

> MANAGEMENT DISCUSSION AND ANALYSIS



Industry Overview

After a strong decade of double-digit gain, the demand growth for computer monitors is forecasted to ease in the coming years as the market is approaching maturity. According to a recent study conducted by International Data Corporation ("IDC"), the combined shipment of CRT and LCD monitors is estimated at 105 million units in Year 2000 and 149 million units in 2004, which translate into a compound annual growth rate ("CAGR") of 9.2%.

Despite the soaring popularity of LCD monitors, this year's forecasted shipment of 12 million units will take up just over 10% of the worldwide monitor market. Even at a CAGR of 40%, the shipment of LCD monitors will represent no more than 22% of the overall monitor market in 2004, mainly because of the price gap between LCD monitors and their comparable CRT models. It is an industry consensus that the demand for LCD monitors will breakthrough those of the CRT monitors once their price differences narrow down to within two times.

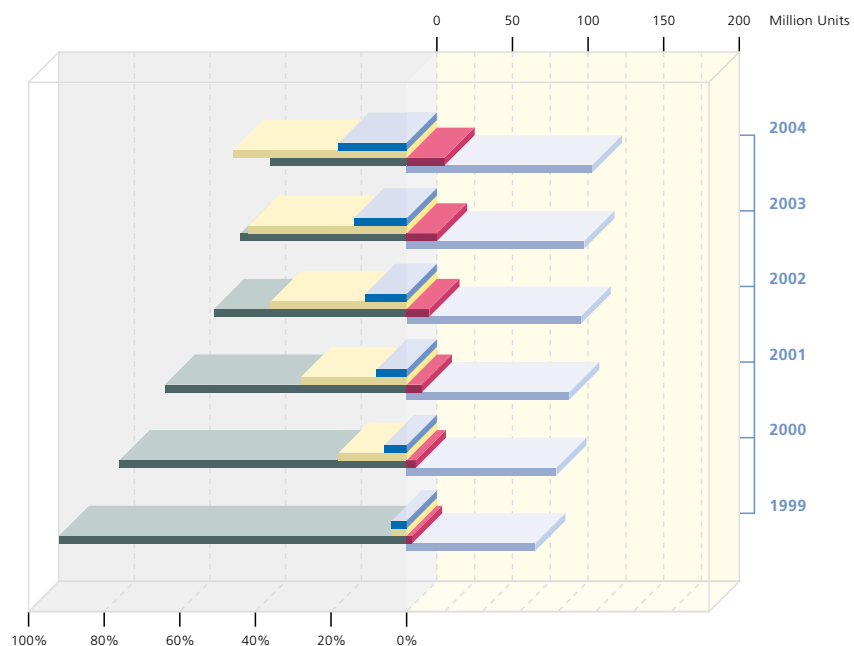
Another important development which breathes new life into the demand for CRT monitors is the introduction of pure-flat CRTs. Although pure-flat CRTs suffer from the size and weight restraints of traditional CRTs, they offer the modern appeal of a flat screen and image quality that many people prefer over the slightly curved traditional CRTs. As a result, the overall monitor mix is experiencing a significant change as consumers move from a nearly complete dependence on traditional CRT monitors to a blend of pure-flat CRT, LCD, and traditional CRT displays. IDC predicted that the market shares of traditional CRTs, pure-flat CRTs and LCDs to move from 77%, 18% and 5% respectively in Year 2000 to 36%, 46% and 18% respectively in 2004.






The Group will closely follow the latest trend and adjust its product mix to suit the ever-changing consumer demand.



