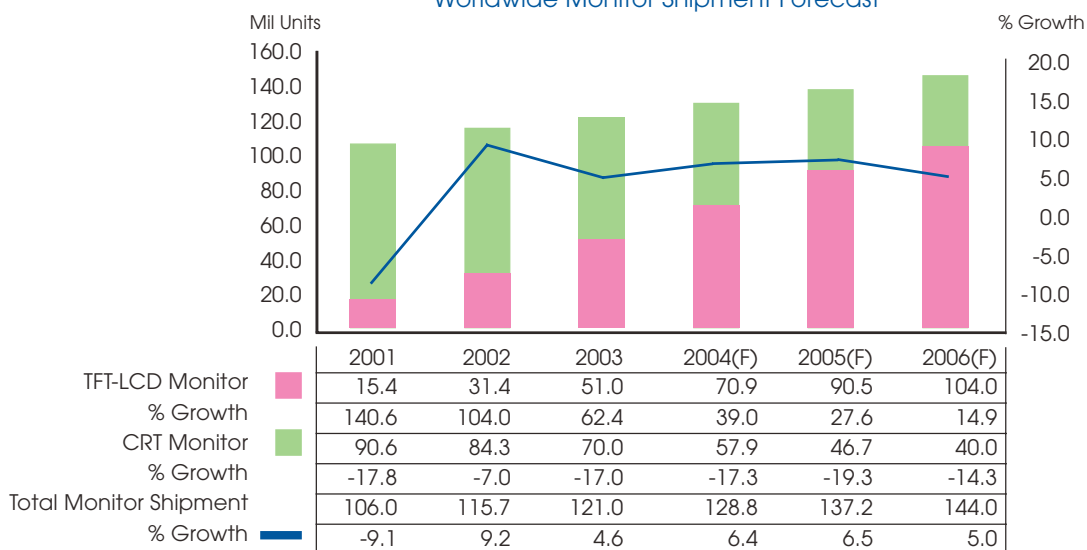


# Management Discussion and Analysis

## INDUSTRY OVERVIEW

Worldwide desktop monitor market enjoyed modest growth in 2003 in tandem with the general economy which experienced a mild recovery. While consumer sentiments in the first half of the year were dampened by the Iraqi war and SARS epidemic, sooner than expected recovery of the US economy coupled with a strong TFT-LCD demand in the second half helped lifting the overall monitor sales. According to a recent MIC\* report, total monitor shipment saw a growth of 4.6 percent to 121.0 million units in 2003. Total revenue, however, dropped 1.5 percent to US\$35.5 billion as a result of the lower average selling prices for both CRT and TFT-LCD monitors.

Worldwide Monitor Shipment Forecast



While brisk demand continues to bolster the TFT-LCD display sector, its prospects are undermined by the supply constraints of upstream key components. There is a lack of conviction that the tightness in panel supply can be relieved in the near term despite the coming-on-stream of new 5G capacities in Taiwan and Korea. This supply-demand inequality has shifted the pricing power in favour of the panel makers, and will likely keep panel prices firm for the rest of 2004. From a longer-term perspective, the arrival of 6G and 7G ramps together with an improvement in production yield will gradually bring down panel prices, especially for those bigger TV panels, and help sustain the growth momentum of the sector.

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



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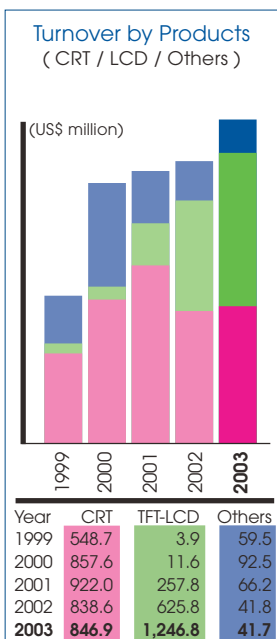
beneficiary. In fact, as TFT-LCD monitors are currently priced significantly lower than pure LCD TVs, certain TFT-LCD monitors are being used as TVs – either in conjunction with media center PCs or with external TV tuners. As panel prices start falling and LCD TV market matures, many PC titans will immerse in this potentially lucrative business. The development spells opportunities for big monitor integrators like TPV who has the technical know-how and the established relationships to cross-sell these new products.

