

REPORT OF THE DIRECTORS

(Amount expressed in Hong Kong dollars)

The Directors are pleased to present their first annual report together with the audited financial statements of Mobicon Group Limited ("the Company") and the combined financial statements of the Company and other companies comprising the group (collectively referred to as "the Group") for the year ended 31 March 2001.

Group Reorganisation And Basis Of Presentation

The Company was incorporated in Bermuda on 11 January 2001 as an exempted company with limited liability under the Companies Act 1981 of Bermuda. Upon incorporation, the Company had an authorised share capital of \$100,000 divided into 1,000,000 shares of \$0.10 each, all of which were allotted and issued nil paid. Pursuant to a group reorganisation in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited ("the Stock Exchange"), the Company became the holding company of the Group on 18 April 2001.

On 7 May 2001, pursuant to the Company's initial public offering exercise, the shares of the Company were listed on the Stock Exchange.

During the period from 11 January 2001 (date of incorporation) to 31 March 2001, the Company has remained inactive and accordingly, no results of operation were presented for the Company during that period. In addition, combined financial statements of the Group have been prepared and presented in this annual report as if the aforementioned group reorganisation has been completed throughout the two years ended 31 March 2000 and 2001. Please refer to Note 1 to the combined financial statements for the basis of presentation and details of the group reorganisation. The financial information referred to in this report was extracted from the combined financial statements.

Principal Activities

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

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Principal Activities *(Continued)*

The Group's combined turnover by principal activity and by geographical location, together with their respective contributions to profit (loss) before taxation for the year ended 31 March 2001 is analysed as follows:

	2001	
	Turnover	Profit (loss)
	\$'000	before taxation \$'000
a. By principal activity –		
Sales of merchandise		
– electronic components and accessories	335,959	43,328
– computer products and accessories	124,967	(1,054)
	460,926	42,274
Interest income from bank deposits		823
		43,097
		Turnover
		\$'000
b. By geographical location – *		
Hong Kong		337,283
Europe		49,280
America		22,615
Asia Pacific (other than Hong Kong)		38,223
Others		13,525
		460,926

* Combined turnover by geographical location is determined on the basis of the destination of delivery of merchandise for the Group's sales of merchandise. No analysis of profit (loss) before taxation by geographical location is presented as it is generally in line with the distribution of turnover as set out above.

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Customers and Suppliers

For the year ended 31 March 2001, the five largest customers of the Group accounted for approximately 14.2% of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 31.5% of the Group's total purchases. In addition, the largest customer of the Group accounted for approximately 5.7% of the Group's turnover while the largest supplier of the Group accounted for approximately 11.4% of the Group's total purchases.

None of the directors, their respective associates or any shareholders which, to the knowledge of the Company's directors ("the Directors"), owned more than 5% of the Company's issued share capital had a beneficial interest in any of the Group's five largest customers and suppliers for the year ended 31 March 2001.

Results and Appropriations

Details of the Group's combined results for the year ended 31 March 2001 are set out in the combined income statement on page 32 of this annual report.

During the year, three former group companies declared dividends totalling approximately \$113,517,000 to the then shareholders who are also the directors of the Company. The Directors do not recommend the payment of a final dividend.

Share Capital

Details of share capital of the Company are set out in Note 4 to the balance sheet.

Distributable Reserves

As at 31 March 2001, the Company did not have any distributable reserves.

Fixed Assets

Details of movements in fixed assets during the year are set out in Note 10 to the combined financial statements.

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Pre-emptive Rights

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

Retirement Schemes

Details of the retirement schemes are set out in Note 19 to the combined financial statements.

Subsequent Events

Details of the significant subsequent events are set out in Note 20 to the combined financial statements.

Directors

The Directors who held office during the year and up to the date of this report are:

Executive Directors

Hung Kim Fung, Measure (<i>Chairman</i>)	(Appointed on 30 January 2001)
Yeung Man Yi, Beryl (<i>Deputy Chairman</i>)	(Appointed on 30 January 2001)
Hung Ying Fung	(Appointed on 30 January 2001)
Yeung Kwok Leung, Allix	(Appointed on 30 January 2001)

Independent non-executive Directors

Charles E. Chapman	(Appointed on 18 April 2001)
Leung Wai Cheung	(Appointed on 18 April 2001)

Mr. Charles E. Chapman and Mr. Leung Wai Cheung will retire by rotation in accordance with Clause 111 (A) of the Company's Bye-laws and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. All other remaining Directors continue in office.

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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 1 April 2001, and will continue thereafter until terminated by not less than three months' notice in writing served by either party to the other, which notice shall not expire until after the fixed term.

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

Directors' Interests in Shares

As at 31 March 2001, the Company had no notice of any interests to be recorded under Section 29 of the Securities (Disclosure of Interests) Ordinance ("the SDI ordinance") as the Company had not been listed on the Stock Exchange as at that date.

