

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

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

As at 31st March 2007, 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 directors	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 31st March 2007, 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 year, the directors and the 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 year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company a party to any arrangements to enable the directors or 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 (within the meaning of the SFO).

MODEL CODE FOR SECURITIES TRANSACTIONS

During the year, 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 year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 29 to the financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31st March 2007, 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: Trusts and similar interests	Number of shares: Beneficial owner	Number of shares: Total interests	Percentage
M2B Holding Limited	Long	–	90,000,000 (Note (a))	90,000,000	45%
Action 2 Limited	Long	90,000,000 (Note (a))	–	90,000,000	45%
Bestmark Management Limited	Long	–	30,000,000 (Note (b))	30,000,000	15%
Holford Group Corporation	Long	30,000,000 (Note (b))	–	30,000,000	15%
Trident Trust Company (Cayman) Limited	Long	120,000,000 (Notes (a) & (b))	–	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 31st March 2007, 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.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the Group purchased less than 30% of its goods and services from its five largest suppliers and sold less than 30% of its goods to its five largest customers.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in Note 29 to the financial statements also constituted continuing connected transactions for the purpose of Chapter 14A of the Listing Rules. The Company confirmed that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Details of such connected transactions are as follows:

1. The Group occupies the following shops and premises leased from M-Bar Limited ("M-Bar"). M-Bar is a company beneficially owned as to 30% by Dr. Hung Kim Fung, Measure, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and as to the remaining 20% by Mr. Yeung Kwok Leung, Allix, all of whom being the executive directors of the Company, and is principally engaged in property holding.

   (a) On 2nd April 2001, Mobicon Holdings Limited ("MHL"), a wholly-owned subsidiary of the Company, had entered into certain leases which were subsisting during the year under review (the "Subsisting Leases") with M-Bar in respect of Private Car Parking Space Nos. 6, 7, 24 and 25 on 3rd Floor, Private Car Parking Space Nos.6 and 13 on 4th Floor, Units 1-11 on 7th Floor, Units 1-4 on 8th Floor and Units 5-9 on 23rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon (collectively, the "Properties") for a term of five years from 1st February 2001 to 31st January 2006 at an aggregate monthly rental of HK$156,000. MHL exercised the option to renew the Subsisting Leases and on 11th May 2006, entered into a new lease with M-Bar in respect of the Properties for a term from 1st February 2006 to 30th June 2008 at an aggregate monthly rental of HK$168,000. The leased premises are used as the headquarters of the Group and ancillary use.

   (b) On 20th October 2004, MHL entered into a lease agreement with M-Bar in respect of Units 1-4 on 23rd Floor, New Trend Centre, 704 Prince Edward Road East, 104 King Fuk Street, San Po Kong, Kowloon for a term of three years from 1st July 2005 to 30th June 2008 at a monthly rental of HK$45,000. The leased premises are used for office purpose.

CONNECTED TRANSACTIONS

(Continued)

(c) On 1st February 2005, Videocom Technology (HK) Limited ("Videocom"), an indirect 80%-owned subsidiary of the Company, entered into certain lease agreements with M-Bar in respect of Unit No.32, 1st Floor, Golden Shopping Centre, Golden Building, 94A Yen Chow Street, Sham Shui Po, Kowloon, Hong Kong and Shop Nos. 7, 8, 32 and 36, 1st Floor, Wonder Building, Nos. 161-175 Fuk Wa Street, Shamshuipo, Kowloon, Hong Kong for a term of 3 years from 1st February 2005 to 31st January 2008 at an aggregate monthly rental of HK$53,000. The leased premises are used for shop purpose.

(d) On 1st October 2005, MHL entered into certain lease agreements with M-Bar in respect of 1st Floor and Portion of 3rd Floor, Efficiency House, 35 Tai Yau Street, San Po Kong, Kowloon, Hong Kong for a term of 3 years from 1st October 2005 to 30th September 2008 at an aggregate monthly rental of HK$105,000. The leased premises are used as office for administrative purpose and godown for storage (in respect of 1st Floor) and godown for storage (in respect of Portion of 3rd Floor).

During the year, the Group paid rental expenses amounting to HK$3,972,000 (Note 29) to M-Bar.

2. On 1st October 2005, Videocom as tenant entered into certain lease agreements with Mr. Yeung Kwok Leung, Allix ("Mr. Allix Yeung"), the executive director of the Company, in respect of Shop Nos.13 and 14, Ground Floor, Wonder Building, Nos.161-175 Fuk Wa Street, Shamshuipo, Kowloon, Hong Kong for a term of 3 years from 1st October 2005 to 30th September 2008 at an aggregate monthly rental of HK$11,000. The leased shops are used for retail shop purpose.

   During the year, the Group paid rental expenses amounting to HK$132,000 (Note 29) to Mr. Allix Yeung.

3. On 1st October 2005, Videocom as tenant entered into certain lease agreements with Madam Wan Lam Keng, the wife of Mr. Allix Yeung in respect of Shop Nos.8 and 15, Ground Floor, Wonder Building, Nos.161-175 Fuk Wa Street, Shamshuipo, Kowloon, Hong Kong for a term of 3 years from 1st October 2005 to 30th September 2008 at an aggregate monthly rental of HK$8,500. The leased shops are used for retail shop purpose.

   During the year, the Group paid rental expenses amounting to HK$102,000 (Note 29) to Madam Wan.

The directors (including the independent non-executive directors) consider these continuing connected transactions have been conducted in the ordinary and usual course of business of the Group on normal commercial terms and continuation of these transactions in the future will be beneficial to the Group.

CONNECTED TRANSACTIONS

(Continued)

These continuing connected transactions have also been reviewed by the independent non-executive directors of the Company who have confirmed that such continuing connected transactions have been (a) entered into by the Group in the ordinary and usual course of business of the Group; (b) conducted on normal commercial terms; and (c) entered into in accordance with the terms of the lease agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole. The independent non-executive directors of the Company have also confirmed that the aggregate value of the transactions were within the respective maximum amounts as agreed with the Stock Exchange.

