BUSINESS REVIEW

A combination of weak economy in the US, soft consumer demand in Europe and slowing growth in key Asian markets curbed the more than decade-long expansion of PC industry. In the first half of this year, global desktop PC and display monitor shipments experienced the first ever contraction in the history of the sector and fell 2.7 percent and 1.8 percent respectively. From a geographic perspective, the US which accounted for almost 40 percent of the global PC market suffered the worst hit. PC shipments there dropped over 15 percent while shipments to Western Europe managed to grow a mild 5 percent. The Asia-Pacific markets, which had delivered 30 to 50 percent growth all along, also showed a much restrained single-digit growth this half. The PRC market remained the only bright spot in this gloomy environment, recording a growth of over 26 percent.

Against this backdrop, TPV defied the global recessionary trend and attained another brilliant set of operating results. For the six months under review, the Group sold an aggregate of 4.5 million units of computer monitors (including chassis, complete-knockdown and semi-knockdown kits) and registered a 29 percent increase in consolidated turnover to US$532.7 million (Year 2000: US$412.9 million). Net profit attributable to shareholders of the Group amounted to US$19.8 million (Year 2000: US$15.8 million), or basic earnings per share of US1.64 cents (Year 2000: US1.32 cents). The Board was delighted to see that the achieved operating results were consistent with the projections made earlier this year.

With an industry-wide recognized leadership in cost and quality, TPV continued to make inroads into the global marketplace. In the first half of this year, the Group had managed to gain 3 percent in market share (supplying approximately 12 percent of global demand if shipments from Beijing joint venture plant were included) and become the No. 2 monitor maker in the world. In the PRC, the Group retained its No. 1 position and continued to command 30 percent of the market (44 percent if shipments from Beijing joint venture plant were included). In both US and Europe, where slowdown in business activities was clearly evidenced, the Group enjoyed burgeoning growth of 88 and 72 percent respectively due to the strong surge in ODM orders. ODM revenues accounted for approximately 71 percent (Year 2000: 71 percent) of consolidated turnover in the first half of this year. To increase the Group's presence in strategic markets, liaison offices were recently opened in Japan and India. Thirty image shops were also set up in major metropolises in the PRC, in collaboration with channel distributors, to raise AOC brand awareness.

In regard to the fast-growing LCD market, the Group has rapidly emerged as a formidable player after the commissioning of its LCD monitor manufacturing facilities in Fuqing this May. For the period under review, the Group produced and shipped over 140,000 units of LCD monitors. With new supplier contracts won from several reputable PC vendors recently, shipments for the latter half of this year are projected to triple. In order to improve the time-to-market and better serve regional customers, the Group will invest in one LCD assembly line each in Shanghai and Shenzhen before the end of this year. The total estimated capital commitments for these projects are approximately US$2.0 million.