**S A L E S   A N D   M A R K E T I N G**

Amid a competitive operating environment, the Group’s sales and marketing team tenaciously pushed ahead and achieved another set of impressive results in 2003. Out of the approximately 14.8 million units of monitors sold (including chassis, complete-knockdown and semi-knockdown) in the year, approximately 10.3 million units or 69.5 percent were CRT-based while the rest were LCD-based. In terms of revenue, TFT-LCD monitor overtook CRT monitor for the first time in TPV’s history and contributed approximately 58.4 percent or US\$1.2 billion to the consolidated turnover. This performance was in line with market trends and the Group’s forecasts.

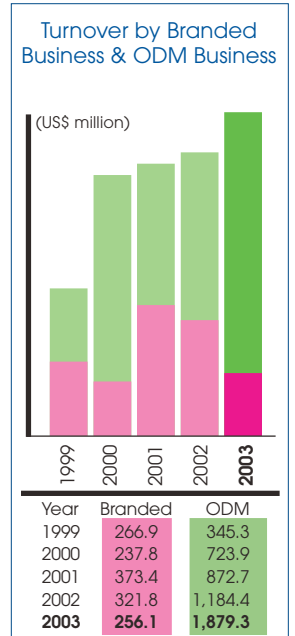
A major challenge for growing sales in 2003 was the scarce supply of TFT-LCD panels. The scarcity was most acute in the 15-inch category, thus capping the shipment growth of the Group’s monitor of that size. Nonetheless, unit shipment of 15-inch models for the year still doubled to 2.7 million units. To meet robust end-market demand, many customers had opted for 17-inch display in place of 15-inch. As a result, the Group’s 17-inch unit shipment jumped 3.7 times from 2002 to reach 1.7 million, accounting for 37.9 percent of total TFT-LCD shipment as compared to 23.0 percent a year ago. In view of the PC renewal cycle and the continuous migration towards TFT-LCD display, the Group is upbeat that its strong showing in TFT-LCD monitor sales could repeat in 2004.

Geographically, the Group’s three core markets, namely North America, Europe and China, all posted sound growth in 2003. Sales to North America surged 82.2 percent and contributed 29.4 percent to the consolidated turnover, reflecting the strong order flow in a recovering economy. Sales to Europe rose 30.5 percent from 2002 and represented 32.4 percent of the consolidated turnover, attributable to a stronger Euro currency which stimulated demand. Despite the SARS outbreak, sales to China grew 11.6 percent and contributed 21.7 percent to consolidated turnover, thanks to a strong rebound in consumer confidence in the second half of the year.



Building on its strong foothold as the world's leading monitor manufacturer, TPV continued to scale new heights in its ODM business. In 2003, ODM sales soared 58.7 percent and accounted for 88.0 percent of the consolidated turnover. On the other hand, the Group's branded business was hurt by the lackluster performance in SARS-affected China in the first half of the year as well as a dearth of panels, and suffered a setback of 5.2 percent. Still, the Group outperformed its peers amid a tough environment and retained its dominant share of over 40 percent in China's desktop monitor market. In the years to come, the Group is optimistic that the booming Chinese economy will continue to drive the growth of its branded business.

Moving forward, the Group will continue its two-pronged approach in ODM and branded business, with the former serving as the spearhead of growth. Over the years, TPV has successfully positioned itself as a total solution provider of display products. It distinguishes itself from its peers not only in cost and quality standards, but also through value-added services such as component management, channel management and after-sales support. The provision of a comprehensive range of services ensures its continuous success in growing its customer base and maintaining its profitability in a highly competitive industry.



## PRODUCTION

In anticipation of the burgeoning demand of TFT-LCD monitor, TPV added three TFT-LCD production lines in 2003 to raise its annual production capacity to 8.4 million units. And, to cope with the high growth in the medium term, TPV plans to invest in a new plant to house additional TFT-LCD production lines. US\$30 million has been set aside for this year's capital expenditure. On the other hand, the Group had converted one of its CRT assembly lines to produce LCD TV, scaling back the annual production capacity of CRT monitor to 10 million units.

