NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of presentation and accounting policies

These unaudited condensed consolidated interim financial statements have not been audited by the Company's auditors but have been reviewed by the Company's Audit Committee.

The unaudited condensed consolidated interim financial statements have been prepared under historical cost convention as modified for the revaluation of leasehold land and buildings, and have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants and the disclosure requirements set out in Appendix 16 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 30th June, 2001 except for the changes in accounting policies as set out below.

SSAP 30 "Business Combinations" requires that goodwill arising from the acquisition of subsidiaries or associated companies, being the excess of the purchase consideration over the fair value of the Group's share of the identifiable net assets acquired, to be recorded as an asset and amortised on a straight-line basis to the unaudited condensed consolidated profit and loss account over its estimated useful life. The Group has previously eliminated goodwill arising on acquisition of subsidiaries against reserves. The transitional provision in SSAP 30 is adopted and the goodwill is not restated. In addition, in accordance with the provisions of Interpretation 13, assessments of impairment of goodwill also apply to goodwill previously eliminated against reserves which will not be reinstated at the time of adoption of SSAP 30. Any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognized as an expense in the profit and loss account.

Except for changes as described above, the adoption of SSAP 9 (revised), SSAP 14 (revised), SSAP 17 (revised), SSAP 26, SSAP 28, SSAP 29, SSAP 31 and SSAP 32 does not have any material impact on the reported financial position or results of the Group.

The unaudited condensed consolidated interim financial statements include the financial statements of the Company and its subsidiaries. All significant intra-group transactions and balances have been eliminated upon consolidation.

2. Turnover and segment information

The Group is principally engaged in the manufacturing and distributing of computer monitors and computer monitor components and parts.

An analysis of the Group's turnover and contribution to profit from operating activities by principal activity and geographical areas of operations are as follows:

	(Unaudited) Turnover Six months ended 31st December,		(Unaudited) Operating profit Six months ended 31st December,	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
By principal activity				
Manufacturing and distributing of CRT-based computer monitors	**1,218,955**	1,751,862	**20,667**	16,435
Manufacturing and distributing of LCD computer monitors	**894,402**	95,316	**11,169**	15,218
Manufacturing and distributing of computer monitors components and parts	**157,191**	298,225	**(1,790)**	6,830
	2,270,548	2,145,403	**30,046**	38,483
Geographical areas of operations				
North America	**516,113**	908,732	**7,142**	17,869
West Europe	**658,998**	409,761	**12,202**	(1,344)
Asia	**1,012,557**	703,187	**13,195**	20,892
Others	**82,880**	123,723	**(2,493)**	1,066
	2,270,548	2,145,403	**30,046**	38,483

3. Profit from operating activities

The Group's profit from operating activities was determined after charging the following:

	(Unaudited) Six months ended 31st December, 2001 HK$'000	2000 HK$'000
Depreciation	**24,055**	22,484

4. Tax

	(Unaudited) Six months ended 31st December, 2001 HK$'000	2000 HK$'000
Current:		
Hong Kong	**2,000**	1,940
Overseas	**3,898**	1,259
Tax charge for the period	**5,898**	3,199

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable overseas have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

All subsidiaries operating in the People's Republic of China (the "PRC") are exempted from income tax for two years from the first profit-making year and are eligible for a 50% relief from income tax for the following three years under the Income Tax Law.

No deferred tax has been provided (2000: Nil) by the Group because there were no significant timing differences at 31st December, 2001.

5. Interim dividend

The Directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2001 (2000: Nil).

6. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the period of HK$19,978,000 (2000: HK$34,590,000) and on the weighted average of 635,514,129 (2000: 635,514,129) shares in issue during the period.

No diluted earnings per share have been shown for the current period because the exercise price of the dilutive potential ordinary shares during the period was higher than the average market price of the Company's share and, accordingly, there was no dilutive effect on the basic earnings per share.

The calculation of diluted earnings per share for the six months ended 31st December, 2000 was based on the adjusted net profit from ordinary activities attributable to shareholders for that period of HK$38,455,000 and 732,700,379 ordinary shares, being the weighted average number of ordinary shares outstanding during that period adjusted for the effects of dilutive potential ordinary shares outstanding during that period.

The reconciliation of weighted average number of shares and adjusted profit used in calculating the basic and diluted earnings per share calculations is as follows:

	(Unaudited) Six months ended 31st December, 2000 *HK$000*
Profit attributable to shareholders:	
Profit for calculation of basic earnings per share	34,590
Adjustment on interest paid on the convertible bonds	3,865
Adjusted profit used in calculating diluted earnings per share	38,455
Number of shares:	
Weighted average number of shares for calculation of basic earnings per share	635,514,129
Effect of dilutive potential ordinary shares:	
Convertible bonds	97,186,250
Weighted average number of shares for calculation of diluted earnings per share	732,700,379

7. Accounts receivable

The aged analysis of the Group's accounts receivable at balance sheet date is as follows:

	(Unaudited) 31st December, 2001	(Audited) 30th June, 2001
	HK$'000	*HK$'000*
Within 90 days	**546,415**	343,173
Between 91 to 180 days	**145,264**	48,031
Between 181 to 365 days	**30,035**	50,863
Over 365 days	**16,317**	–
	738,031	442,067

Payment terms with customers are largely on credit. Invoices are normally payable within 90 days of issuance, except for certain well established customers, where the terms are extended to 180 days. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are regularly reviewed by the Group's senior management.

