NOTES TO CONDENSED INTERIM ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited consolidated condensed interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants.

These condensed interim accounts should be read in conjunction with the 2000 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31st December 2000 except that the Group has changed certain of its accounting policies following its adoption of the following Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1st January 2001 and are applicable to the Group:

SSAP 9 (revised): Events after the balance sheet date
SSAP 14 (revised): Leases
SSAP 26: Segment reporting

The changes to the Group's accounting policies and the effect of adopting these new policies are set out below:

(a) SSAP 9 (revised): Events after the balance sheet date

In accordance with revised SSAP 9, the Group no longer recognises dividends proposed or declared after the balance sheet date as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in Note 14, opening retained earnings at 1st January 2000 have increased by US$2,280,000 which is the reversal of the provision for the 1999 proposed final dividend previously recorded as a liability as at 31st December 1999 although not declared until after the balance sheet date. Opening retained earnings at 1st January 2001 have increased by US$5,337,000 which is the reversal of the provision for 2000 proposed final dividend previously recorded as a liability as at 31st December 2000 although not declared until after the balance sheet date.

This adjustment has resulted in a decrease in current liabilities at 30th June 2001 by US$3,159,000 (31st December 2000: US$5,337,000) for provision for proposed dividends that is no longer required.

Changes to headings used in the previously reported 31st December 2000 balance sheet and profit and loss account relating to dividends and profit for the year retained have also been made to reflect the changes resulting from SSAP 9 (revised).

1. Basis of preparation and accounting policies *(continued)*

(b) SSAP 14 (revised): Leases

In accordance with revised SSAP 14, the Group is required to disclose the aggregate future minimum lease payments, analysed into the periods on which the payment is to be made. This is a change from previous SSAP 14 which only required disclosure of the minimum lease payments payable in the next twelve months, analysed into the periods in which the lease expires. Comparative information has also been restated to conform to the changed policy.

(c) SSAP 26: Segment reporting

In Note 2 to these condensed interim accounts the Group has disclosed segment revenue and results as defined under SSAP 26. In accordance with the Group's internal financial reporting the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format. Comparative information has been given.

2. Segment information

The Group is principally engaged in the manufacturing and trading of computer monitors and scanners.

2. Segment information *(continued)*

An analysis of the Group's revenue and results for the period by business segment is as follows:

	Six months ended 30th June 2001 US$'000			
	CRT monitors	**LCD monitors**	**Others**	**Group**
Turnover	**458,711**	**47,846**	**26,148**	**532,705**
Cost of goods sold	**(416,843)**	**(44,202)**	**(25,280)**	**(486,325)**
Other revenues	**133**	**–**	**10**	**143**
Operating expenses	**(19,816)**	**(878)**	**(1,284)**	**(21,978)**
Segment results	**22,185**	**2,766**	**(406)**	**24,545**
Unallocated revenues				**1,230**
Operating profit				**25,775**
Finance costs				**(3,317)**
Share of profits of				
– a jointly controlled entity	**1,287**			**1,287**
– an associated company	**41**			**41**
Profit before taxation				**23,786**
Taxation				**(3,939)**
Profit attributable to shareholders				**19,847**

	Six months ended 30th June 2000 US$'000			
	CRT monitors	LCD monitors	Others	Group
Turnover	351,571	6,816	54,533	412,920
Cost of goods sold	(316,122)	(6,677)	(51,569)	(374,368)
Other revenues	132	–	29	161
Operating expenses	(15,559)	(388)	(2,807)	(18,754)
Segment results	20,022	(249)	186	19,959
Unallocated revenues				1,135
Operating profit				21,094
Finance costs				(2,782)
Share of profits/(losses) of				
– a jointly controlled entity	495			495
– an associated company	(338)			(338)
Profit before taxation				18,469
Taxation				(2,678)
Profit attributable to shareholders				15,791

The Group is organised on a worldwide basis into three main business segments: CRT monitors, LCD monitors and Others (including production of CKD/SKD, scanners and the trading of spare parts). There are no sales or other transactions between the business segments.

2. **Segment information** *(continued)*

Secondary reporting format – geographical segments

Although the Group's three main business segments are managed on a worldwide basis, they operate in six main geographical areas.