The auditors of the Company have also confirmed to the board of directors of the Company (the "Board") that these continuing connected transactions have received the approval of the Board and have been entered into in accordance with the terms of the lease agreements governing the transactions. The auditors of the Company have also confirmed that the aggregate value of the transactions were within the respective maximum amounts as agreed with the Stock Exchange.

DISTRIBUTABLE RESERVES

Under the Companies Act 1981 of Bermuda (as amended), retained profit and contributed surplus are distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of retained profit and contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

Distributable reserves of the Company as at 31st March 2007 amounted to approximately HK$73,300,000 (2006: HK$73,700,000).

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the last five financial years is set out on page 76.

AUDITORS

Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company to fill the casual vacancy created by the resignation of Messrs. PricewaterhouseCoopers with effect from 9th December 2005. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the reappointment of Messrs. HLB Hodgson Impey Cheng as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting.

On behalf of the board of directors,

Hung Kim Fung, Measure
Chairman

Hong Kong, 18th July 2007

Independent Auditors' Report

HLB 國衛會計師事務所
Hodgson Impey Cheng

Chartered Accountants
Certified Public Accountants

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

INDEPENDENT AUDITORS' REPORT
TO THE SHAREHOLDERS OF
MOBICON GROUP LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Mobicon Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 34 to 75, which comprise the consolidated and company balance sheets as at 31st March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng
Chartered Accountants
Certified Public Accountants

Hong Kong, 18th July 2007

Consolidated Income Statement

For the year ended 31st March 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**1,006,767**	1,088,526
Cost of sales		**(859,680)**	(932,246)
Gross profit		**147,087**	156,280
Other income	6	**749**	471
Distribution and selling expenses		**(47,438)**	(45,765)
General and administrative expenses		**(71,235)**	(74,779)
Operating profit	7	**29,163**	36,207
Finance costs	8	**(4,624)**	(4,333)
Share of (loss)/profit of an associate		**(77)**	68
Profit before income tax		**24,462**	31,942
Income tax expense	9	**(6,702)**	(8,089)
Profit for the year		**17,760**	23,853
Attributable to:			
Equity holders of the Company	10	**14,802**	19,384
Minority interests		**2,958**	4,469
		17,760	23,853
Earnings per share for profit attributable to the equity holders of the Company during the year – Basic and diluted	11	**HK 7.4 cents**	HK 9.7 cents
Dividends	12	**10,000**	10,000

Balance Sheets

As at 31st March 2007

	Note	Group 2007 HK$'000	Group 2006 HK$'000	Company 2007 HK$'000	Company 2006 HK$'000
Non-current assets					
Property, plant and equipment	14	**9,072**	11,028	**–**	–
Intangible assets	15	**2,751**	3,325	**–**	–
Investments in subsidiaries	16	**–**	–	**104,187**	93,987
Investment in an associate	17	**731**	632	**–**	–
		12,554	14,985	**104,187**	93,987
Current assets					
Inventories	18	**156,288**	159,305	**–**	–
Trade receivables	19	**94,096**	89,432	**–**	–
Other receivables	29(b)	**6,422**	7,807	**–**	–
Dividends receivable		**–**	–	**5,815**	16,415
Income tax recoverable		**2,170**	–	**–**	–
Cash and bank balances	20	**47,945**	50,268	**410**	563
		306,921	306,812	**6,225**	16,978
Total assets		**319,475**	321,797	**110,412**	110,965
Current liabilities					
Trade payables	21	**52,742**	65,190	**–**	–
Other payables	29(c)	**20,266**	21,529	**406**	559
Short-term bank loans	22	**59,051**	53,712	**–**	–
Income tax liabilities		**1,182**	608	**–**	–
		133,241	141,039	**406**	559
Net current assets		**173,680**	165,773	**5,819**	16,419
Total assets less current liabilities		**186,234**	180,758	**110,006**	110,406
Non-current liabilities					
Deferred income tax liabilities	23	**596**	317	**–**	–
Net assets		**185,638**	180,441	**110,006**	110,406

Balance Sheets *(Continued)*

As at 31st March 2007

		Group		Company	
		2007	2006	**2007**	2006
	Note	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Capital and reserves attributable to the Company's equity holders					
Share capital	24	**20,000**	20,000	**20,000**	20,000
Reserves	25	**151,890**	147,285	**90,006**	90,406
		171,890	167,285	**110,006**	110,406
Minority interests		**13,748**	13,156	**–**	–
Total equity		**185,638**	180,441	**110,006**	110,406

HUNG KIM FUNG, MEASURE
Chairman

YEUNG MAN YI, BERYL
Executive Director

Consolidated Statement of Changes in Equity

For the year ended 31st March 2007

	Attributable to equity holders of the Company							
		Reserves						
	Share capital HK$'000 (Note 24)	Share premium HK$'000	Capital reserve HK$'000 (Note)	Translation reserve HK$'000	Retained profits HK$'000	Total reserves HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1st April 2005	20,000	16,706	800	497	120,718	138,721	8,709	167,430
Currency translation differences	–	–	–	180	–	180	143	323
Total income and expense recognized directly in equity	–	–	–	180	–	180	143	323
Profit for the year	–	–	–	–	19,384	19,384	4,469	23,853
Total recognized income and expense for the year	–	–	–	180	19,384	19,564	4,612	24,176
Capital contributions from minority shareholders	–	–	–	–	–	–	300	300
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	(465)	(465)
Dividends of the Company:								
2005 final dividend	–	–	–	–	(6,000)	(6,000)	–	(6,000)
2006 interim dividend	–	–	–	–	(5,000)	(5,000)	–	(5,000)
	–	–	–	–	(11,000)	(11,000)	(165)	(11,165)
Balance at 31st March 2006	**20,000**	**16,706**	**800**	**677**	**129,102**	**147,285**	**13,156**	**180,441**
Representing:								
2006 final dividend					5,000			
Others					124,102			
					129,102			

