Management Discussion and Analysis

Our success is attributable to

Advanced	**T**echnology
Oustanding	**P**roductivity
Clear	**V**ision

INDUSTRY OVERVIEW

The economic slowdown, aggravated by the 911 mayhem, had brought the global PC market its first negative growth year. According to a recent MIC* survey, global PC shipments dropped more than 6 percent from Year 2000's 113.0 million units to last year's 106.0 million units. Of all markets, the US and Europe were most adversely affected by the lethargic demand, with shipments fell by 18 percent and 7 percent respectively. Japan, the second largest PC market in the world, also suffered a 5 percent drop in shipments due to internal problems. The PRC managed to put on an 18 percent growth despite a struggling second half, while the rest of the Asia Pacific region recorded a mild growth of 3 percent.

The monitor industry, whose fortune was normally tied to the PC demand, had undergone a more severe adjustment of 11 percent last year. Out of the total 105.5 million monitors shipped, 15.4 million units or roughly 15 percent were LCD-based. This, when comparing with the 6.4 million units or 5 percent of total shipments recorded in Year 2000, demonstrated a strong growth in LCD demand. Despite the subsiding demand, CRT monitors still represented the mainstream products and would remain so up to 2005. Between now and then, MIC expected further consolidation of the sector, where bigger players like TPV would continue to take away market share from smaller and weaker players.

* *The Market Intelligence Centre of the Institute for Information Industry of Taiwan*

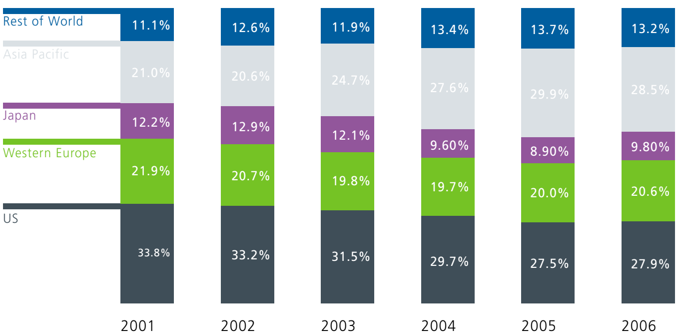
The narrowing price gap between CRT and LCD monitors was the stimulus of last year's LCD boom. In spite of the recent surge in panel prices, MIC projected that LCD monitor shipments would reach approximately 26.0 million units this year, and could continue to grow at a compound annual growth rate of close to 40 percent until Year 2005. Meanwhile, the brisk demand for LCD monitors has tightened the upstream panel supply in the recent months and quickly transformed the panel market into a suppliers' market. In a constraint market, smaller players would usually be the first ones to be driven out of competition. As such, MIC projected that the sector would consolidate at a much faster pace than its CRT counterpart. In a few years time, the industry would be dominated by only a handful of players.

SALES AND MARKETING

For the year under review, TPV sold a total of 9.8 million units of monitors (including chassis, complete-knockdown and semi-knockdown kits). Unit shipments, although trailing behind its internal target for the year, were still commendable in view of the magnitude of the PC recession. While CRT monitors remained as the Group's backbone products, accounting for 74 percent of its US$1.2 billion turnover and 89 percent of operating profit, LCD business was the driver for last year's growth as it contributed approximately 9 percent of shipments and 21 percent of turnover.

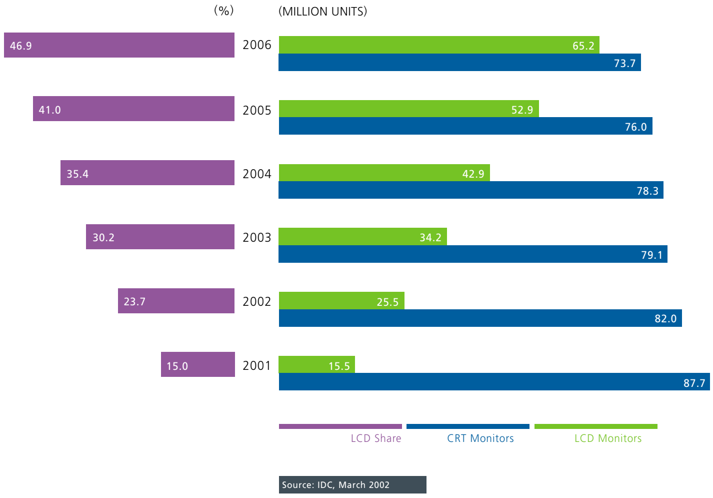
The Group's relationships with ODM customers are built on long-term trust. Last year, despite the weakness in overall PC hardware demand, many customers had entrusted higher percentages of their requirements to TPV to take advantage of its cost and quality pledge. This kept the Group's growth momentum intact. As a result, ODM business grew 21 percent from a year ago and accounted for approximately 70 percent of the turnover. Branded business grew an impressive 48 percent as AOC monitors, which stress 'value for money', gained popularity among cost conscious consumers especially in a down economy.

