



Management Discussion and Analysis



Sales of TFT-LCD monitors, fed by more-affordable prices and strong replacement demand, expanded by a third to 67 million units, according to MIC.



Industry Review

The world economy expanded by a robust 4.6 percent in 2004 despite rising interest rates and increasing inflationary pressure on key commodity prices. Against this backdrop, global desktop-PC shipments grew a healthy 10 percent. Sales of TFT-LCD monitors, fed by more-affordable prices and strong replacement demand, expanded by a third to 67 million units, according to MIC.

The fortune of the LCD sector swung from one extreme of the pendulum to the other last year, marked by panel shortages and escalating prices in the first half abruptly giving way to surpluses and tumbling prices in the second half. The widely publicized over-built channel inventory in the third quarter was gradually absorbed by a seasonal uptake in demand in the fourth quarter. By the end of the year, inventories had returned to normality, but not before prices had nearly halved. Most industry observers expect TFT-LCD monitor panel prices to decline by another 5 to 10 percent before stabilizing in the second half of 2005.

As new panel fabs continues to ramp up in the near future, prices for flat-panel TV sets will deflate, enticing consumers to trade in their bulky cathode-ray tube sets for sleeker LCD and PDP models. In the second half of 2005, retail prices for the benchmark 32-inch LCD TV, which equates to a 35-inch CRT model, should drop towards affordable consumer price points of below US\$2,000. DisplaySearch projects that shipments of LCD TV sets globally will double this year to 17 million units, and then soar to 45 million units by 2008, offering TV makers immense growth potential.

Sales and Marketing

Our sales and marketing team reacted to 2004's market turbulence with aplomb, rising to the challenge. Group's sales of TFT-LCD monitors more than doubled to 9.6 million units (10.6 million including the shipments of our Beijing affiliate, BJOTV), accounting for 71.2 percent of consolidated turnover. This performance vaulted TPV into the lead position in the high-growth TFT-LCD monitor industry. Amid a shrinking worldwide CRT monitor demand, TPV managed to eke out a small gain in unit sales to 12.0 million (15.1 million units including OTPV's volume). Our combined TFT-LCD and CRT unit sales of 25.6 million lifted TPV's global market share to 19.2 percent.



By region, sales to North America were particularly strong, generating 32.3 percent of the Group's turnover. We added a number of new ODM accounts in Japan, thereby increasing our chance to secure outsourced TV orders from that market in the future. In the fourth quarter, unit sales of 17-inch TFT-LCD models surpassed that of 15-inch monitors for the first time, due to narrowing of the price gap. Moving forward, the 17-inch variety will command the lion's share of the market, though shipments of 19-inch screens are expanding more rapidly, albeit from a small base. Owing to the fast expanding ODM business, TPV's branded contribution slipped to just 8.4 percent of total turnover in 2004.

This year presents a number of challenges for the Group.

Firstly, we must strive to restore our margins: in the second half of 2004, our ongoing cost-control initiatives were unable to keep pace with margin pressures brought on by the rapid price erosion of LCD products. However, with panel and end product prices expected to hold relatively stable this year, our margins should gradually improve as a result of our re-doubled cost cutting efforts.

Secondly, as the world is steadily migrating to flat-screen monitors, we expect our CRT monitor business to contract sharply in 2005: shipments may fall to below 10 million units from 12 million last year. On the other hand, we aim to increase our TFT-LCD shipments by 50 percent to at least 15 million units this year, which would more than offset the decline in CRT shipments.

Lastly, we must focus on expediting our entry into the promising LCD TV market: in 2004, we shipped just 45,000 TV units, mostly under our own brands. This year, in light of the expected consummation of supplier contracts with a number of ODM customers, we aim to sell over 300,000 LCD TV sets.