An analysis of the Group's turnover and contribution to operating profit for the period by geographical segment is as follows:

	Turnover Six months ended 30th June		Operating profit/(loss) Six months ended 30th June	
	2001	2000	**2001**	2000
	US$'000	*US$'000*	***US$'000***	*US$'000*
Geographical segments:				
Europe	**203,638**	118,390	**9,568**	5,827
North America	**85,008**	45,119	**3,967**	2,687
South America	**12,917**	26,291	**(308)**	(125)
Africa	**7,592**	3,788	**475**	316
Australia	**6,629**	10,341	**317**	605
Asia				
– the PRC	**162,871**	129,731	**8,712**	5,900
– other Asian countries	**54,050**	79,260	**3,044**	5,884
	532,705	412,920	**25,775**	21,094

Sales are based on the country in which the final destination of shipment is located. There are no sales between the segments.

3. **Operating profit**

Operating profit is stated after crediting and charging the following:

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Crediting		
Gain on disposal of other investments	**242**	–
Net exchange gains	**740**	72
Charging		
Depreciation	**7,298**	3,937
Amortisation of intangible assets	**261**	67
Loss on disposal of fixed assets	**37**	150
Provision for doubtful debts	**825**	493
Provision for diminution in value of other investments	**–**	383

4. Taxation

No provision has been made for Hong Kong profits tax as the Group has no estimated assessable profit for the period (six months ended 30th June 2000: Nil).

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries/places in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
Overseas taxation		
Current year	**3,308**	2,221
Fiscal refund	**(635)**	(120)
Under provision in prior periods	**1,144**	553
	3,817	2,654
Share of taxation attributable to:		
– a jointly controlled entity	**122**	6
– an associated company	**–**	18
	3,939	2,678

In accordance with an approval document issued by the Fuqing Municipal Finance Bureau dated 28th June 1999, a subsidiary of the Group is entitled to fiscal refunds totalling approximately US$2.55 million, in respect of the profits tax for the year ended 31st December 1999 and prior years.

However, based on a circular issued by the State Council dated 11th January 2000, local bureaus are not allowed to make any further tax refunds subsequent to 1st January 2000 unless they are approved by the State Council.

Accordingly, only refunds of approximately US$635,000 and US$120,000 received from the Fuqing Municipal Finance Bureau during the six months ended 30th June 2001 and 30th June 2000 respectively have been recognised in the accounts. The remaining balance of approximately US$635,000 has not been taken up in the accounts as it is uncertain as to whether it would be receivable.

5. Interim dividend

	Six months ended 30th June	
	2001	2000
	US$'000	*US$'000*
2001 Interim, proposed on 6th September 2001 of US 0.26 cent (2000: US 0.21 cent) per ordinary share	**3,159**	2,520

6. Earnings per share

The calculation of basic and fully diluted earnings per share is based on the Group's profit attributable to shareholders of US$19,847,000 for the six months ended 30th June 2001 (six months ended 30th June 2000: US$15,791,000).

The basic earnings per share is based on the weighted average number of 1,212,558,117 (2000: 1,200,000,000) ordinary shares in issue during the period.

The fully diluted earnings per share is based on 1,230,178,996 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 17,620,879 ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

Fully diluted earnings per share for the six months ended 30th June 2000 has not been calculated as there was no diluting event existed during the period.

7. Capital expenditure

	Property, plant and equipment *US$'000*
Six months ended 30th June 2001	
Opening net book amount	45,003
Additions	9,756
Disposals	(37)
Depreciation	(7,298)
Closing net book amount	47,424

As at 30th June 2001, the net book value of fixed assets pledged to banks to secure banking facilities amounted to US$12.7 million (31st December 2000: US$40.7 million).

8. Intangibles assets

	Goodwill *US$'000*	**Trademarks** *US$'000*	**Total** *US$'000*
Six months ended 30th June 2001			
Opening net book amount	6,694	694	7,388
Amortisation charge	(234)	(27)	(261)
Closing net book amount	6,460	667	7,127
At 30th June 2001			
Cost	7,010	800	7,810
Accumulated amortisation	(550)	(133)	(683)
Net book amount	6,460	667	7,127
At 31st December 2000			
Cost	7,010	800	7,810
Accumulated amortisation	(316)	(106)	(422)
Net book amount	6,694	694	7,388

9. Trade receivables

The ageing analysis of trade receivables is as follows:

	0-30 days US$'000	31-60 days US$'000	61-90 days US$'000	91-120 days US$'000	Over 120 days US$'000	Total US$'000
Balance at 30th June 2001	**48,300**	**71,521**	**19,617**	**3,671**	**14,325**	**157,434**
Balance at 31st December 2000	81,595	37,900	12,263	7,522	10,503	149,783

The credit terms of the Group's sales are ranging from 30 to 120 days and certain of its export sales are on letter of credit or documents against payment.

