

# 24 REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts of Mobicon Group Limited (“the Company”) and its subsidiaries (collectively referred to as “the Group”) for the year ended 31st March 2005.

## 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 segment is set out in Note 3 to the accounts.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st March 2005 are set out in the consolidated profit and loss account on page 32.

The directors have declared an interim dividend of HK3 cents per ordinary share, totalling HK\$6,000,000, which was paid on 14th January 2005.

The directors recommend the payment of a final dividend of HK3 cents per ordinary share, totalling HK\$6,000,000 in respect of the year ended 31st March 2005.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th August 2005 (Thursday) to 5th August 2005 (Friday), both dates inclusive, during which no transfer of shares will be effected, and the final dividend will be paid on 18th August 2005 (Thursday). 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 register in Hong Kong, Hong Kong Registrars Limited at its office situated at Shops 1712-1726, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong for registration not later than 4:00 p.m. on 3rd August 2005 (Wednesday).

## SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in Note 20 to the accounts.

## RESERVES

Details of the movements in the reserves of the Group and of the Company during the year are set out in Note 21 to the accounts.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$89,000.

## **FIXED ASSETS**

Details of the movements in fixed assets of the Group are set out in Note 13 to the accounts.

## **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 2005.

## **DIRECTORS**

The directors who held office during the year were:

### **Executive directors**

Hung Kim Fung, Measure (*Chairman*)

Yeung Man Yi, Beryl (*Deputy Chairman*)

Hung Ying Fung

Yeung Kwok Leung, Allix

### **Independent non-executive directors**

Charles E. Chapman

Leung Wai Cheung

Chow Shek Fai

(appointed on 18th August 2004)

Ms. Yeung Man Yi, Beryl and Mr. Yeung Kwok Leung, Allix retire by rotation in accordance with bye-law 111 (A) of the Company's bye-laws (the "Bye-laws") and, being eligible, offer themselves for re-election at the forthcoming annual general meeting. Mr. Chow Shek Fai, who was not appointed for a specific term, offers himself for re-election at the forthcoming annual general meeting in accordance with bye-law 115 of the Bye-laws. All other remaining directors continue in office.

### **Directors' service contracts**

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

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

## DIRECTORS *(Continued)*

### Share options

On 8th August 2003, the Company terminated the share option scheme which was adopted by the Company on 18th April 2001 (the “Old Scheme”) and adopted a new share option scheme (the “New 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 Scheme. The New Scheme is in line with Charter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”). Reasons for the adoption of the New Scheme and summary of the principal terms of the rules of the New Scheme have been set out in the circular to the shareholders of the Company on 14th July 2003.

No options have been granted under the New Scheme up to the date of this report.

## DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 31st March 2005, the interests positions of each director and his/her associates in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (“the Stock Exchange”) pursuant to Divisions 7 and 8 of Part XV of the SFO and the Model Code for the Securities Transactions by Directors of Listed Companies were as follows:

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

Director	Long/short position	Personal interests	Number of shares		Percentage
			Family interests	Total interests	
Dr. Hung Kim Fung, Measure	Long	–	90,000,000 (Note (a))	90,000,000	45%
Ms. Yeung Man Yi, Beryl	Long	–	90,000,000 (Note (a))	90,000,000	45%
Mr. Hung Ying Fung	Long	22,500,000 (Note (c))	–	22,500,000	11.25%
Mr. Yeung Kwok Leung, Allix	Long	–	30,000,000 (Note (b))	30,000,000	15%

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION** *(Continued)*

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

*Note:*

- (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.
- (c) On 11th March 2005, Mr. Hung Ying Fung has agreed to dispose of an aggregate of 7,500,000 shares in the Company at a consideration of HK\$1.05 each, which represents approximately a 5% premium to the closing prices of the shares of HK\$1.00 on 18th February 2005 and approximately a 5% premium to the average closing price of the shares of approximately HK\$1.00 for the ten trading days ending on 18th February 2005. The shareholding held by Mr. Hung Ying Fung was reduced from 15% to 11.25% accordingly.

### **(ii) Non-voting deferred shares in a subsidiary – A Plus Electronic Company Limited (“A Plus”)**

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

Name	Long/short		Number of non-voting deferred shares	Percentage
	position			
Dr. Hung Kim Fung, Measure	Long	300,000 shares of HK\$1.00 each		30%
Ms. Yeung Man Yi, Beryl	Long	300,000 shares of HK\$1.00 each		30%
Mr. Hung Ying Fung	Long	200,000 shares of HK\$1.00 each		20%
Mr. Yeung Kwok Leung, Allix	Long	200,000 shares of HK\$1.00 each		20%

Save as disclosed above and under the section headed “Share Options”, at no time during the year, the directors and chief executives (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 its associated corporations (within the meaning of the SFO).

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION** *(Continued)*

Save as disclosed above and under the section headed "Share Options", at no time during the year was the Company, its subsidiaries, its associated companies, its fellow subsidiaries or its holding company a party to any arrangement to enable the directors and chief executives 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 corporation.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

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 enquiries with the directors, 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 26 to the accounts, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## **SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY**

As at 31st March 2005, the register of substantial shareholders maintained under Section 336 of the SFO shows that the Company had not been notified of any substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, other than those of the directors and chief executives as disclosed above.

## **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.

## **CODE OF BEST PRACTICE**

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors are not appointed for specific terms. Instead, the independent non-executive directors are subject to retirement by rotation and re-election at annual general meeting in accordance with the Bye-laws.

## CONNECTED TRANSACTIONS

Certain related party transactions disclosed in Note 26 to the accounts also constituted connected transactions for the purpose of the Listing Rules. Details of such connected transactions are as follows:

M-Bar Limited ("M-Bar") is owned as to 30% by Dr. 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 HK\$2,458,000 (Note 26 (a)) to M-Bar.

The directors (including the independent non-executive 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.

These connected transactions have also been reviewed by the audit committee of the Company who has confirmed that such connected transactions were (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. The audit committee of the Company also confirmed that the aggregate value of the transactions were within the maximum amount 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 connected transactions have received the approval of the Board, have been entered into in accordance with the terms of the lease agreements governing the transactions. The auditors of the Company also confirmed that the aggregate value of the transactions were within the maximum amount 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 realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium.

Distributable reserves of the Company as at 31st March 2005 amounted to approximately HK\$80,285,000 (2004: HK\$75,385,000).

## **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 70.

## **AUDIT COMMITTEE**

The written terms of reference which describe the authority and duties of the Audit Committee were prepared and adopted with reference to “A Guide for The Formation of An Audit Committee” published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee provides an important link between the Board and the Company’s auditors in matters coming within the scope of the group audit. It also reviews the effectiveness of both the external and internal audit and of internal controls and risk evaluations. The Audit Committee comprises three independent non-executive directors, namely Mr. Charles E. Chapman, Dr. Leung Wai Cheung and Mr. Chow Shek Fai. Two meetings were held during the current financial year.

## **AUDITORS**

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board of directors,

**Hung Kim Fung, Measure**

*Chairman*

Hong Kong, 7th July 2005