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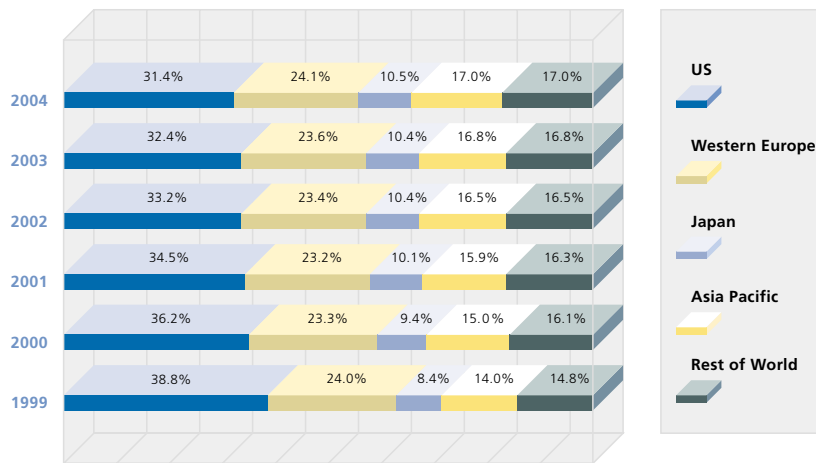
Projected Worldwide CRT and LCD Monitor Shipments, 1999-2004



		1999	2000	2001	2002	2003	2004
CRT Monitors (m)		88.5	99.6	108.1	114.1	118.6	122.4
LCD Monitors (m)		3.1	5.7	9.5	14.4	19.9	26.9
LCD Share		4%	5%	8%	11%	14%	18%
Traditional CRT Share		93%	77%	64%	51%	44%	36%
Flat CRT Share		3%	18%	28%	38%	42%	46%

Source: IDC, 2000

Projected Worldwide Monitor Shipments by Region, 1999-2004



Source: IDC, 2000

Sales and Marketing

TPV is a leading global provider of monitor display solutions for commercial and consumer markets. Capitalizing on the growing need for technological advanced display products, the Group sold in aggregate 8.8 million units of monitors (including chassis, complete-knockdown and semi-knockdown kits) in Year 2000 and achieved a record turnover of US\$961.7 million.

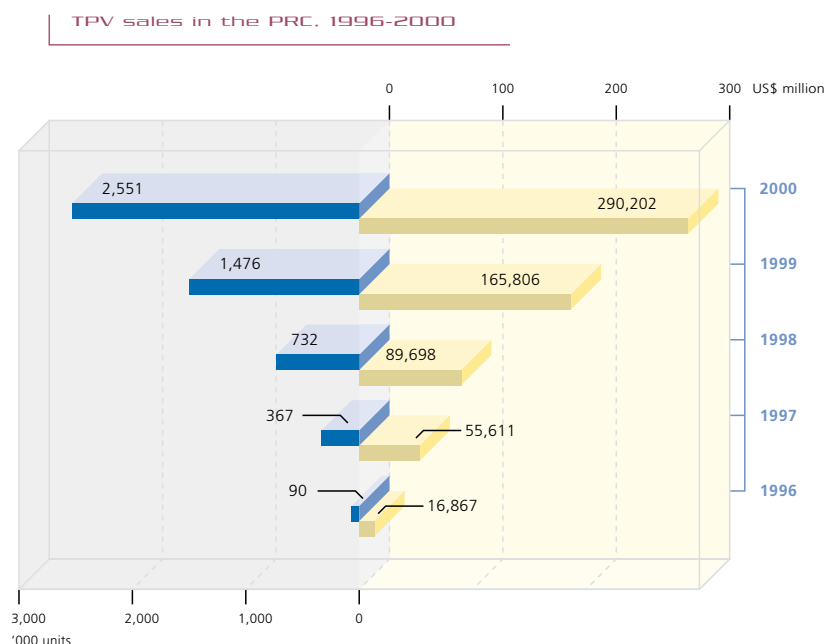
These results were achieved primarily due to the all round success of the Group's ODM business as well as the strong performance of AOC branded products in key markets. With the addition of two major supply contracts during the year under review, ODM sales accounted for approximately 75.3% of the Group's turnover. On the other hand, the Group continued to thrive in the PRC and Europe, which contributed 30.2% and 34.8% respectively to the Group's turnover. The Group had solidified its No.1 position in the PRC market, where it was estimated to have captured a market share of approximately 30%.