10. Trade payables

The ageing analysis of trade payables is as follows:

	0-30 days US$'000	31-60 days US$'000	61-90 days US$'000	Over 90 days US$'000	Total US$'000
Balance at 30th June 2001	**74,559**	**54,307**	**49,779**	**57,444**	**236,089**
Balance at 31st December 2000	95,313	88,611	48,155	21,356	253,435

11. Warranty provisions

	US$'000
At 1st January 2001	5,458
Charged to the profit and loss account	5,775
Utilised during the period	(4,997)
At 30th June 2001	6,236

The Group gives three-year warranties on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of US$6.2 million has been recognised for expected warranty claims on products sold during the last three financial periods. It is expected that the majority of this expenditure will be incurred in the next financial period, and all will be incurred within two years of the balance sheet date.

12. Short-term bank loans, secured

At 30th June 2001, approximately US$12.7 million (31st December 2000: US$40.7 million) of fixed assets, US$46.0 million (31st December 2000: Nil) of inventories and US$31.4 million (31st December 2000: US$31.9 million) of bank deposits have been pledged as security for bank borrowings.

13. Share capital

	30th June 2001 US$'000	31st December 2000 US$'000
Authorised:		
4,000,000,000 (2000: 4,000,000,000) ordinary shares of US$0.01 each	**40,000**	40,000
Issued and fully paid:		
1,214,896,921 (2000: 1,212,844,175) ordinary shares of US$0.01 each	**12,149**	12,128

A summary of the above movements in issued share capital of the Company is as follows:

	Number of issued ordinary shares of US$0.01 each	Par value US$'000
At 31st December 2000	1,212,844,175	12,128
Issue of shares pursuant to a scrip dividend scheme for the 2000 final dividend	2,370,746	24
Shares repurchased and cancelled	(318,000)	(3)
At 30th June 2001	1,214,896,921	12,149

The following alterations in the Company's issued share capital took place during the period:

(a) Pursuant to a scrip dividend scheme approved by the Company on 25th May 2001, the Company issued and allotted a total of 2,370,746 new ordinary shares of US$0.01 each in the Company at value of HK$1.57 per share to certain shareholders in lieu of cash payment for the 2000 final dividend on 29th June 2001. These shares rank pari passu with the existing issued shares of the Company.

(b) During the period, the Company repurchased a total of 318,000 of its own shares through The Stock Exchange of Hong Kong Limited at prices ranging from US 9.5 cents (HK$0.74) to US 9.7 cents (HK$0.76) per share, for a total consideration of US$30,792 (HK$240,180). The repurchased shares were cancelled and an amount equivalent to the nominal value of these shares was transferred from retained profits to share redemption reserve and the premium paid on the repurchased shares was charged against share premium account *(Note 14)*.

(c) On 26th February 2001, the Company granted 64,140,000 options (the "Options") under the share option scheme adopted on 21st September 1999 to certain employees.

The Options are exercisable at US$0.09 (HK$0.67) per share at any time prior to 26th February 2006. The maximum percentage of Options exercisable after the first, second and third anniversary from 26th February 2001 are 20 percent, 50 percent and 100 percent respectively.

During the period, no Options have been exercised.