During the period under review, the Group has increased the use of export credit insurance arrangements as opposed to outright factoring to finance its accounts receivable.

Consequently, both the amount of receivables and bank and other borrowings have increased significantly. As at 31st December, 2001, the amount of accounts receivable under such export credit arrangements was HK$117,731,000 (30th June 2001: HK$13,064,000).

The substantial increase in accounts receivable was also attributable to the fact that sales of the Group had been stagnant for a few weeks after the 9.11 tragedy in US but picked up again in the last two months of the period.

8. Accounts and bills payable

The aged analysis of the Group's accounts payable at balance sheet date is as follows:

	(Unaudited) 31st December, 2001 *HK$'000*	(Audited) 30th June, 2001 *HK$'000*
Within 90 days	**804,005**	375,538
Between 91 to 180 days	**111,973**	177,578
Between 181 to 365 days	**10,834**	5,922
	926,812	559,038

9. Bank and other borrowings

As at 31st December, 2001, the amount of borrowings through export credit insurance arrangements was HK$117,731,000 (30th June, 2001 : HK$13,064,000).

10. Share options

On 26 May 1997, the Company adopted a share option scheme under which the directors may, at their discretion, make an offer to any employees of the Company or any of its subsidiaries, including any directors of the Company or any of its subsidiaries, for the granting of options to subscribe for shares in the Company. The subscription price of options granted would be the higher of 80% of the average of the closing share price on the Stock Exchange for the five trading days immediately preceding the date of the offer of the options and the nominal value of the shares.

The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed, in nominal amount, 10% of the issued share capital of the Company which has been duly allotted and issued. The maximum number of shares in respect of which options may be granted to any employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the share option scheme.

Any option may be exercised in accordance with the terms of the share option scheme at any time during a period to be determined and notified by the directors to each grantee. This exercise period may commence on a day after the date upon which the offer of the grant of options is made, and shall end in any event not later than 10 years from the date of grant of the options, subject to the scheme's provisions for early termination of the options.

The financial impact of share options granted is not recorded in the Company's or the Group's balance sheet until such times as the options are exercised and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date are deleted from the register of outstanding options.

11. Related party and connected transactions

During the period, the Group had transactions with Isystems Technology, Inc. ("Isystems") (formerly known as Mirage Technology, Inc.). Mr. Yang Long-san, Rowell, a director and shareholder of the Company, is a shareholder of Isystems. The summary of the transactions is as follow:

	(Unaudited)	
	Six months ended	
	31st December, 2001	31st December, 2000
	HK$'000	*HK$'000*
Operating lease rentals paid to Isystems in respect of:		
Land and buildings	**602**	637
Machinery	**161**	71

The monthly rental expenses were calculated with reference to the prevailing market rentals as confirmed by an independent firm of professional valuers.

The directors, including the independent non-executive directors, have reviewed the above transactions and confirmed that they were carried out in the ordinary course of business.

12. Contingent liabilities

	(Unaudited) 31st December, 2001 HK$'000	(Audited) 30th June, 2001 HK$'000
Guarantees provided for banking facilities utilised at the balance sheet date by certain subsidiaries	**610,633**	504,786
Guarantees provided for other loan facilities utilised at the balance sheet date by a subsidiary	**9,799**	12,306
	620,432	517,092

The Group had no other significant contingent liabilities as at the balance sheet date (30th June, 2001: Nil).

13. Capital commitments

At the balance sheet date, the Group had contracted commitments in respect of purchases of certain fixed assets of HK$893,000.

At the balance sheet date, the Group had a contracted commitment in respect of investment in a joint venture company in the PRC of US$5,160,000 (equivalent to approximately HK$40,248,000).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2001.

BUSINESS REVIEW

The world economy continued to be sluggish during the period under review. The economic activities in US experienced a period of stagnancy after the 911 attacks. As such, the Group's sales to US have shown a 43% decrease as compared to that of last period. Nevertheless, the Group recorded a modest growth of 5.8% in its turnover to HK$2.27 billion, mainly from the increase in sales to Europe and Asia markets.

The Group always put in tremendous efforts to streamline its operation to achieve operation efficiency. Current period distribution costs and administrative expenses have recorded a decrease of 13.64% and 10.54% as compared to those of last period. However, the gross profit margin was squeezed to 7.73% due to the keen market competition and the sluggish market environment.

Against this background, the Group continues to invest in research and development activities as the Board firmly believes that the Group can only enhance its competitiveness through continuous technology development. The research and development expenses for the current period was approximately HK$12 million, which remained at the same level as of last period.