Consolidated Statement of Changes in Equity *(Continued)*

For the year ended 31st March 2007

	Attributable to equity holders of the Company							
		Reserves						
	Share capital HK$'000 (Note 24)	Share premium HK$'000	Capital reserve HK$'000 (Note)	Translation reserve HK$'000	Retained profits HK$'000	Total reserves HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1st April 2006, as per above	20,000	16,706	800	677	129,102	147,285	13,156	180,441
Currency translation differences	–	–	–	(197)	–	(197)	(450)	(647)
Total income and expense recognized directly in equity	–	–	–	(197)	–	(197)	(450)	(647)
Profit for the year	–	–	–	–	14,802	14,802	2,958	17,760
Total recognized income and expense for the year	–	–	–	(197)	14,802	14,605	2,508	17,113
Acquisition of additional interests in subsidiaries	–	–	–	–	–	–	635	635
Disposal of subsidiaries	–	–	–	–	–	–	(601)	(601)
Dividends paid to minority shareholders	–	–	–	–	–	–	(1,950)	(1,950)
Dividends of the Company:								
2006 final dividend	–	–	–	–	(5,000)	(5,000)	–	(5,000)
2007 interim dividend	–	–	–	–	(5,000)	(5,000)	–	(5,000)
	–	–	–	–	(10,000)	(10,000)	(1,916)	(11,916)
Balance at 31st March 2007	**20,000**	**16,706**	**800**	**480**	**133,904**	**151,890**	**13,748**	**185,638**
Representing:								
2007 final dividend					5,000			
Others					128,904			
					133,904			

Note:
Capital reserve represents the difference between the nominal value of the ordinary shares issued by the Company and the aggregate of the share capital and share premium of subsidiaries acquired through exchanges of shares pursuant to the reorganization which took place on 18th April 2001.

Consolidated Cash Flow Statement

For the year ended 31st March 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Net cash generated from operations	26(a)	**18,831**	61,011
Overseas income tax paid		**(1,588)**	(1,984)
Hong Kong profits tax paid		**(6,395)**	(9,156)
Net cash generated from operating activities		**10,848**	49,871
Cash flows from investing activities			
Interest received		**589**	342
Purchase of property, plant and equipment		**(2,508)**	(7,570)
Proceeds from disposal of property, plant and equipment		**300**	495
(Advance to) / repayments from an associate		**(176)**	285
Acquisition of additional interests in subsidiaries		**–**	(562)
Net cash used in investing activities		**(1,795)**	(7,010)
Cash flows from financing activities			
Interest paid		**(4,624)**	(4,333)
Dividends paid		**(9,553)**	(10,733)
Dividends paid to minority shareholders of subsidiaries		**(1,950)**	–
Capital contributions from minority shareholders of subsidiaries		**–**	300
Repayments of short-term bank loans		**(152,059)**	(138,592)
Proceeds from short-term bank loans		**157,398**	111,998
Net cash used in financing activities		**(10,788)**	(41,360)
Net (decrease) / increase in cash and cash equivalents		**(1,735)**	1,501
Cash and cash equivalents at beginning of the year		**50,268**	48,456
Exchange (losses) / gains on cash and bank balances		**(588)**	311
Cash and cash equivalents at end of the year		**47,945**	50,268
Analysis of balances of cash and cash equivalents:			
Cash and bank balances		**47,945**	50,268

Notes to the Consolidated 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 consolidated financial statements are presented in thousands of units of Hong Kong dollars (HK$'000), unless otherwise stated.

These consolidated financial statements were approved and authorized for issue by the Company's Board of Directors on 18th July 2007.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. In addition, the consolidated financial statements include the applicable disclosures required by the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) *Standards, amendments and interpretations effective in 2006 but not relevant to the Group's operations*

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1st January 2006 but are not relevant to the Group's operations:

- 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 Intragroup Transactions;
- HKAS 39 (Amendment), The Fair Value Option;
- HKAS 39 and HKFRS 4 (Amendments), Financial Guarantee Contracts;
- HKFRS 6, Exploration for and Evaluation of Mineral Resources;
- 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 (effective for annual periods beginning on or after 1st December 2005); and
- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective for annual periods beginning on or after 1st March 2006).

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group*

The following standards, amendments and interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1st May 2006 or later periods but that the Group has not early adopted:

- HKFRS 7, Financial Instruments: Disclosures and HKAS 1 (Amendment), Presentation of Financial Statements – Capital Disclosures (effective for annual periods beginning on or after 1st January 2007). HKFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. The amendment to HKAS 1 requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. The Group will apply HKFRS 7 and the amendment to HKAS 1 from 1st April 2007;
- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1st May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1st April 2007, but it is not expected to have a significant impact on the Group's consolidated financial statements;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (Continued)

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1st November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1st April 2007, but it is not expected to have a significant impact on the Group's consolidated financial statements; and

- HK(IFRIC)-Int 11, HKFRS 2 – Group and Treasury Share Transactions (effective for annual periods beginning on or after 1st March 2007). HK(IFRIC)-Int 11 provides guidance on classifying share-based payment transactions involving an entity's own equity instruments or the equity instruments of the parent. The Group will apply HK(IFRIC)-Int 11 from 1st April 2007, but it is not expected to have a significant impact on the Group's consolidated financial statements.

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for accounting periods beginning on or after 1st May 2006 or later periods but are not relevant to the Group's operations:

- HK(IFRIC)-Int 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1st June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As none of the group entities have embedded derivatives, HK(IFRIC)-Int 9 is not relevant to the Group's operations; and

- HK(IFRIC)-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1st January 2008). HK(IFRIC)-Int 12 sets out general principles on recognizing and measuring the obligations and related rights in service concession arrangements, which involve private sector participation in the development, financing, operation and maintenance of governmental infrastructure. Since the Group is not involved in such arrangements, HK(IFRIC)-Int 12 is not relevant to the Group's operations.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31st March.

(a) 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.

2.2 Consolidation *(Continued)*

(a) Subsidiaries (Continued)

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 recognized directly in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized 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, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) Transactions and 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 consolidated 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.

(c) 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 by using the equity method of accounting and are initially recognized at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognized in the income statement, and its share of post-acquisition movements in reserves is recognized 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 recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized 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.

Diluted gains and losses in associates are recognized in the consolidated income statement.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses. The results of associates are accounted for by the Company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Segment reporting

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.

2.4 Foreign currency translation

(a) 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.

