



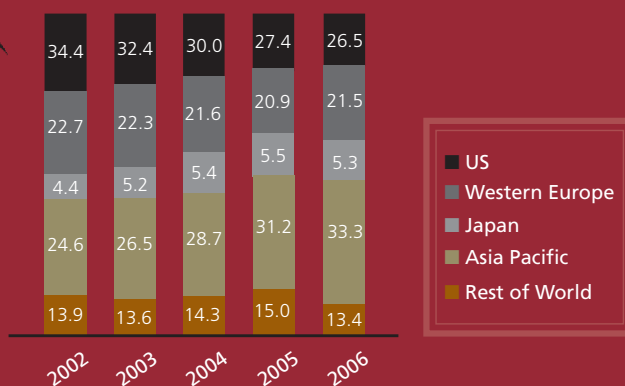
Management Discussion and Analysis

Industry Overview

The downward spiral of the IT industry continued in 2002. According to MIC, global PC demand remained stagnant in 2002 as businesses and consumers cut back on IT spending in the wake of economic uncertainties. In view of the military conflict in the Middle East and the continuous weakness in global economy, PC industry is unlikely to return to its prime anytime soon albeit there is a glimpse of hope that the pent up replacement demand from PCs bought before Year 2000 could kick-start another PC growth cycle later this year.

Amidst the gloom, desktop monitors remained as one of the best performing sectors among PC peripherals on the back of burgeoning popularity of TFT-LCD monitors. According to MIC, approximately 31.4 million units of TFT-LCD monitors were sold worldwide in 2002, as compared to 15.4 million a year ago. The expeditious growth in TFT-LCD monitor demand had come at the expense of CRT monitors which saw their shipment declined by approximately 7 percent to 84.3 million units. With affordability of TFT-LCD monitors less of an issue now that price gaps between them and their comparable CRT models have closed to within two to one, global demand for TFT-LCD monitors is projected to increase by more than 50 percent to approximately 48.0 million units this year. Although the recent tightening of TFT-LCD panel supply has resulted in an approximately 15 percent price hike in the first quarter of 2003, most industry analysts are projecting for a relatively stable price environment for TFT-LCD panels for the rest of the year. Capacities from the new 5G fabs coming on stream in the second half of this year will very likely bring the market closer to equilibrium, and knock panel prices back to their lows seen at the end of 2002.

Projected Worldwide Monitor Shipment
By Region, 2002-2006 (%)



Source: IDC, 2002

Unlike its CRT counterpart which has gone through a prolonged period of consolidation, TFT-LCD monitor integrating sector is still fragmented and extremely competitive. While intense competition erodes margins, it helps accelerate market consolidation, making it tougher for smaller makers to compete and leaving big integrators like TPV room for expansion. In a year or two, aggregate market share of the top five integrators in the sector could be well over 50 percent from 45 percent currently, returning the sector to healthier margins and better balance.

Sales and Marketing

Despite the tough operating environment, TPV's sales and marketing team had lived up to expectations and delivered another set of record-breaking sales results in 2002. Out of the approximately 11.1 million units of monitors sold (including chassis, complete-knockdown and semi-knockdown kits) in the year, approximately 9.1 million units were CRT-based and the rest were LCD-based. Last year, TFT-LCD monitor contributed over 40 percent to the Group's revenue. This year, contribution from it would increase to more than 50 percent and overtake CRT monitor to become the driver of future revenue growth.

From a geographical perspective, sales to Europe, China and the US contributed 35.2 percent, 27.5 percent and 22.8 percent respectively to the consolidated turnover in 2002. As a major ODM contract manufacturer to many leading PC companies, TPV's ODM business continued to flourish in the harsh environment. In 2002, ODM sales surged 35.7 percent to US\$1.2 billion, accounted for 78.6 percent of the Group's turnover. ODM orders destined for the US market, in particular, increased threefold from a year earlier, well-covering the 27.4 percent drop in the

Group's branded business there. In the sluggish economy, the Group's branded business inevitably suffered some setback with global revenue dropped by 11.6 percent. However, the strong foothold planted in China and Europe had helped branded sales in those regions advancing by 13.1 percent and 3 percent respectively.

Regardless of the short-term uncertainties, the Group will continue to adopt its two-pronged approach to maintain the growth of its ODM and branded business in healthy balance. For years, the Group has been exacting stringent quality control, flexible pricing strategy, strong design capabilities and comprehensive sales support to broaden its customer base. Looking ahead, the Group will further strengthen its global logistics and after-sales support to lift customer satisfaction and foster closer relationships with its customers and prospects.

Production

In 2002, TPV tripled its TFT-LCD monitor production to 2.0 million units from 0.8 million units a year earlier. To cope with the foreseeable high growth, the Group had put in an additional TFT-LCD monitor production line at its Fuging plant in the fourth quarter of 2002 to raise its TFT-LCD production capacity to 3.6 million units annually. In the first quarter of this year, the Group added another two TFT-LCD production lines to boost its annual capacity to 6.0 million units. As for CRT monitor, production remained flat at roughly 9.0 million units last year. In view of the declining demand, the Group does not see the need to expand its CRT monitor production capacity as its current capacity of 11.0 million units is more than sufficient to handle any future growth. Capital expenditure for 2002 amounted to US\$12.8 million. Capital expenditure for this year is budgeted at US\$17.6 million unless order flow justifies further spending.