On the product side, the sales of LCD monitors have increased approximately eightfolds to HK$894 million, representing 39.39% of the net turnover as compared to 4.44% of that of the corresponding period last year. The Group believes that the sales of LCD monitors will continue to strengthen since the price gap between CRT monitors and LCD monitors has narrowed to a level that triggers the customer demand of LCD monitors globally. This trend will continue and the sales of LCD monitors will be the driver for the future growth of the computer monitor industry. By capitalizing on its display technology and its world-class production facilities, the Group has emerged as one of the top LCD monitor manufacturers in the world and will continue to deploy more resources to expand on its market share.

PROSPECTS

Vertical integration

The computer monitor industry has undergone severe competition in the past few years. In order to succeed in this environment, apart from achieving economy of scale in production, the ability to perform vertical integration will also play a vital role. Forseeing the growth potential of LCD monitor, the Group is now preparing its LCM Module and Backlight Module assembly. The in-house assembly of the full LCM module and backlight module will greatly help to improve the profit margin of LCD monitor.

The Group is also planning to produce the FlatScreen CRT deflection yoke in order to meet the increasing demand of FlatScreen CRT monitor.

The Board strongly believes that through the implementation of the above vertical integration, the Group can enhance its cost advantage over other competitors and bring a better return to the shareholders.

Distribution network

The Group has a strong distribution network all over the world and its two own brand names "Proview" and "EMC" are widely known and accepted in both the international markets and the PRC markets. During the period under review, the Group has obtained new orders from well-known distributors. The Group will continue to closely collaborate with its existing/potential mass merchandisers and regional importers and distributors to further enhance the customer awareness of the Group's brand names.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2001, the Group had a cash and bank balances of approximately HK$395 million (30th June, 2001: HK$324 million) and the total shareholders' equity of the Group was HK$666 million (30th June, 2001: HK$646 million).

CAPITAL STRUCTURE

The Group's total borrowings from banks and financial institutions was HK$499 million (30th June, 2001: HK$449 million). Most of the borrowings were in USD and RMB while others were denominated in HK$ and NTD. The majority of the borrowings were trade finance related and short term in nature. Interest was mainly based on LIBOR, HIBOR or HK dollar prime with a competitive margin. Due to the low interest rate environment for the period under review, the Group's interest expenses has decreased by 24% as compared to that of the corresponding period last year.

The financial gearing of the Group, based on the total borrowings from banks and financial institutions as well as convertible bonds net of cash divided by total shareholders' funds, was 41.01% (30th June, 2001: 44.38%).

POST BALANCE SHEET EVENTS

The Company has entered into a Supplemental Deed Poll ("Deed Poll") in relation to the US$ 20,000,000 convertible bonds (the "Bonds") on 16th January, 2002. Under the Deed Poll, the Company will redeem the Bonds by 12 monthly instalments starting from 17th January, 2002. The early redemption of the Bonds can help to lower the redemption premium and bonds interest and can ease the pressure of redemption by the Bondholders, which are entitled to redeem in whole starting from 21st December, 2002 to 21st December, 2004.

FOREIGN CURRENCY EXPOSURE

The Group's sales and purchases are mainly denominated in US dollars, with some in Sterling, Renminbi, New Taiwan dollar, Hong Kong dollar and Brazilian Real. Since Hong Kong dollar remains pegged to US dollar, the Group does not foresee a substantial exposure in this regard.

In relation to other currencies, the Group will closely monitor their trends with US dollar and will engage in exchange rate hedges when necessary.

During the period under review, the Group did not use any financial instruments for hedging purposes.

CHARGES ON GROUP ASSETS

The land and buildings situated in Hong Kong, PRC and Taiwan were pledged as first legal charges for banking facilities granted to the Group.

Certain machinery with net book value of approximately HK$16,120,000 (30th June, 2001: HK$17,123,000) and bank deposits aggregating NT$131,898,000 and RMB12,451,000 (equivalent to HK$41,104,000) (30th June, 2001: NT$99,172,000 (equivalent to HK$22,214,000)), were pledged to banks and financial institutions for facilities granted to the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31st December, 2001, the Group employed approximately 3,700 full time employees. The Group remunerates its employees largely based on prevailing industry practice of the respective countries where it operates, as well as based on individual merits. The Group has also established a share option scheme for its directors and employees.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31st December, 2001, the interests of the directors and their associates in the share capital of the Company and the shares of its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") are set out below:

	Number of issued ordinary shares of HK$0.10 each in the Company			
Name	**Personal interests**	**Family interests**	**Corporate interests**	**Other interests**
Mr. Yang Long-san, Rowell *(Note)*	–	–	224,710,724	–
Mr. Chang Su-pong, Steve	1,170,000	–	–	–
Mr. Wong Kui-ming, Luffer	400,000	–	–	–
Mr. Chan Mo-po, Paul	75,000	606,896	–	–

Note: These shares are held through Peipus International Ltd., a company incorporated in the British Virgin Islands and wholly-owned by Mr. Yang Long-san, Rowell.

Save as disclosed above, none of the directors or their associates had any personal, family, corporate or other interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance.

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in note 11 to the interim financial statements, no director had a beneficial interest, either direct or indirect, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries and fellow subsidiaries was a party at the balance sheet date or during the period.