(b) 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 recognized in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognized in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognized 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)*

2.5 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 recognized 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. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged 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 their costs 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 the proceeds with the carrying amount and are recognized in the income statement. When revalued assets are sold, the amounts included in other reserves are transferred to retained earnings.

2.6 Intangible assets

(a) 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 and is tested annually for impairment as part of the overall balance. Separately recognized 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. Mobicon Group Limited allocates goodwill to each business segment in each country in which it operates.

(b) Distribution rights

Expenditures on rights acquired for manufacturing and distribution of certain integrated circuit ("IC") products are recognized as an asset and amortized on a straight-line basis over 4 years to reflect the pattern in which the related economic benefits are recognized.

2.7 Impairment of investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets, and available-for-sale financial assets. The classification depends on the purposes for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) 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 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 classified as trade and other receivables in the balance sheet.

(c) Held-to-maturity financial assets

Held-to-maturity financial assets 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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets.

(d) 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.

Regular purchases and sales of financial assets are recognized on the trade-date (the date on which the Group commits to purchase or sell the asset). Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized 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 are carried at amortized cost using the effective interest method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in the income statement in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognized in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analyzed between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognized in profit or loss; translation differences on non-monetary securities are recognized in equity. Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognized in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

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 established 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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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 as an indicator that 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 recognized in profit or loss) is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchase of raw materials.

2.10 Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized 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 the 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognized in the income statement within selling and marketing costs. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against selling and marketing costs in the income statement.

2.11 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.

2.12 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.14 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized 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.

2.15 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designed as at fair value through profit or loss is recognized initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount determined in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets;* and (ii) the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with HKAS 18 *Revenue*.

2.16 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, the deferred income tax is not accounted for if it 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. 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 realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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.

2.17 Employee benefits

(a) 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.

(b) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized 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 recognized until the time of leave.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Employee benefits *(Continued)*

(c) 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 recognized 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 recognizes 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.

(d) Profit-sharing and bonus plans

The expected cost of profit sharing and bonus payments are recognized 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.

2.18 Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events; it is probable 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 recognized 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 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 recognized as interest expense.

2.19 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 recognized as follows:

(a) Revenue from the sale of goods is recognized 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.

(b) Interest income is recognized 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 the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized using the original effective interest rate.

(c) Maintenance service income, management fee and commission income are recognized when the services are rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Operating leases (as the lessee)

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 charged to the income statement on a straight-line basis over the period of the lease.

2.21 Dividend distribution

Dividend distribution to the Company's shareholders is recognized 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

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest-rate risk, cash flow interest-rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

(a) Market risk

(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 United States dollars and Chinese Renminbi. Foreign exchange risk arises from future commercial transactions, recognized 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 United States 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) Price risk

The Group is not exposed to significant price risks during the year ended 31st March 2007.

(iii) Cash flow and fair value 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) 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.

(c) 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.

3. FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Fair value estimation

The carrying value less impairment provision of trade and other receivables and payables are a reasonable approximation of 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 JUDGMENTS

Estimates and judgments 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 2.6 to the financial statements. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

(b) Net realizable value of inventories

Net realizable 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 judgments 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 judgment 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. 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 recognized during the year is as follows:

	Group	
	2007 HK$'000	2006 HK$'000
Revenue		
Sales of electronic parts, components and equipment	715,344	751,597
Sales of computer products and accessories	287,738	336,929
Maintenance service income	3,685	–
	1,006,767	1,088,526

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.

(a) Primary reporting format - business segments

At 31st March 2007, the Group is organized 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 and providing computer related maintenance services.

The segment results for the year ended 31st March 2007 are as follows:

	Electronic products HK$'000	Computer products HK$'000	Unallocated HK$'000	Group HK$'000
Revenue	715,344	291,423	–	1,006,767
Segment results	31,880	(3,306)	589	29,163
Finance costs				(4,624)
Share of loss of an associate				(77)
Profit before income tax				24,462
Income tax expense (Note 9)				(6,702)
Profit for the year				17,760
Other segment items included in the income statement are as follows:				
Depreciation	3,426	779	–	4,205
Amortization	1,209	–	–	1,209
Provision for impairment of trade receivables	370	56	–	426
Provision for slow-moving inventories	2,185	(135)	–	2,050

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

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

The segment results for the year ended 31st March 2006 are as follows:

	Electronic products HK$'000	Computer products HK$'000	Unallocated HK$'000	Group HK$'000
Revenue	751,597	336,929	–	1,088,526
Segment results	48,856	(12,991)	342	36,207
Finance costs				(4,333)
Share of profit of an associate				68
Profit before income tax				31,942
Income tax expense (Note 9)				(8,089)
Profit for the year				23,853
Other segment items included in the income statement are as follows:				
Depreciation	2,718	798	–	3,516
Amortization	1,209	–	–	1,209
Impairment of goodwill arising from acquisition of additional interests in subsidiaries	–	97	–	97
Provision for impairment of trade receivables	1,439	–	–	1,439
Provision for slow-moving inventories	529	(259)	–	270

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, trade and other receivables, and cash and bank balances. Unallocated assets comprise investment in an associate, income tax assets and cash and bank balances.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as other payables, taxation and borrowings.

Capital expenditure comprises additions to property, plant and equipment (Note 14) and intangible assets (Note 15).

5. REVENUE AND SEGMENT INFORMATION (Continued)

(a) Primary reporting format - business segments (Continued)

The segment assets and liabilities as at 31st March 2007 and capital expenditure for the year then ended are as follows:

	Electronic products HK$'000	Computer products HK$'000	Unallocated HK$'000	Group HK$'000
Assets	**283,175**	**32,989**	**2,580**	**318,744**
Associate	**–**	**–**	**731**	**731**
Total assets	**283,175**	**32,989**	**3,311**	**319,475**
Liabilities	**61,586**	**10,962**	**61,289**	**133,837**
Capital expenditure	**2,356**	**787**	**–**	**3,143**

The segment assets and liabilities as at 31st March 2006 and capital expenditure for the year then ended are as follows:

	Electronic products HK$'000	Computer products HK$'000	Unallocated HK$'000	Group HK$'000
Assets	286,687	33,915	563	321,165
Associate	–	–	632	632
Total assets	286,687	33,915	1,195	321,797
Liabilities	73,284	12,822	55,250	141,356
Capital expenditure	6,594	1,073	–	7,667

5. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Secondary reporting format - geographical segments

The Group mainly operates in Hong Kong, Asia Pacific, South Africa and Europe.