To maintain its quality standards at the industry forefront, TPV had introduced the Six Sigma program in its Fuqing plant three years ago. Six Sigma is a program aimed at raising operational efficiency through the reduction of failure costs and improving process yields. Now into its fourth year of implementation, the Six Sigma program at TPV has achieved results in several key production areas, including the end-of-line repeat inspection, burn-in process, Yamming process and plastics injection process. Moreover, the Shop Floor Control System adopted in Fuqing plant in 2002 on TFT-LCD production lines, which incorporated SPC (statistical process control) technique to monitor production and collect real-time data on product quality, will be extended to all CRT production lines in 2004.

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### RESEARCH AND DEVELOPMENT

Rising to the challenges of convergent technologies, TPV's R&D team constantly seeks to enhance product features and functions. In 2003, the Group launched 63 new CRT models and 133 new TFT-LCD models. It also embarked on the conscientious development of a series of LCD TV models with sizes ranging from 17- to 32-inch. In October 2003, an R&D centre for digital technology was set up in BJOTV, its 41.7 percent associate in Beijing, to focus on the development of large screen LCD TVs and other digitalized products.

Other initiatives of the R&D division in 2003 were the implementation of an e-based data and component management system and the enhancement of 3-D and surface designs by means of Pro-E software.

In a market constrained by tight panel supply, the Group's R&D team had devised a "second panel" strategy which advocated the design of at least two chassis for every monitor model to maintain sourcing flexibility based on suppliability of different panel makers. This is in line with the Group's pro-activeness in countering the issue of panel shortage.

### WORKFORCE

To maintain its lead in today's competitive business environment, the Group is committed to hiring and maintaining an efficient and skilled workforce. Its staff strength stood at approximately 8,300 as at 31st December 2003. Staff training is one of the Group's priorities as it leads to greater productivity and job satisfaction. As such, the Group engages professional consultants from time to time to impart the latest technological knowledge and management skills to its employees. All employee remuneration is in line with the industry standards for the respective countries/places where the Group operates in. Employees are also offered share options according to their performance.

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
<b>2003</b>	<b>5,888</b>	<b>493</b>	<b>166</b>	<b>1,812</b>	<b>8,359</b>

### LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As in the past, the Group financed its working capital requirements and capital commitments in 2003 with its internally generated cash flows and banking facilities. As at 31st December 2003, the Group had cash and bank balances (including pledged bank deposits) of US\$210.9 million (2002: US\$254.8 million) and banking facilities of

US\$1,175.9 million (2002: US\$886.2 million), of which US\$134.4 million (31st December 2002: US\$60.9 million) had been utilized. All bank debts were borrowed on a floating rate basis and the maturity profile of them as at the end of financial years 2002 and 2003 is summarized as follows:

	31st December 2003	31st December 2002
	US\$'000	US\$'000
Within one year	25,000	-
In the second year	25,750	25,000
In the third to fifth year	2,250	25,000

Approximately 91.0 percent of outstanding bank debts was denominated in US dollars and the balance in Renminbi.

As compared to 2002, the Group's inventory turnover days increased 6.3 days to 46.3 days as at the end of 2003 due to additional stock-ups on the back of growing TFT-LCD volume. Receivable turnover days of 57.1 (2002: 56.0 days) and payable turnover days of 92.3 (2002: 95.8 days) were both in line with the Group's internal targets.

The Group's gearing ratio, which represents the ratio of total bank debts to total assets, remained healthy at 11.9 percent, while its current ratio was maintained at a satisfactory level of 133.0 percent as at the end of 2003.

To take advantage of the prevailing highly liquid debt market, the Group had entered into a three and a half-year syndicated term loan facility of US\$160 million in March 2004 with a group of reputable international banks to finance its capital investment and working capital requirements.

#### FOREIGN EXCHANGE RISK

In order to hedge its foreign exchange risks, the Group enters into foreign exchange forward contracts with international banks from time to time. As at 31st December 2003, the Group had outstanding commitments to sell Euros and Japanese Yen for US dollars and sell US dollars for Renminbi under foreign exchange forward contracts of US\$20.5 million (2002: US\$57.1 million), US\$1.4 million (2002: Nil) and US\$395.0 million (2002: Nil), respectively.

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

The Group's 41.7 percent-owned associate, BJOTV, sold approximately 3.6 million units of displays in 2003, of which 3.0 million were CRT-based, 0.6 million were LCD-based and over 2,000 were plasma-based. Consolidated turnover for BJOTV rose 21.0 percent to US\$379.0 million, while net profit increased 10.4 percent to US\$10.6 million.