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As part of its continuous efforts to upgrade engineering capabilities, the Group introduced Shop Floor Control System to its Fuqing plant in October 2002. The system incorporated SPC (statistic process control) technique to monitor production and collect real-time data on product quality in order to minimize deficiencies. With this system in place, the Group can effectively bring down its failure rate and provide its customers with better quality-assured products. The Group will also implement an ERP (enterprise resource planning) system this year, which will streamline the cost structure through better alignment of resources with production and business processes.

Workforce

Year	Production	Research & Development	Sales & Marketing	Others	Total
2001	4,601	369	129	1,463	6,562
2002	4,692	454	111	1,351	6,608

In line with environmental friendly business practices of the global electronics industry, the Group launched its lead-free production project in December 2001 and began trial runs in June 2002. Although lead-free production is yet a standardized requirement, the Group spearheaded the project as part of its on going efforts to raise environmental standards and fulfill its responsibilities as a good corporate citizen.

Research and Development

The onset of the digital era brought aplenty business opportunities but at the same time called for flexibility and focus to stay abreast with technological advancements. To this end, TPV has expanded its team of engineers from 290 to its current strength of 454 to drive product innovation and product development.

In 2002, the Group launched 66 CRT models and 86 TFT-LCD models, which included a small number of LCD TV monitors. It will widen its TFT-LCD product range to include monitor models that come with higher frequency, better resolution and brightness, as well as TV models that equip with wireless headphones, digital photo frames and DVD players. In the second half of this year, the Group will also launch its first generation of plasma TVs.

Workforce

The Group understands the importance of staff training in an increasingly competitive monitor sector. In addition to in-house training programs, the Group also engages professional consultants to impart the latest technological knowledge and management skills to its employees. As at 31st December 2002, TPV had a workforce of approximately 6,600. Employee's remuneration is consistent with the industry practice in the respective

countries/places where the Group operates. Also, the Group offers employee share options to employees according to individual merits.

Liquidity, Financial Resources and Capital Structure

Monitor is a working capital intensive business. As such, the Group manages its financial resources prudently and relies principally on its internally generated cash flows to meet long-term capital commitments. Bank debts, however, are utilized from time to time to finance short-term liquidity. As at 31st December 2002, the Group had cash and bank balances (including pledged bank deposits) of US\$254.8 million (31st December 2001: US\$86.0 million), banking facilities of US\$886.2 million (31st December 2001: US\$466.2 million), of which US\$60.9 million (31st December 2001: 26.5 million) was drawn down. All bank debts were borrowed on floating rate basis with approximately 84.3 percent of them denominated in US dollars and the balance in Renminbi.

In order to improve its cash flows in the slow economy, the Group has tightened its inventory policy and successfully negotiated better payment terms with key suppliers. Compared to 2001, inventory turnover fell by 8 days to 40 days while accounts payable turnover lengthened from 92 days to 96 days. These improvements, combined with a better receivables turnover of 56 days (2001: 62 days), had resulted in a shorter cash cycle and generated cash flows from operations of US\$117.6 million for the year.

The Group's gearing ratio, which represents the ratio of total bank debts to total assets, was maintained at a satisfactory level of 7.9 percent. Current ratio also improved from approximately 122 percent to 148 percent.

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Foreign Exchange Risk

Since July 2002, the Group has begun to quote prices in Euro currency to some of its European customers. In order to reduce exposure to foreign exchange risks, the Group has entered into foreign exchange forward contracts. As at 31st December 2002, the Group had outstanding commitments to sell Euros for US dollars under forward exchange contracts of US\$57.1 million (2001: Nil).

Beijing Orient Top Victory Electronics Company Limited ("BJOTV")

The Group's associated company BJOTV sold approximately 3.1 million units of monitors in 2002, of which 0.2 million units were TFT-LCD based. Consolidated turnover increased 18.6 percent to US\$313.5 million, while net profit rose 9.6 percent to US\$8.1 million.

Recognition

The Group's quality products consistently received positive reviews from industry critics worldwide.

Envision EN-7100e, a 17-inch TFT-LCD monitor, won Editor's Choice Award from CNET.COM in January 2002



Envision EN-7500, a 17-inch TFT-LCD with built-in TV tuner, received a recommended rating from Consumer Guide in January 2003



Envision EN-7500 was also awarded Editor's Choice in the February 2003 issue of TECH Edge magazine



In August 2002, AOC LM800, an 18-inch TFT-LCD monitor, was among the top 5 picks of Smart Computing magazine in the 17-inch and larger TFT-LCD category



The AOC LM914, a 19-inch TFT-LCD, was placed among top 10 large screen TFT-LCD monitors in the February 2003 issue of PC World magazine

