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## CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Zida Computer Technologies Limited (the "Company") and its subsidiaries, I am pleased to present the annual report of the Group.

### FINANCIAL RESULTS

For the year ended 31st March 2001, the Group's turnover was HK\$1,366,211,000 (2000: HK\$1,322,684,000), while loss attributable to shareholder was HK\$24,808,000 (2000: Profit attributable to shareholder of HK\$43,208,000).

### BUSINESS REVIEW

Due to the slowdown of global economy, buyers' conservative approach in purchasing has put pressure on prices for computer products. After considering the market changes, the management decided to make a provision of HK\$5,000,000 for its inventories in order to reflect their market prices. In addition, the sales mix of products have also shifted from high profit margin products towards low profit margin products. Consequently, profit margin rate dropped from last year's 6.9% to this year's 1.8%.

On the other hand, the Group put additional resources during the past year to accelerate the research and development of new network products and motherboard. Such measures increased the research and development cost significantly, and as a result of this the Group recorded loss for the year.

### FINAL DIVIDEND

The Board of Directors has declared a final dividend of HK10 cents each. The final dividend will be paid on 29th August, 2001 to the shareholders whose names appear in the register of the Company on 15th August, 2001.

### PROSPECTS

#### **Motherboard**

Motherboard operations is the Group's core business, and the Group will focus on developing Pentium 4 related motherboard in order to raise the product price and profit margin. With the launch of Brookdale 845 chipset in the second half of 2001, which is compatible with the common SDR memory chipset and the new 478 pin Pentium 4 CPU, the demand for Pentium 4 platform will be greatly enhanced. The Group will also research and develop motherboard that coupled with networking foundations, in order to enhance the product's function and competitiveness. Although the investment devoted to Research and Development department may not yield any results in the short-term, the management are of the view that it will contribute positively to the Group's long-term development.

## ***CHAIRMAN'S STATEMENT (Continued)***

### **Internet Infrastructural Facilities**

The Group's investment in network products during the year is beginning to yield results. In the beginning of the year, the Group introduced a series of products, including Netrock Gigabit Switch Series and eCon Switch Series. The focus will be on Gigabit Ethernet (GbE) and the development of various Application Specific Devices. According to marketing survey, the LAN switch market is one of the few remaining high-growth areas in the enterprise marketplace. The production volume and revenue of connection port will continue to growth. Worldwide LAN switch port shipments will increase from 131 million in 2001 to 191 million in 2003.

The management believes that such series of products will bring considerable return and profits for the Group.

### **Financial Analysis**

The financial condition of the Group is healthy, with an aggregate amount of cash and bank balances of HK\$104,005,000 (2000: HK\$48,514,000). As the Group possesses an abundant amount of cash, its cash flow and financial resources are also extremely secured. The Group's total assets amounted to HK\$201,646,000 (2000: HK\$188,551,000) and the bank borrowings and obligation under finance lease liabilities amounted to HK\$22,054,000 (2000: HK\$24,537,000).

### **Exchange risks**

Most of the Group's cash and bank balances are held in U.S. dollars. The Group's borrowing are based on Reminbi and Hong Kong Dollars to avoid the risk of exchange fluctuations. As the exchange rates remained stable during the relevant period, the Group did not bear any significant exchange risks.

The Group will continue to follow its prudent approach in financing and financial management.

### **Use of Proceeds from Initial Public Offering**

The Company issued 47,000,000 shares in June 2000, and after deducting related expenses, raised a net proceed of HK\$41,000,000. Details of the use of the proceeds as of 31st March 2001 are as follows:

- HK\$6,000,000 for research and development.
- HK\$2,000,000 for networking hardware products development.
- HK\$300,000 for PC System business development.

## **CHAIRMAN'S STATEMENT (Continued)**

- HK\$2,000,000 for enterprise resources planning (ERP) and e-commerce infrastructures.
- the remainder were used as general working capital for the Group.

Due to the slacken demand for PC Systems, the business prospects have become uncertain. As a result the planned investment of HK\$15,000,000 in PC systems business as disclosed in the Prospectus will be suspended temporarily. Such amounts have been placed on fixed-term deposits with banks, and the management will continue to explore investment opportunities, in order to achieve maximum returns for the shareholders.

### **CONCLUSION**

Looking into the future, the Group will continue to research and develop motherboard and network products which will be more competitive in the market. Apart from strengthening its existing market share, the Group will explore the PRC market in order to expand its market share and customer base.

As to internal operations, the Group have already undertaken a series of measures to lower operation costs and increase its operation efficiency. In 2001, the Group will accelerate the implementation of ERP management system, restructuring its operation process in a full scale and optimize the Group's resources combination to enhance management and the quality of decision making process and increase its competitiveness.

### **MAJOR CUSTOMERS AND SUPPLIERS**

During the year, the aggregate sales attributable to the Group's five largest customers comprised approximately 21% of the Group's total sales and the sales attributable to the Group's largest customer were approximately 6.9% of total sales.

The aggregate purchase attributable to the Group's five largest suppliers during the year accounted for approximately 41% of the total cost of sales of the Group and the largest supplier accounted for approximately 17% of the total cost of sales of the Group.

None of the directors, their associates or any shareholders which, to the knowledge of the directors, owned more than 5% of the Company's issued share capital had any interest in the share capital of any of the five largest customers of the Group.

## ***CHAIRMAN'S STATEMENT (Continued)***

### **CLOSURE OF REGISTER OF MEMBER**

The register of members of the Company will be closed from 13th August, 2001 to 15th August, 2001 (both days inclusive). To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrars in Hong Kong, Standard Registrars Limited, at 5th floor, Wing On Center, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 10th August, 2001.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **CORPORATE GOVERNANCE**

As the Company only became a listed company on 15th June, 2000, the Company has complied with the requirements of the Code of Best Practice as set out in Appendix 14 of the Listing Rules (the "Code of the Best Practice") for the period between its listing date and 31st March, 2001.

The Company's audit committee was formed on 23rd May, 2000, comprising the independent non-executive directors, Dr. Li Chi Kwong and Prof. Pan Xiao Mei. The terms of reference of the audit committee have been established with regard to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

### **POSTING OF THE ANNUAL RESULTS ON THE STOCK EXCHANGE WEBSITE**

All information required pursuant to Sections 45(1) to (3) in Appendix 16 of the Listing Rules will be published on the website of the Stock Exchange in due course.

### **NOTE OF APPRECIATION**

On behalf of all shareholders and the Board of Directors, I would like to thank all of our customers for their support of the Group, and to express our sincere appreciation to staff members of the Group for their contribution to the Group during the year and for their commitment to the future.

**Chang Chung Wa, Eddie**

*Chairman*

Hong Kong, 28th June, 2001