Despite the recent sluggishness in worldwide demand, the Group resolves to maintain its strong growth by increasing its presence in core markets, securing new contracts from major computer companies and pursuing product opportunities in LCD and pure-flat display technology. Initiatives have been drawn up and some of which have already been put into action with such objectives in mind. Sales support teams

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were formed within the ODM Division to better serve individual ODM customer's technical and logistics needs. Distributors were added in key markets to broaden the geographical coverage of AOC branded business. Image shops will be set up in major cities in the PRC to lift brand awareness and customer loyalty.

The Group is currently ranked among the top four monitor suppliers in the world. Leveraging on its strong fundamentals, the Group is well positioned to leap forward in the global monitor marketplace.



Production

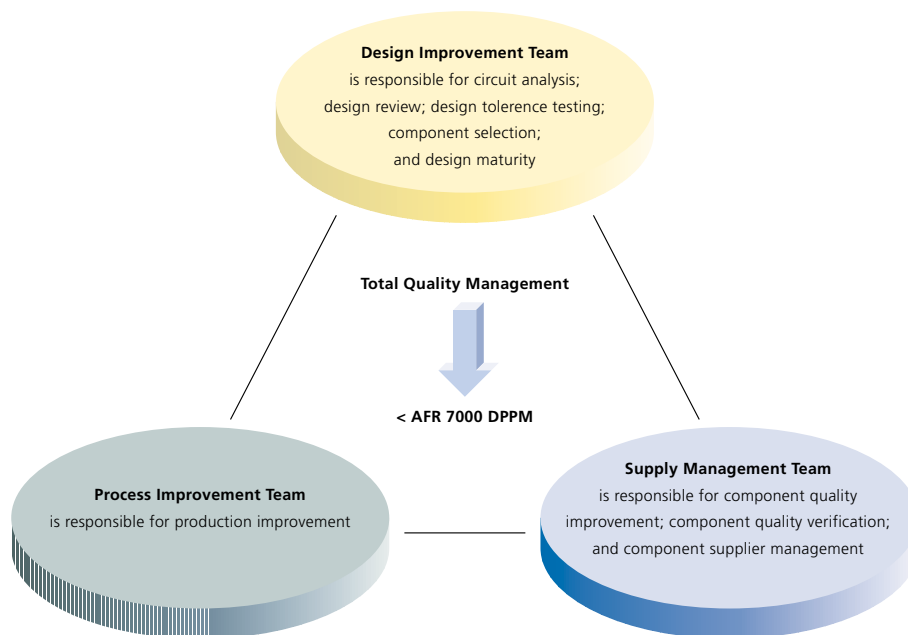
During Year 2000, the Group had spent US\$26.4 million on a two-phase expansion project at the Fuqing plant to bring its production capacity from 6 million units a year to 11 million units a year. The project added 12,055 square meters of production floor space within the existing factory premises, 16,345 square meters of warehouse space and 1,984 square meters of office space. At present, Fuqing plant houses a total of 10 CRT monitor production lines. A new LCD monitor production line with annual capacity of 360,000 units is currently under construction. The first shipment of LCD monitors from Fuqing is expected in early May. To broaden the Group's product range, one of the CRT monitor production lines is now being converted to meet the rigid requirements of producing Mitsubishi's proprietary Diamondtron-based CRT monitors.

Quality Assurance

TPV's commitment to quality is one of the key elements contributing to its success and growth. As such, it is vitally important for the Group to ensure that its quality would not be sacrificed in a high growth environment. In Year 2000, a TQM ("Total Quality Management") Division, comprising three teams, namely design improvement, process improvement and supply management, was formed to reinforce the quality assurance function. The mission of the TQM Division was to attain the internationally recognized standard of AFR 7000 DPPM.