14. Reserves

	Exchange reserve US$'000	Reserve fund US$'000	Capital reserve US$'000	Share redemption reserve US$'000	Share premium US$'000	Merger difference US$'000	Retained profits US$'000	Total US$'000
At 1st January 2000 as previously reported	(6,545)	5,747	4,166	–	26,375	10,001	40,109	79,853
Effect of adopting SSAP 9 (Revised)	–	–	–	–	–	–	2,280	2,280
At 1st January 2000 as restated	(6,545)	5,747	4,166	–	26,375	10,001	42,389	82,133
1999 final dividend paid	–	–	–	–	–	–	(2,280)	(2,280)
Issue of new shares under a scrip dividend scheme	–	–	–	–	1,280	–	–	1,280
Repurchase of shares	–	–	–	8	(72)	–	(8)	(72)
Profit for the year	–	–	–	–	–	–	33,268	33,268
Interim dividend paid	–	–	–	–	–	–	(2,520)	(2,520)
Transfer from retained profits	–	2,882	–	–	–	–	(2,882)	–
Exchange difference	(403)	–	–	–	–	–	–	(403)
Reserves	(6,948)	8,629	4,166	8	27,583	10,001	62,630	106,069
Proposed final dividend	–	–	–	–	–	–	5,337	5,337
At 31st December 2000	(6,948)	8,629	4,166	8	27,583	10,001	67,967	111,406
At 1st January 2001 as previously reported	(6,948)	8,629	4,166	8	27,583	10,001	62,630	106,069
Effect of adopting SSAP 9 (Revised)	–	–	–	–	–	–	5,337	5,337
At 1st January 2001 as restated	(6,948)	8,629	4,166	8	27,583	10,001	67,967	111,406
2000 final dividend paid	–	–	–	–	–	–	(5,337)	(5,337)
Issue of new shares under a scrip dividend scheme *(Note 13)*	–	–	–	–	454	–	–	454
Repurchase of shares *(Note 13)*	–	–	–	3	(28)	–	(3)	(28)
Profit for the period	–	–	–	–	–	–	19,847	19,847
Exchange difference	(176)	–	–	–	–	–	–	(176)
Reserves	(7,124)	8,629	4,166	11	28,009	10,001	79,315	123,007
Proposed interim dividend	–	–	–	–	–	–	3,159	3,159
At 30th June 2001	**(7,124)**	**8,629**	**4,166**	**11**	**28,009**	**10,001**	**82,474**	**126,166**

15. Contingent liabilities

(a) At 30th June 2001, the Group had provided guarantees for bank facilities on behalf of a jointly controlled entity amounting to approximately US$50.5 million (31st December 2000: US$59.0 million). The jointly controlled entity has in return provided guarantees for credit facilities on behalf of the Group amounting to approximately US$18.3 million (31st December 2000: US$20.3 million).

(b) On 14th February 2001, two third party companies commenced legal actions in the United States of America against Envision Peripherals, Inc., an associated company and distributor of the Company. On 29th March 2001, these plaintiffs commenced further legal actions against Top Victory Electronics (Taiwan) Company Limited, a subsidiary of the Company. These actions claim damages related to alleged infringement of certain patents titled "Low-Power-Consumption Monitor Standby System" (the "Patents in Suit") by virtue of the defendants' making, using, offering for sale and/or selling computer monitors in the United States of America.

It is alleged in the claim that:

(i) the Patents in Suit describe a method and apparatus for reducing the power consumption of a monitor by shutting power-consuming circuits in the monitor if the computer has not been in use for a period of time; and

(ii) the defendants infringed the Patents in Suit when they utilized in the monitors the Display Power Management Signaling standard promulgated by the Video Electronics Standards Association.

The Directors are of the opinion that the claim is without merit and that an unfavourable outcome of the litigation is not probable. Even if the outcome of the litigation turns out to be unfavourable, the Directors consider that its future settlement will not have any material financial impact on the Group as a whole.

16. Commitments

(a) Capital commitments for property, plant and equipment

	30th June 2001 *US$'000*	31st December 2000 *US$'000*
Contracted but not provided for	**152**	3,266

(b) Commitments under operating leases

At 30th June 2001, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and building as follows:

	30th June 2001 *US$'000*	Restated 31st December 2000 *US$'000*
Within one year	**504**	573
In the second to fifth year inclusive	**853**	1,050
After the fifth year	**248**	276
	1,605	1,899

17. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

		Six months ended 30th June	
		2001	2000
	Note	**US$'000**	US$'000
Sale of finished goods	*(a)*	**75,404**	72,600
Commission paid to the associated company	*(b)*	**(2,930)**	(2,767)

Notes:

(a) Sales of finished goods to a jointly controlled entity and an associated company were conducted in the normal course of business at prices and terms as determined by the transacting parties.

(b) The amount of the commission paid to the associated company were agreed between transacting parties.