

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st March, 2001

1. GROUP REORGANISATION AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Company was incorporated in Bermuda on 16th December, 1999 as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). In the opinion of directors, its ultimate holding company is Tactful Finance Limited, a company which is incorporated in the British Virgin Islands.

Pursuant to a group reorganisation (the "Group Reorganisation") to rationalise the group structure in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company issued fully paid shares in exchange for the entire issued share capital of Zida International Holding Limited ("ZIHL") and thereby became the holding company of the group (the "Group") formed after the completion of the Group Reorganisation on 29th April, 2000.

The Group resulting from the Group Reorganisation is regarded as a continuing entity. Accordingly, in accordance with Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions", the financial statements of the Group for two years ended 31st March, 2000 and 2001 have been prepared on the merger basis as if the Company had always been the holding company of the Group.

Details of the Group Reorganisation are set out in the prospectus (the "Prospectus") issued by the Company dated 29th May, 2000.

The shares of the Company have been listed on the Stock Exchange since 15th June, 2000.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of leasehold land and buildings and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On the disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost or valuation less accumulated depreciation and amortisation.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Leasehold land and buildings are stated at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation and amortisation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any surplus arising on revaluation of leasehold land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in the net carrying amount arising on revaluation of such properties is charged to the income statement to the extent that it exceeds the surplus, if any, held in the asset revaluation reserve relating to previous revaluation of that particular asset. On the subsequent disposal of such asset, the attributable revaluation surplus not yet transferred to retained profits in prior years is transferred to retained profits.

Construction in progress is stated at cost which includes all construction costs and other direct costs attributable to such projects. Construction in progress is not depreciated until completion of construction and the asset being put into use. Costs of completed construction works are transferred to the appropriate categories of property, plant and equipment.

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment other than construction in progress over their estimated useful lives, using the straight line method, at the following rates per annum:

Leasehold land	2.5% or over the terms of the leases, if higher
Buildings	2% to 2.5%
Leasehold improvements	50% or over the terms of the leases
Plant and machinery	10% to 25%
Furniture, fixtures and equipment	20% to 25%
Motor vehicles	10% to 25%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the terms of the relevant finance lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in a subsidiary

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent government body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Investments in securities

Investments other than held-to-maturity debt securities are classified as investment securities and other investments and are recognised on a trade date basis and are initially measured at cost.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. The tax effect of timing differences, which arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements, is computed using the liability method and is recognised as deferred taxation to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in currencies other than Hong Kong dollars are translated into Hong Kong dollars at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated into Hong Kong dollars at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollars are translated into Hong Kong dollars at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Assets held under finance leases

Leases are classified as finance leases when the terms of the leases transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired are charged to the income statement over the terms of relevant leases so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Retirement benefits scheme contributions

Contributions payable by the Group to its defined contribution retirement benefits scheme and the Hong Kong Mandatory Provident Fund Scheme are charged to the income statement in the period in which they become payable.

Cash equivalents

Cash equivalents represent short term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

3. SEGMENTAL INFORMATION

The analysis of the turnover and contribution to (loss) profit from operations by principal activity and by geographical location are as follows:

	Turnover		Contribution to (loss) profit from operations	
	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
By principal activity:				
Design and manufacture of motherboard	354,500,510	473,905,905	4,803,055	71,121,081
Trading of PC components	1,011,710,495	834,008,023	19,866,971	20,298,884
Design and manufacture of PC systems	–	14,769,867	–	(382,607)
	<u>1,366,211,005</u>	<u>1,322,683,795</u>	<u>24,670,026</u>	<u>91,037,358</u>
Unallocated net corporate expenses			(49,126,796)	(43,277,686)
(Loss) profit from operations			<u>(24,456,770)</u>	<u>47,759,672</u>
By geographical location of customers:				
North America	343,877,434	411,356,937	1,741,454	5,761,034
Asia Pacific	376,815,330	319,716,865	(20,552,851)	13,358,589
Hong Kong and the People's Republic of China (the "PRC")	491,044,954	297,468,223	1,024,874	5,982,027
Europe	151,952,468	213,256,007	(5,057,175)	9,251,184
Others	2,520,819	80,885,763	(217,289)	3,749,244
	<u>1,366,211,005</u>	<u>1,322,683,795</u>	<u>(23,060,987)</u>	<u>38,102,078</u>
Unallocated net corporate (expenses) income			(1,395,783)	9,657,594
(Loss) profit from operations			<u>(24,456,770)</u>	<u>47,759,672</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

4. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
(Loss) profit from operations has been arrived at after charging:		
Directors' remuneration (Note 6)		
Fees	165,000	–
Other emoluments	3,148,493	2,478,000
Other staff costs	<u>22,081,702</u>	<u>20,563,614</u>
Total staff costs	25,395,195	23,041,614
Auditors' remuneration		
Current year	332,780	344,000
Underprovision in prior year	6,375	–
Depreciation and amortisation		
Owned assets	8,088,320	7,799,087
Assets under finance leases	1,386,678	632,906
Operating lease rentals in respect of land and buildings	2,485,417	1,672,418
Provision for bad and doubtful debts	2,039,391	658,000
Provision for slow-moving and obsolete inventories	2,536,252	2,457,000
Deficit on valuation of leasehold land and buildings	–	1,537,050
and after crediting:		
Gain on disposal of property, plant and equipment	<u>114,443</u>	<u>317,440</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

5. FINANCE COSTS

	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
Interest on:		
Bank borrowings wholly repayable within five years	2,673,058	513,640
Bank borrowings not wholly repayable within five years	–	206,367
Obligations under finance leases	902,983	249,688
	<u>3,576,041</u>	<u>969,695</u>

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particular's of the emoluments of the directors and the five highest paid individuals for the year are as follows:

(a) Directors' emoluments

	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
Directors' fees		
Executive	–	–
Independent non-executive	165,000	–
	<u>165,000</u>	–
Other emoluments of executive directors		
Salaries and other benefits	3,148,493	2,478,000
	<u>3,313,493</u>	<u>2,478,000</u>

The aggregate emoluments of each of the directors were within the following bands:

	Number of directors	
	2001	2000
Nil to HK\$1,000,000	3	3
HK\$1,000,001 to HK\$1,500,000	2	2
	<u>5</u>	<u>5</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid individuals of the Group included three directors (2000: two directors), details of whose emoluments are set out above. The emoluments of the remaining two (2000: three) highest paid individuals are as follows:

	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
Salaries and other benefits	<u>1,529,284</u>	<u>2,054,788</u>

The aggregate emoluments of each of the employees were less than HK\$1,000,000 for both years.

During two years ended 31st March, 2000 and 2001, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, none of the directors has waived any emoluments during either year.

7. TAXATION

	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
The charge comprises:		
Hong Kong Profits Tax		
Current year	–	6,265,491
Under(over) provision in previous years	<u>48,903</u>	<u>(843,348)</u>
	<u>48,903</u>	<u>5,422,143</u>

No provision for Hong Kong Profits Tax has been made in the financial statements as the Hong Kong subsidiaries of the Company have incurred tax losses for the year. Hong Kong Profits Tax was calculated at 16% of the estimated assessable profit for the year ended 31st March, 2000.

Details of the deferred taxation are set out in note 19.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

8. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year, a profit of approximately HK\$21,712,153 (2000: Nil) has been dealt with in the financial statements of the Company.

9. DIVIDENDS

	2001 HK\$ (Note 1)	2000 HK\$ (Note 1)
Dividends paid by ZIHL to its then shareholders prior to the Group Reorganisation:		
Interim	–	3,900,000
Special	–	25,000,000
Dividend paid by the Company after the Group Reorganisation:		
Interim dividend of HK\$0.015 per share (2000: Nil)	2,820,000	–
Final dividend of HK\$0.100 per share (2000: Nil)	18,800,000	–
	21,620,000	28,900,000

10. BASIC (LOSS) EARNINGS PER SHARE

The calculation of the basic (loss) earnings per share for the year is based on the net loss for the year of HK\$24,807,820 (2000: net profit for the year of HK\$43,207,675) and on the weighted average number of 178,600,000 shares (2000: 141,000,000 shares) in issue during the year. For the year ended 31st March, 2000, the 141,000,000 shares in issue were calculated on the assumption that the Group Reorganisation described in note 1 and the capitalisation issue of 139,000,000 shares of the Company as described in note 20 had been effective as at 1st April, 1999.