	2007 HK$'000	2006 HK$'000
Revenue		
Hong Kong	**768,795**	938,547
Asia Pacific	**163,854**	83,341
South Africa	**38,589**	38,150
Europe	**22,555**	22,210
Other countries	**12,974**	6,278
	1,006,767	1,088,526

Revenue is allocated based on the country in which the customer is located.

	2007 HK$'000	2006 HK$'000
Total assets		
Hong Kong	**249,779**	251,238
Asia Pacific	**39,272**	39,555
South Africa	**27,113**	29,809
	316,164	320,602
Associate (Note 17)	**731**	632
Unallocated assets	**2,580**	563
	319,475	321,797

Total assets are allocated based on where the assets are located.

	2007 HK$'000	2006 HK$'000
Capital expenditure		
Hong Kong	**1,906**	6,906
Asia Pacific	**952**	468
South Africa	**285**	293
	3,143	7,667

Capital expenditure is allocated based on where the assets are located.

6. OTHER INCOME

	Group	
	2007	2006
	HK$'000	HK$'000
Management fee from an associate (Note 29(a))	**130**	120
Service fee from an associate (Note 29(a))	**8**	–
Commission income	**22**	9
Interest income from bank deposits	**491**	250
Interest income from an associate (Note 29(a))	**98**	92
	749	471

7. EXPENSES BY NATURE

	2007	2006
	HK$'000	HK$'000
Cost of inventories expensed	**859,680**	932,246
Employee benefit expense (Note 13)	**65,219**	63,720
Amortization of intangible assets (included in general and administrative expenses)	**1,209**	1,209
Depreciation of owned property, plant and equipment	**4,205**	3,516
Impairment of goodwill (Note 15)	**–**	97
Provision for impairment of trade receivables (included in general and administrative expenses)	**426**	1,439
Provision for slow-moving inventories (included in cost of sales)	**2,050**	270
Operating lease rentals in respect of rented premises	**14,752**	16,650
Auditors' remuneration	**600**	600
Gain on disposal of property, plant and equipment	**(136)**	(266)
Gain on disposal of subsidiaries (Note 26(b))	**(1)**	–
Net foreign exchange gains	**(2,922)**	(1,444)

8. FINANCE COSTS

	2007	2006
	HK$'000	HK$'000
Interest expense on short-term bank loans, wholly repayable within five years	**4,624**	4,333

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

	2007 HK$'000	2006 HK$'000
Current income tax		
– Hong Kong profits tax	**5,085**	6,966
– Overseas taxation	**1,575**	1,301
– Over-provision in prior years	**(214)**	(329)
Deferred income tax (Note 23)	**256**	151
Income tax expense	**6,702**	8,089

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate of Hong Kong as follows:

	2007 HK$'000	2006 HK$'000
Profit before income tax	**24,462**	31,942
Tax calculated at Hong Kong profits tax rate of 17.5% (2006: 17.5%)	**4,281**	5,590
Effect of different tax rates of subsidiaries operating in other countries	**500**	606
Tax losses of subsidiaries not recognized	**1,839**	2,089
Utilization of previously unrecognized tax losses	**(132)**	(123)
Over-provision in prior years	**(214)**	(330)
Others	**428**	257
Income tax expense	**6,702**	8,089

The Company is exempted from taxation in Bermuda until 2016.

Mobicon Electronic Trading (Shenzhen) Limited ("MET"), being a foreign investment enterprise established in the free trade zone of Futian, Shenzhen, the People's Republic of China (the "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 entitled to exemption from PRC enterprise income tax for the first two profitable years commencing from the year ended 31st December 2006 and a 50% reduction from normal PRC enterprise income tax (effectively 7.5%) for the three years following.

10. 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$9,600,000 (2006: HK$4,415,000).

11. EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st March 2007 is based on the Group's profit attributable to equity holders of the Company of approximately HK$14,802,000 (2006: HK$19,384,000) and on the weighted average number of 200,000,000 (2006: 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 2007 and 2006.

12. DIVIDENDS

	2007 HK$'000	2006 HK$'000
Interim dividend paid of HK2.5 cents (2006: HK2.5 cents) per ordinary share	**5,000**	5,000
Proposed final dividend of HK2.5 cents (2006: HK2.5 cents) per ordinary share	**5,000**	5,000
	10,000	10,000

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.

At a meeting held on 18th July 2007, the directors of the Company proposed a final dividend of HK2.5 cents per ordinary share in respect of the year ended 31st March 2007. 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 2008.

13. EMPLOYEE BENEFIT EXPENSE

	2007 HK$'000	2006 HK$'000
Salaries, wages and other benefits	**62,026**	60,433
Pension costs - defined contribution plans (Note a)	**3,019**	3,056
Provision for long-service payments	**174**	231
Total employee benefit expense (including directors' remuneration)	**65,219**	63,720

13. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(a) Pensions – defined contribution plans

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 Schemes Ordinance. The employer's and employees' contribution is subject to a cap of monthly earnings of HK$20,000.

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. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(b) Directors' and senior management's emoluments

The remuneration of every director of the Company for the year ended 31st March 2007 is set out below:

Name of director	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Employer's 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 2006 is set out below:

Name of director	Fees HK$'000	Salaries, allowances and other benefits HK$'000	Employer's 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

None of the directors waived or agreed to waive any emoluments during the year (2006: Nil). No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director during the year (2006: Nil).

13. EMPLOYEE BENEFIT EXPENSE *(Continued)*

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2006: four) executive directors whose emoluments are set out in Note 13(b) to the financial statements. Details of emoluments paid to the remaining individual are as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries and allowances	**959**	918
Contributions to defined contribution scheme	**–**	–
	959	918

The emoluments fell within the following band:

	Number of employees	
	2007	2006
Nil to HK$1,000,000	**1**	1

During the year, no emoluments were paid to the above individual as inducement to join or upon joining the Group or as compensation for loss of office (2006: Nil).