PROJECTED WORLDWIDE MONITOR SHIPMENTS BY REGION, 2001-2006



Source: IDC, March 2002

PROJECTED WORLDWIDE CRT AND LCD MONITOR SHIPMENTS, 2001-2006



From a geographical perspective, the Group continued to flourish in Europe and the PRC, which contributed 39 percent and 31 percent respectively to the turnover. Robust growth was also seen in the US where sales were more than double from a year ago due to strong showing in the channels. In the distribution channel, AOC had moved up from the seventh position to the fourth. In the retail channel, the reinvented brand image of Envision made its way into major national outlets and quickly escalated its ranking from the fifteenth to the third.

Since last year, the Group has reduced its reliance on CRT monitors and offered a broad range of LCD products to maintain its market leadership. Most certainly, LCD business will be the key to drive TPV's future growth and CRT business will continue to provide strong cash flow to support the rollover. In the coming year, the Group intends to maintain its balance growth in all core markets and products. It will streamline its sales organization and strengthen its global logistics support to add value for customers around the world with speed and efficiency.

PRODUCTION

The Group did not seek to expand its production capacity when the economy was clouded by uncertainties last year. However, recognizing the enormous potential of LCD business, the Group had converted one of its ten CRT monitor production lines into a dual-purpose line to add flexibility to its production facilities. Currently, the Group has an annual production capacity for 11.0 million CRT and 2.4 million LCD monitors at its Fuqing plant. Although the Group has postponed its aggressive capacity expansion plan under the prevailing market conditions, it will continue to expend on infrastructure and production enhancement projects in anticipation of a recovery. Projected capital expenditure for this year would therefore be around US$18.0 million, broadly similar to last year.

Since the end of last year, the Group has started to produce a number of key components for LCD monitors in-house. The purposes of diversifying into the production of critical components are to cut production and logistics costs as well as to assert control over supply and quality.

BREAKDOWN OF TPV'S WORKFORCE

Year	Production	Research and Development	Sales and Marketing	Others	Total
2001	**4,601**	**369**	**129**	**1,463**	**6,562**
2000	5,533	291	157	788	6,769

RESEARCH AND DEVELOPMENT

Technological development has carried TPV from the past to the present, and will pave the way for its future growth. Accordingly, the Group has mandated its 290 engineers to enhance product quality and performance, and to develop new products for revenue diversification and operational efficiencies. Last year, the Group rolled out altogether 64 CRT models and 20 LCD models. This year, the Group is set to bring to the market an even greater variety of products and features, which include:

- multi-functional 18-inch LCD TV monitor to be launched in the third quarter of this year;
- CRT models with higher frequency, better resolution and brightness to tap into developing countries where consumers are looking for cheaper alternatives to the high end LCD products; and
- plasma TV displays to be showcased at the Las Vegas Comdex show later this year.

WORKFORCE

The Group maintains its vibrancy through the continuous discoveries of human potentials. For years, it has tailored various in-house training programs for staff of every level to improve their all round knowledge and skills. At the end of 2001, the Group had a workforce of 6,562. Employee's remuneration is consistent with the industry practice in the respective countries/places where the Group operates. The management will make every effort to retain a highly professional team in its business.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

For years, the Group has been financing its working capital requirements and capital commitments with cash flow generated internally and bank borrowings. As at 31st December 2001, the Group had cash and bank balances of US$86.0 million (31st December 2000: US$60.9 million) and working capital of US$88.2 million (31st December 2000: US$56.1 million, as restated). In addition, it had banking facilities amounted to US$466.2 million (31st December 2000: US$338.5 million), of which only US$26.5 million (31st December 2000: US$81.0 million) were drawn down. All outstanding bank borrowings were trade finance related and short term in nature. Approximately 71.2 percent of these borrowings were denominated in US dollar while the balance was denominated in Renminbi.

As a result of effective asset management, current ratio improved from approximately 115 percent to 122 percent while gearing ratio, representing the ratio of total bank borrowings to total assets, was trimmed to below 5 percent using free cash flow from operations. Despite the improved financial position, the Group has arranged a US$50.0 million three-year syndicated term loan facility this year to put medium term financing in place for the growing LCD business.

Accordingly, the management believes that the Group has sufficient financial resources to support its operations and strategic expansion going forward.

BEIJING ORIENT TOP VICTORY ELECTRONICS COMPANY LIMITED ("BJOTV")

In July 2001, the Group's joint venture in Beijing, BJOTV, was restructured from a Sino-foreign equity joint venture into a joint-stock limited company with foreign investment. After the restructuring, the Group's equity interest in BJOTV remains at 48 percent as to 43 percent by way of direct shareholdings and as to 5 percent by way of holding economic benefits and voting rights associated with the relevant shares.

On 1st March 2002, BJOTV announced its intention to make an application for its initial public offering (the "IPO") to the China Securities Regulatory Commission. Although there is no definite timetable for the IPO at the moment, it is envisaged that the IPO could be launched in the second half of 2003, the soonest, even if BJOTV decides to proceed with it. However, the IPO is only a possibility . In this connection, the management believes that it is premature for the Group to assess the financial implications of the IPO at this preliminary stage.