No amount has been presented for the diluted loss per share for the year as the effect of the exercise of the share options of the Company in issue during the year would be anti-dilutive.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

11. PROPERTY, PLANT AND EQUIPMENT

	Construction in progress <i>HK\$</i>	Medium term leasehold land and buildings in Hong Kong <i>HK\$</i>	Leasehold improve- ments <i>HK\$</i>	Plant and machinery <i>HK\$</i>	Furniture, fixtures and equipment <i>HK\$</i>	Motor vehicles <i>HK\$</i>	Total <i>HK\$</i>
THE GROUP							
COST OR VALUATION							
At 1st April, 2000 (<i>Note 1</i>)	681,294	5,760,000	5,732,784	50,621,076	12,775,852	2,852,352	78,423,358
Additions	–	–	490,829	5,003,928	1,592,846	–	7,087,603
Reclassification	(681,294)	–	681,294	–	–	–	–
Disposals	–	–	–	(83,537)	–	(614,691)	(698,228)
At 31st March, 2001	–	5,760,000	6,904,907	55,541,467	14,368,698	2,237,661	84,812,733
Comprising:							
At cost	–	–	6,904,907	55,541,467	14,368,698	2,237,661	79,052,733
At valuation – 2000	–	5,760,000	–	–	–	–	5,760,000
	–	5,760,000	6,904,907	55,541,467	14,368,698	2,237,661	84,812,733
DEPRECIATION AND AMORTISATION							
At 1st April, 2000 (<i>Note 1</i>)	–	–	2,195,873	21,734,117	6,435,885	764,226	31,130,101
Provided for the year	–	179,786	1,096,277	6,460,440	1,178,368	560,127	9,474,998
Eliminated on disposals	–	–	–	(19,144)	–	(404,980)	(424,124)
At 31st March, 2001	–	179,786	3,292,150	28,175,413	7,614,253	919,373	40,180,975
NET BOOK VALUES							
At 31st March, 2001	–	5,580,214	3,612,757	27,366,054	6,754,445	1,318,288	44,631,758
At 31st March, 2000 (<i>Note 1</i>)	681,294	5,760,000	3,536,911	28,886,959	6,339,967	2,088,126	47,293,257

The leasehold land and buildings were revalued at 29th February, 2000 by Chesterton Petty Limited, international property consultants, on an open market value basis, at amount of HK\$5,760,000. The deficit arising on the valuation of these leasehold land and buildings had been charged to the income statement for the year ended 31st March, 2000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

11. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31st March, 2001, had the Company's leasehold land and buildings been carried at cost less accumulated depreciation and amortisation, the carrying value would have been approximately HK\$7,117,000 (2000: HK\$7,297,000).

The net book value of property, plant and equipment includes an amount of HK\$12,160,933 (2000: HK\$12,652,303) in respect of assets held under finance leases.

12. INVESTMENTS IN SECURITIES

THE GROUP

	2001 HK\$	2000 HK\$ (Note 1)
Unlisted investment security, at cost	<u>911,407</u>	<u>911,407</u>

The investment represents a golf club debenture. In the opinion of directors, the investment is worth at least its cost.

13. INVESTMENT IN A SUBSIDIARY

THE COMPANY

	2001 HK\$	2000 HK\$
Unlisted shares, at cost	60,138,804	—
Less: Provision for investment in a subsidiary	<u>(24,800,000)</u>	—
	<u>35,338,804</u>	—

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the Group Reorganisation as explained in note 1, net of the provision for the diminution in value of the subsidiary amounting to HK\$24,800,000.

Details of the Company's subsidiaries at 31st March, 2001 are set out in note 34.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

14. INVENTORIES

	THE GROUP	
	2001 HK\$	2000 HK\$ (Note 1)
Raw materials	18,360,260	39,692,563
Work in progress	4,751,589	4,140,037
Finished goods	15,417,843	12,023,752
	<u>38,529,692</u>	<u>55,856,352</u>

Included above are raw materials of HK\$177,642 (2000: HK\$553,239) and finished goods of HK\$13,433,828 (2000: HK\$4,292,037) which are carried at net realisable value.

15. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period of 30 days to its trade customers. Included in trade and other receivables are trade receivables of HK\$9,756,017 (2000: HK\$30,947,574), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$ (Note 1)
Up to 30 days	7,409,390	15,802,641
31 – 60 days	589,820	3,867,602
61 – 90 days	1,756,807	9,219,604
More than 90 days	–	2,057,727
	<u>9,756,017</u>	<u>30,947,574</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

16. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$99,142,848 (2000: HK\$50,842,331), the aged analysis of which at the balance sheet date is as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$ (Note 1)
Up to 30 days	90,593,677	30,036,002
31 – 60 days	5,715,767	2,661,453
61 – 90 days	2,833,404	6,083,758
More than 90 days	–	12,061,118
	<u>99,142,848</u>	<u>50,842,331</u>

17. OBLIGATIONS UNDER FINANCE LEASES

	THE GROUP	
	2001 HK\$	2000 HK\$ (Note 1)
Obligations under finance leases are repayable as follows:		
Within one year	4,238,032	3,715,359
More than one year, but not exceeding two years	3,470,650	4,068,935
More than two years, but not exceeding five years	32,618	3,265,748
	<u>7,741,300</u>	<u>11,050,042</u>
Less: Amount due within one year and shown under current liabilities	<u>(4,238,032)</u>	<u>(3,715,359)</u>
Amount due after one year	<u>3,503,268</u>	<u>7,334,683</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

18. SECURED BANK BORROWINGS

	THE GROUP	
	2001 HK\$	2000 HK\$ (Note 1)
Secured bank borrowings comprise:		
Bank loans	11,551,146	7,257,427
Trust receipt loans	561,600	6,160,464
Bank overdraft	2,200,420	69,727
	<u>14,313,166</u>	<u>13,487,618</u>
Bank borrowings are repayable as follows:		
Within one year or on demand	12,546,954	11,276,318
More than one year, but not exceeding two years	504,660	439,140
More than two years, but not exceeding five years	1,261,552	1,663,740
Exceeding five years	–	108,420
	<u>14,313,166</u>	<u>13,487,618</u>
Less: Amount due within one year or on demand and shown under current liabilities	<u>(12,546,954)</u>	<u>(11,276,318)</u>
Amount due after one year	<u>1,766,212</u>	<u>2,211,300</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

19. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$	HK\$
		(Note 1)
Balance brought forward	<u>933,000</u>	<u>933,000</u>

The deferred tax liability at the balance sheet date represents the tax effect of timing differences attributable to the excess of tax allowances over depreciation and amortisation.

Other than the above, neither the Group nor the Company had any other significant unprovided deferred taxation in respect of timing differences for the year or at the balance sheet dates.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

20. SHARE CAPITAL

	Number of shares	Value HK\$
Authorised:		
Ordinary shares of HK\$0.10 each		
On incorporation of the Company (<i>note a</i>)	1,000,000	100,000
At 31st March, 2000	1,000,000	100,000
Increase during the year (<i>note b(i)</i>)	999,000,000	99,900,000
At 31st March, 2001	<u>1,000,000,000</u>	<u>100,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each		
Issued shares at nil paid on incorporation (<i>note a</i>)	1,000,000	–
At 31st March, 2000	1,000,000	–
Issue of shares (<i>note b(ii)</i>)	1,000,000	100,000
Pay up the nil paid shares (<i>note b(ii)</i>)	–	100,000
Issue of new shares upon listing of the Company's shares on the Stock Exchange (<i>note c(i)</i>)	47,000,000	4,700,000
Capitalisation issue of shares (<i>note c(ii)</i>)	139,000,000	13,900,000
At 31st March, 2001	<u>188,000,000</u>	<u>18,800,000</u>

Details of the changes in the Company's share capital for the two years ended 31st March, 2001 are as follows:

- (a) The Company was incorporated on 16th December, 1999 with an authorised share capital of HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. On 6th January, 2000, 1,000,000 shares of HK\$0.10 each were allotted and issued at nil paid. All such shares were subsequently paid up in the manner described in paragraph (b) (ii) below.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

20. SHARE CAPITAL (continued)

- (b) By written resolutions of the then shareholder of the Company on 29th April, 2000:
- (i) the authorised share capital of the Company was increased from HK\$100,000 to HK\$100,000,000 by the creation of an additional 999,000,000 new shares with a nominal value of HK\$0.10 each to rank pari passu with the existing shares in all respects; and
 - (ii) the Company allotted and issued an aggregate of 1,000,000 new shares, credited as fully paid, of HK\$0.10 each in the Company, and credited as fully paid at par the 1,000,000 shares which were allotted and issued at nil paid on 6th January, 2000 as described in paragraph (a) above, as consideration for the acquisition by the Company of the entire issued share capital of ZIHL.
- (c) On 23rd May, 2000, further resolutions were passed by the then shareholder of the Company to effect the following:
- (i) the Company issued 47,000,000 new ordinary shares of HK\$0.10 each for cash at HK\$1.07 per share on 13th June, 2000 (the "New Issue") in accordance with the terms as set out in the Prospectus in connection with the listing of the Company's shares on the Stock Exchange; and
 - (ii) approximately HK\$13,900,000 was directed to be capitalised against the share premium account of the Company being credited as a result of New Issue and applied in paying up in full 139,000,000 shares of HK\$0.10 each in total for allotment and issue to the member of the Company at the close of business on 13th June, 2000.

For the purpose of the preparation of the financial statements, the balance of the share capital shown in the consolidated balance sheet at 31st March, 2000 represented the issued capital of ZIHL which was acquired by the Company pursuant to the Group Reorganisation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

21. SHARE OPTIONS

Pursuant to the Company's share option scheme adopted on 29th April, 2000 (the "Scheme"), the directors of the Company may, at their absolute discretion, grant options to any eligible employees of the Company or any of its subsidiaries (including executive directors and other officers of the Company or its subsidiaries) to subscribe for shares in the Company in accordance with the terms of the Scheme.

The subscription price for shares under the Scheme shall be determined by the directors of the Company, being not less than 80% of the average closing prices of the shares of the Company for the five trading days immediately preceding the date of offer of the option, or the nominal value of the shares, whichever is higher. The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The movement of share options granted by the Company to the directors and eligible employees to subscribe for shares in the Company during the year are as follows:

	At HK\$0.568 granted on 15.7.2000	At HK\$0.770 granted on 26.8.2000	At HK\$0.240 granted on 29.1.2001
Exercisable period	15.1.2001 to 14.7.2005	26.8.2001 to 25.8.2005	29.1.2002 to 28.1.2006
Granted during the year	7,625,000	600,000	2,260,000
Cancelled during the year	(950,000)	—	—
As at 31st March, 2001	<u>6,675,000</u>	<u>600,000</u>	<u>2,260,000</u>

No options were exercised during the year.

No consideration was received by the Company or the Group for options granted during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