TPV aims to be the quality leader in the industry and the benchmark against which the Group's competitors will be measured.

Quality Continual Improvement Process



Research and Development

Last year, the Group launched a total of 41 new monitor models. This year, the Group plans to introduce another 23 models, which include the much sought-after Mitsubishi's Diamondtron 17" and 19" models and the trendy 17" LCD models. The Group has also formed a new team within the Research and Development Division to explore into the commercialization of digital TV technology.

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Liquidity, Financial Resources and Capital Structure

Since its inception, the Group has financed its funding requirements from cash generated from operations and short-term banking facilities. As at 31st December 2000, the Group had bank balances and cash of US\$60.9 million (1999: US\$64.0 million) and working capital of US\$50.8 million (1999: US\$40.6 million). On the other hand, banking facilities totalling US\$338.5 million were available, of which US\$80.1 million had been utilized. About 79% of these borrowings were denominated in United States dollar and the remainder in Renminbi. All bank borrowings were trade finance related and short term in nature.

Current ratio remained healthy at 113.2% while gearing ratio, representing the ratio of total bank borrowings to total assets, increased slightly from 11.2% in 1999 to 16.1% in Year 2000. Nevertheless, the level of indebtedness and its associated finance costs were adequately serviced as indicated by an interest coverage ratio of 4.9 times (1999: 5.8 times).

As compared to 1999, days of inventory turnover increased by 8.7 days to 57.6 days due to the additional stock-up requirements under some of the new ODM contracts. Days of accounts receivable, on the other hand, improved significantly from 79.4 days to 65.3 days. The Group's return on average shareholders' equity, a key indicator of efficient asset management, was maintained at a respectable 31.7% (1999: 32.7%).

Management believes that the Group has sufficient resources from internally generated cash flow and available banking facilities to support its operations and expansion plans going forward.

Work Force

The number of employees increased from 4,509 at the end of 1999 to 6,769 at the end of Year 2000. Employee's remuneration is consistent with the industry practice in the respective countries/places where the Group operates. Management realizes that the success of the Group is hinged on continual staff improvement and development. As such, various in-house training programs have been offered to different levels of staff to keep them abreast of the latest technology.

Breakdown of TPV's Work Force

Year	Production	Research and Development	Sales and Marketing	Others	Total
1999	3,632	195	109	573	4,509
2000	5,533	291	157	788	6,769

Beijing Joint Venture

Last year, Beijing joint venture plant was on target with its output and efficiency. Accordingly, a third production line was installed early this year as planned, bringing the annual production capacity to 3 million units.

The joint venture plant produced approximately 2 million units of computer monitors for the period under review and contributed positively towards the Group's bottom line. Management expects that the joint venture will continue to contribute significantly going forward in view of its improving production efficiency.

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Recognition

Management is much heartened to see that our quality products and excellent services are widely praised by the industry critics.



July 2000 Issue – Top 10 17-Inch CRT Monitors

The AOC 7Glr

Very Good Graphics Rating “A good choice for price-conscious consumers colors on web pages look bright on-screen menu has some advanced controls....”



Survey conducted by Computer Reseller News on monitor distributorship among hundreds of solutions providers, AOC was chosen as one of the top-7 “Monitor Channel Champions”. Of the eight categories being surveyed by CRN, AOC ranked No 1 in **Profitability** and No 2 in both **Price Performance** and **Product Availability**.

AOC LM-500 15” LCD Flatscreen Review

Date: Tuesday March 06, 2001

Category: [Monitors](#)

Author: [Max Page](#)



Rating: Software



GOVERNMENT COMPUTER NEWS

August 2000 Issue

Box Score

A-

**AOC Spectrum
19-inch CRT monitor**

- + Easy to configure
- + Good picture quality
- + Decent price

Real life requirements:

Win9x, video card, 32M of RAM, 100M
of free storage



AOC Spectrum 9Glr shows crisp images at a good price