14. PROPERTY, PLANT AND EQUIPMENT

	Group			
	Furniture and fixtures HK$'000	Office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st April 2005				
Cost	8,731	8,767	3,266	20,764
Accumulated depreciation	(6,641)	(4,823)	(2,106)	(13,570)
Net book amount	2,090	3,944	1,160	7,194
Year ended 31st March 2006				
Opening net book amount	2,090	3,944	1,160	7,194
Exchange differences	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 book amount	3,944	5,939	1,145	11,028
At 31st March 2006				
Cost	11,730	12,505	3,121	27,356
Accumulated depreciation	(7,786)	(6,566)	(1,976)	(16,328)
Net book amount	3,944	5,939	1,145	11,028
Year ended 31st March 2007				
Opening net book amount	3,944	5,939	1,145	11,028
Exchange differences	(29)	(26)	(40)	(95)
Additions	186	2,078	244	2,508
Disposals	–	(108)	(56)	(164)
Depreciation	(1,326)	(2,448)	(431)	(4,205)
Closing net book amount	2,775	5,435	862	9,072
At 31st March 2007				
Cost	11,893	14,158	2,327	28,378
Accumulated depreciation	(9,118)	(8,723)	(1,465)	(19,306)
Net book amount	2,775	5,435	862	9,072

15. INTANGIBLE ASSETS

	Goodwill HK$'000	Group Distribution rights HK$'000	Total HK$'000
At 1st April 2005			
Cost	–	4,836	4,836
Accumulated amortization and impairment	–	(302)	(302)
Net book amount	–	4,534	4,534
Year ended 31st March 2006			
Opening net book amount	–	4,534	4,534
Acquisition of additional interests in subsidiaries (Note (i))	97	–	97
Amortization charge	–	(1,209)	(1,209)
Impairment charge	(97)	–	(97)
Closing net book amount	–	3,325	3,325
At 31st March 2006			
Cost	97	4,836	4,933
Accumulated amortization and impairment	(97)	(1,511)	(1,608)
Net book amount	–	3,325	3,325
Year ended 31st March 2007			
Opening net book amount	–	3,325	3,325
Acquisition of additional interests in subsidiaries (Note (ii))	635	–	635
Amortization charge	–	(1,209)	(1,209)
Closing net book amount	635	2,116	2,751
At 31st March 2007			
Cost	732	4,836	5,568
Accumulated amortization and impairment	(97)	(2,720)	(2,817)
Net book amount	635	2,116	2,751

Notes:

(i) On 23rd January 2006, the Group acquired an additional 10% interest in A Plus Computer Holdings Limited, a subsidiary of the Group 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 impaired.

(ii) On 15th June 2006, the Group acquired the remaining 10% interest in A Plus Computer Holdings Limited, a subsidiary of the Group incorporated in the British Virgin Islands, for cash consideration of HK$1 and a goodwill of approximately HK$635,000 was generated from the said acquisition.

(iii) Goodwill arising from acquisition of additional interests in subsidiaries was allocated to the cash-generating unit (the "CGU") representing an operating entity within the business segment identified by the Group. The acquired subsidiaries are principally engaged in trading and distribution of computer products and accessories in Hong Kong. The recoverable amounts of the CGU are determined based on a value-in-use calculation. The calculation uses cash flow projections based on financial forecasts approved by management covering a four-year period. The key assumption used for the cash flow projections include the expected growth rate for turnover and expenses during each of the forecast periods, which are determined by management based on past performance and its expectation of market development. All cash flows are discounted at a discount rate of 7.75%, which reflects the specific risk relating to the CGU.

No impairment loss has been recognized in respect of goodwill for the year ended 31st March 2007 as its value-in-use exceeded the carrying amount.

16. INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

	Company	
	2007 HK$'000	2006 HK$'000
Unlisted investments, at cost	**67,297**	67,297
Amount due from a subsidiary (Note 16(b))	**36,890**	26,690
	104,187	93,987

Details of the subsidiaries as at 31st March 2007, 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	Principal activities and place of operation	Particulars of issued share capital / registered capital	Percentage of equity interest held
A Plus Electronic Company Limited	Hong Kong, limited liability company	Trading and distribution of computer products and accessories in Hong Kong	100 ordinary shares of HK$1 each; 1,000,000 non-voting deferred shares of HK$1 each (Note (i))	100% (2006: 90%)
A Plus Computer Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	800,000 ordinary shares of US$1 each	100% (2006: 90%)
A Plus 2 Computer Limited	Hong Kong, limited liability company	Trading and distribution of computer products and accessories in Hong Kong	1,000 ordinary shares of HK$1 each	51% (2006: 45.9%) (Note (ii))
A Power Limited	Hong Kong, limited liability company	Trading and distribution of computer products and accessories in Hong Kong	500,000 ordinary shares of HK$1 each	100%
AESI (HK) Limited	Hong Kong, limited liability company	Providing information technology services in Hong Kong	1,000 ordinary shares of HK$1 each	100%

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital / registered capital	Percentage of equity interest held
Arkia Advance Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	1,000,000 ordinary shares of HK$1 each	70%
Conwise Power Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	1,000,000 ordinary shares of HK$1 each	100%
DV Power Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	10,000 ordinary shares of HK$1 each	50% (Note (iii))
Langa Holdings (Proprietary) Limited	Republic of South Africa, limited liability company	Investment holding in South Africa	100 ordinary shares of ZAR1 each	51%
Mantech Electronics (Cape) (Proprietary) Limited	Republic of South Africa, limited liability company	Trading and distribution of electronic parts, components and equipment in South Africa	100 ordinary shares of ZAR1 each	51%
Mantech Electronics (JHB) (Proprietary) Limited	Republic of South Africa, limited liability company	Trading and distribution of electronic parts, components and equipment in South Africa	100 ordinary shares of ZAR1 each	51%