22. RESERVES

	Share premium of ZIHL before	Share premium	Group Re- organisation	Special reserve	Contributed surplus	Capital reserve	Retained profits	Total
		HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
THE GROUP								
At 1st April, 1999 (Note 1)		-	9,730,500	-	-	2,407,706	33,595,423	45,733,629
Profit for the year		-	-	-	-	-	43,207,675	43,207,675
Dividends		-	-	-	-	-	(28,900,000)	(28,900,000)
At 31st March, 2000 and 1st April, 2000 (Note 1)		-	9,730,500	-	-	2,407,706	47,903,098	60,041,304
Premium arising on New Issue		45,590,000	-	-	-	-	-	45,590,000
Expenses on New Issue		(8,691,173)	-	-	-	-	-	(8,691,173)
Capitalisation issue to pay up in full of 139,000,000 shares		(13,900,000)	-	-	-	-	-	(13,900,000)
Share premium of ZIHL transferred to special reserve upon Group Reorganisation		-	(9,730,500)	9,730,500	-	-	-	-
Reserve arising from Group Reorganisation (note)		-	-	(102,500)	-	-	-	(102,500)
Loss for the year		-	-	-	-	-	(24,807,820)	(24,807,820)
Dividends (note 10)		-	-	-	-	-	(21,620,000)	(21,620,000)
At 31st March, 2001		<u>22,998,827</u>	<u>-</u>	<u>9,628,000</u>	<u>-</u>	<u>2,407,706</u>	<u>1,475,278</u>	<u>36,509,811</u>
THE COMPANY								
At 1st April, 1999 and at 1st March, 2000		-	-	-	-	-	-	-
Premium arising on New Issue		45,590,000	-	-	-	-	-	45,590,000
Expenses on New Issue		(8,691,173)	-	-	-	-	-	(8,691,173)
Capitalisation issue to pay up in full of 139,000,000 shares		(13,900,000)	-	-	-	-	-	(13,900,000)
Contributed surplus arising from Group Reorganisation		-	-	-	59,938,804	-	-	59,938,804
Profit for the year (note 8)		-	-	-	-	-	21,712,153	21,712,153
Dividends (note 10)		-	-	-	-	-	(21,620,000)	(21,620,000)
At 31st March, 2001		<u>22,998,827</u>	<u>-</u>	<u>-</u>	<u>59,938,804</u>	<u>-</u>	<u>92,153</u>	<u>83,029,784</u>

Note: This amount represents the difference between the nominal amount of ZIHL's shares at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the Group Reorganisation described in note 1.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

22. RESERVES (continued)

The contributed surplus of the Company represents the difference between the book value of the underlying net assets of the subsidiaries acquired by the Company under the Group Reorganisation and the nominal value of the Company's shares issued for the acquisition. In addition to retained profits, under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus, if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, the Company's reserves available for distribution to shareholders as at 31st March, 2001 comprised contributed surplus and retained profits in aggregate amounting to HK\$60,030,957 (2000: Nil).

23. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001	2000
	HK\$	HK\$
	<i>(Note 1)</i>	<i>(Note 1)</i>
(Loss) profit before taxation	(24,758,917)	48,629,818
Depreciation and amortisation	9,474,998	8,431,993
Interest expenses	2,673,058	720,007
Interest on finance leases	902,983	249,688
Interest income	(3,273,894)	(1,839,841)
Deficit on valuation on leasehold land and buildings	–	1,537,050
Gain on disposal of property, plant and equipment	(114,443)	(317,440)
Decrease (increase) in inventories	17,326,660	(30,963,294)
Decrease (increase) in trade and other receivables	21,795,249	(14,429,694)
Decrease (increase) in bills receivable	612,768	(1,526,795)
Increase in trade and other payables	41,100,046	12,458,421
(Decrease) increase in secured bills payable	(8,844,869)	6,239,061
Net cash inflow from operating activities	56,893,639	29,188,974

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$	Bank loans HK\$	Obligations under finance leases HK\$
Balance at 1st April, 1999 (Note 1)	9,828,000	2,892,630	–
Inception of new finance leases		–	11,931,627
New bank loans raised	–	4,672,897	–
Repayments	–	(308,100)	(881,585)
Balance at 31st March, 2000 and 1st April, 2000 (Note 1)	9,828,000	7,257,427	11,050,042
Eliminated on Group Reorganisation	(9,828,000)	–	–
Issue of shares in respect of acquisition of ZIHL	200,000	–	–
Proceeds from New Issue	50,290,000	–	–
Expenses on New Issue	(8,691,173)	–	–
New bank loans raised	–	9,345,794	–
Inception of new finance leases	–	–	520,629
Repayments	–	(5,052,075)	(3,829,371)
Balance at 31st March, 2001	<u>41,798,827</u>	<u>11,551,146</u>	<u>7,741,300</u>

25. NON-CASH TRANSACTIONS

Additions to plant and machinery during the year amounting to HK\$520,629 (2000: HK\$11,931,627) were financed by finance leases.

26. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2001 HK\$	2000 HK\$ (Note 1)
Bank balances and cash	102,405,331	46,914,150
Trust receipt loans	(561,600)	(6,160,464)
Bank overdraft	(2,200,420)	(69,727)
	<u>99,643,311</u>	<u>40,683,959</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

27. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments payable in the following year under non-cancellable operating leases in respect of rented premises as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Operating leases which expire:		
Within one year	380,000	466,000
In the second to fifth year inclusive	717,000	915,000
Over five years	1,496,000	1,482,000
	<u>2,593,000</u>	<u>2,863,000</u>

The Company had no significant operating lease commitments as at the balance sheet date.

28. COMMITMENTS

At the balance sheet date, the Group had capital expenditure committed as follows:

	THE GROUP	
	2001 HK\$	2000 HK\$
Contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>—</u>	<u>246,000</u>

The Company had no significant capital expenditure commitments as at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

29. BANKING FACILITIES

At 31st March, 2001, the Group's banking facilities were secured by the followings:

1. a bank deposit of the Group of HK\$1.6 million;
2. the Group's leasehold land and buildings with a net book value of approximately HK\$3,384,000;
3. property located in Hong Kong owned by Mr. Chang Chung Wa, Eddie and his spouse;
4. personal guarantees given by Mr. Chang Chung Wa, Eddie and his mother; and
5. cross-guarantees between subsidiaries.

At 31st March, 2000, the Group's banking facilities were secured by the followings:

1. a bank deposit of the Group of HK\$1.6 million;
2. the Group's leasehold land and buildings with a net book value of HK\$5,760,000;
3. properties located in Hong Kong owned by Mr. Chang Chung Wa, Eddie, his spouse and Ms. Tang Kit Ching, Venus;
4. personal guarantees given by Mr. Chang Chung Wa, Eddie, his spouse and his mother; and
5. cross-guarantees between subsidiaries.

As at 31st March, 2001, the Company provided an unlimited corporate guarantee in respect of credit facilities granted to a subsidiary.

30. OTHER COMMITMENTS

At the balance sheet date, the Group had annual commitments payable in the following year in respect of the payment of a management fee to a party in the PRC as follows:

	2001	2000
	HK\$	HK\$
		<i>(Note 1)</i>
Management agreement which expires over five years	<u>47,000</u>	<u>47,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

31. PLEDGE OF ASSETS

The Group has pledged land and buildings having carrying value of approximately HK\$3,384,000 (2000: HK\$5,760,000) and a bank deposit of HK\$1,600,000 (2000: HK\$1,600,000) to secure general banking facilities granted to the Group.

32. RELATED PARTY TRANSACTIONS

The Group's banking facilities as at 31st March, 2001 were guaranteed by a director, Mr. Chang Chung Wa, Eddie and his mother and secured by the property owned by Mr. Chang Chung Wa, Eddie and his spouse to the extent of HK\$10,000,000.

The Group's banking facilities as at 31st March, 2000 were guaranteed by a director, Mr. Chang Chung Wa, Eddie, his spouse and his mother and secured by the properties owned by Mr. Chang Chung Wa, Eddie, his spouse and Ms. Tang Kit Ching, Venus to the extent of HK\$43,000,000.

Save as disclosed above, there were no other significant transactions with related parties during the year or significant balances with them at any time during the year.

33. RETIREMENT BENEFITS SCHEME

The Group had a defined contribution scheme for all qualifying employees. The assets of the scheme were held separately under a provident fund managed by an independent trustee. The cost charged to the income statement represented contributions payable to the schemes by the Group at 5% of the payable of the employees. When there are employees who leave the scheme prior to vesting fully in the contributions, the contribution payable by the Group are reduced by the amount of forfeited contributions.

As 31st March, 2000, there were no significant forfeited contributions, which arose when employees left the retirement benefit scheme before they were fully vested in the contributions and which were available to reduce the contributions payable by the Group in future years.

For the year ended 31st March, 2000, retirement benefit scheme contributions, net of forfeited contributions of approximately HK\$64,000, charged to income statement amounted to approximately HK\$258,000.

For the year ended 31st March, 2001, forfeited contribution, net of retirement benefit scheme contributions of approximately HK\$402,000, credited to the income statement amounted to approximately HK\$115,000.