Upon listing of the Company's shares on the Stock Exchange on 7 May 2001 and up to the date of this report, the Directors had the following interests in the shares of the Company and its subsidiaries within the meaning of the SDI Ordinance, as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

(i) The Company

Director	Corporate interest	Personal interest	Other interests	Total interest
Mr. Hung Kim Fung, Measure	–	–	90,000,000 <i>(Note 1)</i>	90,000,000
Ms. Yeung Man Yi, Beryl	–	–	90,000,000 <i>(Note 1)</i>	90,000,000
Mr. Hung Ying Fung	–	30,000,000	–	30,000,000
Mr. Yeung Kwok Leung, Allix	–	–	30,000,000 <i>(Note 2)</i>	30,000,000

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Directors' Interests in Shares *(Continued)*

(i) The Company *(Continued)*

Notes:

1. 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 Mr. 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, and are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit of and upon trust for the Measure & Beryl Trust, which is a discretionary trust.
2. 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, and are ultimately held by Trident Trust Company (Cayman) Limited as trustee for the benefit of and upon trust for the Trinity Trust, which is a discretionary trust.

(ii) Subsidiary – A Plus Electronic Company Limited (“A Plus”)

Each of Mr. Hung Kim Fung, Measure, Ms. Yeung Man Yi, Beryl, Mr. Hung Ying Fung and Mr. Yeung Kwok Leung, Allix have beneficial interests in their personal capacity in the following number of non-voting deferred shares in A Plus:

Name	Number of non-voting deferred shares
Mr. Hung Kim Fung, Measure	300,000 shares of \$1.00 each
Ms. Yeung Man Yi, Beryl	300,000 shares of \$1.00 each
Mr. Hung Ying Fung	200,000 shares of \$1.00 each
Mr. Yeung Kwok Leung, Allix	200,000 shares of \$1.00 each

Save as disclosed above, the Company had no notice of any interests required to be recorded under Section 29 of the SDI Ordinance.

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Directors' Rights to Acquire Shares or Debenture

Under the terms of the Company's share option scheme approved by the shareholders on 18 April 2001, the Board of Directors may, at their discretion, invite any employee of the Company or any of the group companies, including any executive Directors, to take up options to subscribe for shares in the Company. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company. The scheme became effective upon the listing of the Company's shares on 7 May 2001. No options have been granted to the Directors up to the date of this report.

Save as disclosed above, and other than the group reorganisation in preparation for the Company's listing of shares, at no time during the year was the Company or any of the companies comprising the group a party to any arrangements to enable any of the Directors or members of its management to acquire benefits by means of the acquisition of shares in, or debenture of the Company or any other body corporate.

Directors' Interests in Contracts

No contract of significance in relation to the Group's business to which the Company or any of the companies comprising the Group was a party and in which any of the Directors or members of its management had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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Substantial Shareholders

As at 31 March 2001, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance as the Company had not been listed on the Stock Exchange as at that date.

Upon listing of the Company's shares on the Stock Exchange, according to the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance, those shareholders having an interest of 10% or more of the issued share capital of the Company are as follows:

Name	Number of Shares	Approximate percentage of issued shares
M2B Holding Limited	90,000,000	45%
Mr. Hung Ying Fung	30,000,000	15%
Bestmark Management Limited	30,000,000	15%

Save as disclosed above, the Company had no notice of any interests to be recorded under Section 16(1) of the SDI Ordinance.

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.

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Connected Transactions

Certain related party transactions disclosed in Note 3 to the accompanying combined financial statements constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("the Listing Rules"). Details of such connected transactions are as follows:

M-Bar Limited ("M-Bar") is owned as to 30% by Mr. Hung Kim Fung, Measure, 30% by Ms. Yeung Man Yi, Beryl, 20% by Mr. Hung Ying Fung and 20% by Mr. Yeung Kwok Leung, Allix, directors of the Company, and is principally engaged in property holding.

During the year, the Group paid rental expenses amounting to \$462,000 and \$80,000 to M-Bar, and Mr. Hung Kim Fung, Measure and Ms. Yeung Man Yi, Beryl, respectively.

These transactions are of a recurring nature and would continue after the listing of the shares of the Company on the Stock Exchange. The Directors consider these 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.

Code of Best Practice

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules since 7 May 2001, except that the independent non-executive Directors have not been appointed for specific term but are subject to retirement by rotation and re-election at the annual general meetings in accordance with the Company's Bye-laws.

Audit Committee

The Company has established an audit committee with written terms of reference based upon the guidelines recommended by the Hong Kong Society of Accountants. The primary duties of the audit committee are to review the Company's annual report and accounts and half-year reports and to provide advice and comments thereon to the Board of Directors. The audit committee is also responsible for reviewing and supervising the Company's financial reporting and internal control procedures. The audit committee comprises two independent non-executive directors, namely Mr. Charles E. Chapman and Mr. Leung Wai Cheung.

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Auditors

The accompanying financial statements were audited by Messrs. Arthur Andersen & Co. A resolution for their re-appointment as the Company's auditors 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,
17 July 2001.