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital / registered capital	Percentage of equity interest held
Mantech Electronics (KZN) (Proprietary) Limited	Republic of South Africa, limited liability company	Trading and distribution of electronic parts, components and equipment in South Africa	100 ordinary shares of ZAR1 each	51%
MCU Power Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	1,000,000 ordinary shares of HK$1 each	70%
MEC Quartz Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	10,000 ordinary shares of HK$1 each	55%
Milliard Devices Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	1,000,000 ordinary shares of HK$1 each	70%
Mobicon (BVI) Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	10,000 ordinary shares of US$1 each	100%
Mobicon (Taiwan) Limited	Republic of China, limited liability company	Trading and distribution of electronic parts, components and equipment in Taiwan	500,000 ordinary shares of NT$10 each	100%

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital / registered capital	Percentage of equity interest held
Mobicon Agent Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	10,000 ordinary shares of HK$1 each	100%
Mobicon Electronic Trading (Shenzhen) Limited (Note (iv))	PRC, wholly-owned foreign enterprise	Trading and distribution of electronic parts, components and equipment in the PRC	Registered capital HK$2,000,000	100%
Mobicon Holdings Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	10 ordinary shares of HK$1 each	100%
Mobicon International Ltd.	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	100%
Mobicon Malaysia Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
Mobicon-Mantech Holdings Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	1,000 ordinary shares of US$1 each	51%
Mobicon-Remote Electronic Pte Ltd.	Republic of Singapore, limited liability company	Trading and distribution of electronic parts, components and equipment in Singapore	2 ordinary shares of S$1 each	100%

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of incorporation and kind of legal entity	Principal activities and place of operation	Particulars of issued share capital / registered capital	Percentage of equity interest held
Mobicon-Remote Electronic Sdn. Bhd.	Malaysia, limited liability company	Trading and distribution of electronic parts, components and equipment in Malaysia	1,000,000 ordinary shares of RM1 each	50.1%
M-Tec Electronic Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	100,000 ordinary shares of HK$1 each	100%
Partners 2 Limited	British Virgin Islands, limited liability company	Investment holding in Hong Kong	100 ordinary shares of US$1 each	100%
PC Master Limited	Hong Kong, limited liability company	Trading and distribution of computer products and accessories in Hong Kong	1,000 ordinary shares of HK$1 each	90% (2006: 81%)
Sensor Power Limited	Hong Kong, limited liability company	Trading and distribution of electronic parts, components and equipment in Hong Kong	1,000 ordinary shares of HK$1 each	100%
Videocom Technology (HK) Limited	Hong Kong, limited liability company	Trading and distribution of computer products and accessories in Hong Kong	2 ordinary shares of HK$1 each	100% (2006: 90%)

16. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Notes:

(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 the company's shares were owned by A Plus Computer Holdings Limited during the years ended 31st March 2006 and 2007.

(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 2007.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2007 (2006: Nil).

(b) Amount due from a subsidiary

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 approximates its fair value.

17. INVESTMENT IN AN ASSOCIATE

(a) Investment in an associate

	Group	
	2007	2006
	HK$'000	HK$'000
Beginning of the year	**(490)**	(558)
Share of (loss)/profit	**(77)**	68
End of the year	**(567)**	(490)
Amount due from an associate (Note 17(b))	**1,298**	1,122
	731	632

Details of the associate of the Group as at 31st March 2007, which is unlisted, are as follows:

Name	**Place of incorporation and kind of legal entity**	**Principal activities and place of operation**	**Particulars of issued shares held**	**Percentage of equity interest held**
Create Tech Software Systems Limited	Hong Kong, limited liability company	Design of computer software in Hong Kong	Ordinary shares of HK$1 each	30%

17. INVESTMENT IN AN ASSOCIATE *(Continued)*

(a) Investment in an associate *(Continued)*

The following table illustrates the summarized financial information of the associate of the Group as extracted from its financial statements:

	2007 HK$'000	2006 HK$'000
Total assets	**952**	822
Total liabilities	**1,652**	1,289
Revenues	**1,913**	1,954
(Loss)/profit	**(257)**	327

(b) Amount due from an associate

The amount due from an associate 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.

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 the trade receivables is as follows:

	Group	
	2007 HK$'000	2006 HK$'000
0 to 60 days	**84,180**	81,193
61 to 120 days	**6,662**	5,693
121 to 180 days	**2,330**	2,209
181 to 365 days	**2,144**	1,254
Trade receivables	**95,316**	90,349
Less: Provision for impairment of trade receivables	**(1,220)**	(917)
	94,096	89,432

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$1,480,000 (2006: HK$997,000) 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	
	2007	2006
	HK$'000	HK$'000
0 to 60 days	50,898	62,677
61 to 120 days	1,190	1,309
121 to 180 days	191	288
181 to 365 days	463	916
	52,742	65,190

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 5.12% to 5.40% (2006: approximately 5.14% to 6.06%), except for a loan of approximately HK$1,635,000 (2006: HK$5,475,000) which bears interest at HIBOR plus 0.7% (2006: HIBOR plus 1%).

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% (2006: 17.5%).

The movement on the deferred income tax liabilities account is as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
Beginning of the year	317	164
Exchange differences	23	2
Recognized in the income statement	256	151
End of the year	596	317

The deferred income tax represents the tax effect of the accelerated depreciation allowances for taxation purposes.

As at 31st March 2007, the Group has unrecognized deferred tax asset of approximately HK$4,898,000 (2006: HK$3,156,000), primarily representing the tax effect of cumulative tax losses (subject to the approval of the relevant tax authorities) which can be carried forward indefinitely.

24. SHARE CAPITAL

	2007	2006
	HK$'000	HK$'000
Authorized:		
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
Balance 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)
Balance at 31st March 2006	16,706	67,097	6,603	90,406
Balance at 1st April 2006	16,706	67,097	6,603	90,406
Profit for the year	–	–	9,600	9,600
Dividends	–	–	(10,000)	(10,000)
Balance at 31st March 2007	**16,706**	**67,097**	**6,203**	**90,006**
Representing:				
2007 final dividend			5,000	
Others			1,203	
			6,203	

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 reorganization which took place on 18th April 2001.