The above-mentioned defined contribution scheme was terminated following the commencement of MPF scheme.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

33. RETIREMENT BENEFITS SCHEME (continued)

From December 2000 onwards, the Company enrolled all eligible employees in Hong Kong into a Mandatory Provident Fund ("MPF") scheme. The MPF is a defined contribution scheme and the assets of the scheme are managed by the trustees.

The MPF is available to all employees aged 18 to 64 and with at least 60 days of service under the employment of the Group in Hong Kong. Contributions are made by the Group at 5% based on the staff's relevant income. The maximum relevant income from contribution purpose is HK\$20,000 per month. Staff members are entitled to 100% of the Group's contributions together with accrued returns irrespective of their length of service with the Group, but the benefits are required by law to be preserved until the retirement age of 65.

The Group's cost for the MPF charged to income statement for the year ended 31st March, 2001 amounted to HK\$184,000 (2000: Nil).

34. SUBSIDIARIES

Details of the Company's subsidiaries at 31st March, 2001 are as follows:

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and paid up share capital/ registered capital	Principal activities
3E Technologies, Inc.	United States of America	Common stocks US\$150,000	Product development and supply of computer motherboards and related components
Barron Limited	Western Samoa/ Hong Kong	Ordinary US\$20,000	Providing management services
Dailyview Limited	Hong Kong	Ordinary HK\$10,000	Property holding
Frontline Group Limited	British Virgin Islands/ Hong Kong	Ordinary US\$10,000	Investment holding
Gladons Limited	Western Samoa/ Hong Kong	Ordinary US\$20,000	Providing management and marketing services

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

34. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and paid up share capital/ registered capital	Principal activities
Goldenet International Limited	British Virgin Islands/ Hong Kong	Ordinary US\$50,000	Investment holding
Netous Technologies Limited	Hong Kong	Ordinary HK\$10,000	Manufacturing, marketing and research and development of networking products
Peair Design Limited	Hong Kong	Ordinary HK\$10,000	Inactive
Shenzhen Huaji Yuehai Technologies Company Limited (深圳華基粵海科技有限公司) ("Shenzhen Huaji") (Note (i))	PRC	Registered capital US\$5,000,000 (Note (ii))	Manufacturing, marketing and research and development of computer motherboards and PC Systems
Tomato Microelectronics Limited	Hong Kong	Ordinary HK\$10,000	Inactive
Treasureland Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary US\$10,000	Inactive
Vida Design Limited	Hong Kong	Ordinary HK\$20,000	Marketing, development and supply of computer motherboards and related components
Visionland Limited	Hong Kong	Ordinary HK\$10,000	Inactive

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the year ended 31st March, 2001

34. SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment/ operations	Issued and paid up share capital/ registered capital	Principal activities
Zida Industrial Limited	Hong Kong	Ordinary HK\$10,000	Manufacture of computer motherboards and system
Zida Information Technologies Limited	Hong Kong	Ordinary HK\$10,000	Marketing, development and supply of computer motherboards and related components
Zida International Holding Limited	British Virgin Islands/ Hong Kong	Ordinary US\$12,500	Investment holding
Zida Manufacturing Holding Limited	British Virgin Islands/ Hong Kong	Ordinary US\$1	Investment holding
Zida Technologies Holding Limited	Hong Kong	Ordinary HK\$10,000	Investment holding
Zida Technologies Limited	Hong Kong	Ordinary HK\$2,000,000	Manufacture, marketing and research and development on computer motherboards and related components

Notes:

- (i) Shenzhen Huaji was established as a cooperative joint venture enterprise for a term of 30 years commencing from 16th July, 1999. Under the relevant joint venture agreement, the Group is responsible for managing the operations of this company. The Group accounts for this enterprise as a wholly-owned subsidiary since the Group is accountable for all of the results of the operations and is also responsible for all its assets and liabilities after the payment of a fixed amount to the PRC party each year during the term of the joint venture.
- (ii) As at 31st March, 2001, the registered capital was paid up to the extent of US\$3,353,070 (2000: US\$3,353,070).

The above subsidiaries are owned indirectly by the Company, with the exception of Zida International Holding Limited. All subsidiaries are wholly-owned by the Company.

None of the subsidiaries had any loan capital at the end of the year or at any time during the year.