26 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before income tax to net cash generated from operations:

	2007 HK$'000	2006 HK$'000
Profit before income tax	**24,462**	31,942
Adjustments for:		
– Depreciation of property, plant and equipment	**4,205**	3,516
– Amortization of intangible assets	**1,209**	1,209
– Impairment of goodwill arising from acquisition of additional interests in subsidiaries	**–**	97
– Gain on disposal of subsidiaries	**(1)**	–
– Gain on disposal of property, plant and equipment	**(136)**	(266)
– Interest income	**(589)**	(342)
– Interest expense	**4,624**	4,333
– Share of loss/(profit) of an associate	**77**	(68)
Changes in working capital:		
– Inventories	**3,017**	18,851
– Trade receivables	**(4,664)**	14,885
– Other receivables	**785**	584
– Trade payables	**(12,448)**	(9,212)
– Other payables	**(1,710)**	(4,518)
Net cash generated from operations	**18,831**	61,011

(b) **Disposal of subsidiaries**

During the year ended 31st March 2007, the Group disposed of its entire equity interests in Videocom Freetron Limited and Videocom 298 Limited. The results of the subsidiaries disposed of in the year ended 31st March 2007 had no significant impact on the Group's consolidated revenue or profit after income tax for the year.

	2007 HK$'000
Net assets disposed of:	
Other receivables	**600**
Minority interests	**(601)**
	(1)
Gain on disposal of subsidiaries	**1**
	–

27. COMMITMENTS

Operating lease commitments - where the Group is the lessee

As at 31st March 2007, the Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of rented premises as follows:

	Group	
	2007	2006
	HK$'000	HK$'000
No later than one year	**9,577**	17,502
Later than one year and no later than five years	**4,109**	11,769
	13,686	29,271

The Company had no commitments under operating leases as at 31st March 2007 (2006: Nil).

28. CORPORATE GUARANTEE

	Company	
	2007	2006
	HK$'000	HK$'000
Corporate guarantees provided by the Company in respect of banking facilities of subsidiaries	**278,886**	233,760

As at 31st March 2007, the amount of such facilities utilized by the subsidiaries and covered by the Company's guarantees amounted to approximately HK$59,051,000 (2006: HK$53,712,000). In the opinion of the directors, no material liabilities will arise from the above corporate guarantees which arose in the ordinary course of business and the fair values of the corporate guarantees granted by the Company are immaterial.

29. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, the Group had the following significant related party transactions during the year:

(a) Particulars of significant transactions between the Group and related parties are summarized below:

	Note	2007 HK$'000	2006 HK$'000
Management fee received from an associate	(i)	**130**	120
Service fee received from an associate	(ii)	**8**	–
Interest income received from an associate		**98**	92
Maintenance fee paid to an associate	(iii)	**596**	390
Purchase of property, plant and equipment from an associate		**23**	888
Rentals paid/payable to M-Bar Limited	(iv)	**3,972**	3,555
Rentals paid/payable to a director	(v)	**132**	66
Rentals paid/payable to spouse of a director	(vi)	**102**	51

Notes:

(i) Management fee was received from an associate, Create Tech Software Systems Limited at a fixed monthly rate of HK$10,000 per month from April 2006 to May 2006 and HK$11,000 per month from June 2006 to March 2007 (2006: HK$10,000 per month) for use and lease of facilities of the Group.

(ii) Service fee was received from an associate, Create Tech Software Systems Limited at a fixed monthly rate of HK$4,000 per month from February 2007 to March 2007 (2006: Nil) for providing online marketing related service.

(iii) Maintenance fee was paid to an associate, Create Tech Software Systems Limited at a fixed monthly rate of HK$46,000 per month for April 2006 and HK$50,000 per month from May 2006 to March 2007 (2006: HK$20,000 per month from April 2005 to October 2005 and HK$50,000 per month from November 2005 to March 2006) for providing maintenance of the accounting system.

(iv) 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.

(v) The lease agreements with Mr. Yeung Kwok Leung, Allix, a director of the Company, were entered into at terms agreed between the contracting parties.

(vi) 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 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$742,000 (2006: HK$777,000), HK$22,000 (2006: HK$22,000) and HK$17,000 (2006: HK$17,000) respectively.

(c) Included in other payables of the Group were amounts due to minority shareholders of certain subsidiaries of approximately HK$4,942,000 (2006: HK$6,792,000). The amounts are unsecured, interest-free and repayable on demand.

(d) Key management compensation

	2007 HK$'000	2006 HK$'000
Short-term employee benefits	**4,570**	4,570
Post-employment benefits	**48**	48
	4,618	4,618

Further details of directors' emoluments are included in Note 13(b) to the financial statements.

Financial Summary

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out below:

RESULTS

	Year ended 31st March				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Turnover	**1,006,767**	1,088,526	1,280,392	1,159,929	655,699
Profit before income tax	**24,462**	31,942	44,793	38,495	22,132
Income tax	**(6,702)**	(8,089)	(9,502)	(6,723)	(2,894)
Profit for the year	**17,760**	23,853	35,291	31,772	19,238
Attributable to:					
Equity holders of the Company	**14,802**	19,384	32,455	28,635	17,929
Minority interests	**2,958**	4,469	2,836	3,137	1,309
	17,760	23,853	35,291	31,772	19,238

ASSETS AND LIABILITIES

	As at 31st March				
	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Property, plant and equipment	**9,072**	11,028	7,194	5,389	3,582
Intangible assets	**2,751**	3,325	4,534	–	–
Investment in an associate	**731**	632	849	492	898
Current assets	**306,921**	306,812	339,320	294,042	177,357
Total assets	**319,475**	321,797	351,897	299,923	181,837
Current liabilities	**(133,241)**	(141,039)	(184,303)	(152,819)	(62,218)
Net current assets	**173,680**	165,773	155,017	141,223	115,139
Total assets less current liabilities	**186,234**	180,758	167,594	147,104	119,619
Deferred income tax liabilities	**(596)**	(317)	(164)	(164)	(108)
Net assets	**185,638**	180,441	167,430	146,940	119,511
Capital and reserves attributable to the Company's equity holders					
Share capital	**20,000**	20,000	20,000	20,000	20,000
Reserves	**151,890**	147,285	138,721	118,280	97,258
	171,890	167,285	158,721	138,280	117,258
Minority interests	**13,748**	13,156	8,709	8,660	2,253
Total equity	**185,638**	180,441	167,430	146,940	119,511