Production

In response to surging worldwide demand for TFT-LCD products, TPV added production lines in 2004 sufficient to increase its annual capacity for TFT-LCD monitors and TVs to 10.8 million units and 0.6 million units, respectively. Some 2.4 million units of this LCD capacity was added to our newly leased plant in Wuhan, China, where we also had two CRT lines with annual capacity of 2.4 million units. In our Fuqing plant, we converted a CRT production line to produce LCD TVs with a planned capacity of 0.6 million units per year.

Currently, we are building a new plant on a plot of land adjacent to our existing Fuqing factory which is able to house 5 to 6 millions units of additional LCD production capacity in the coming years. As such, capital expenditure is expected to increase to around US\$60 million in 2005.



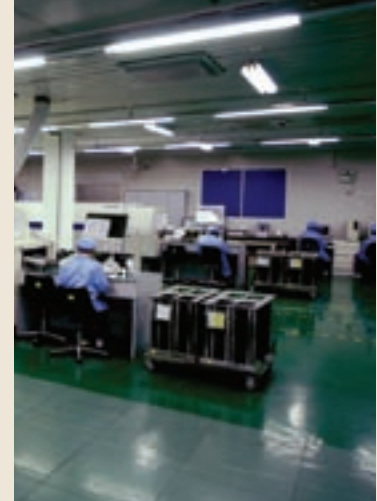
In response to surging worldwide demand for TFT-LCD products, TPV added production lines in 2004 sufficient to increase its annual capacity for TFT-LCD monitors and TVs to 10.8 million units and 0.6 million units, respectively.





Management Discussion and Analysis

Our R&D division constantly searches for ways to pare product costs and defects, and to improve quality.



Research and Development

Our cost effective R&D capability is one of the most important factors behind our success. In the first half of 2004, we responded to a severe industry shortage of LCD panels by designing monitor models incorporating half a dozen different panel specifications. We met the brisk demand for TFT-LCD desktop monitors by launching a blizzard of 409 new models in 2004, ranging from 15-inch to 19-inch, compared to 133 models in the prior year. We also designed 47 new LCD TVs and 58 CRT monitors during the year.

Increasingly, TPV embraces a division of labor in R&D between Taiwan and Mainland China. Taiwan, which in 2004 became the world's leading manufacturer of TFT-LCD panels, has abundant LCD engineering talent, so we conduct most of our core upstream design of LCD products in Taiwan. In China, where our factories are situated, we conduct CRT and PDP product development, as well as product refreshment and upgrades. Overall, our R&D head count increased 29.8 percent in 2004 to 640.

In 2005, we plan to include 20-inch TFT-LCD monitor models and wide monitors ranging from 19- to 24-inches into our product range. We will expand our development efforts in the LCD and PDP television businesses and expect to unveil more than 100 new TV models in 2005.

Our R&D division constantly searches for ways to pare product costs and defects, and to improve quality. This year we shall complete a project to unify electronic technical databases among all of our R&D facilities in China and Taiwan. This will improve communications, reduce errors and raise our R&D efficiency.

Challenges such as these bring out the best in a disciplined, resilient and ambitious company such as TPV.



Liquidity, Financial Resources and Capital Structure

The Group continued to finance its operations from internal cash flows and banking facilities. As at 31st December 2004, the Group's cash and bank balances (including pledged bank deposits) stood at US\$327.9 million (2003: US\$210.9 million) with banking facilities amounted to US\$1,885.6 million (2003: US\$1,175.9 million), of which US\$524.6 million (2003: US\$551.8 million) had been utilized. All bank debts were denominated in US dollar and borrowed on floating rate basis. The maturity profiles of bank debts as at the end of financial years 2003 and 2004 are summarized as follows:

	2004 US\$'000	2003 US\$'000
Within one year	86,950	106,421
In the second year	67,500	25,750
In the third to fifth year	51,000	2,250

Compared to 2003, the Group's inventory turnover days fell by 8.3 days to 38.0 days while account receivable turnover shortened from 57.1 days to 51.0 days, attributing to its recalibrated inventory and credit control. Account payable turnover days of 70.5 (2003: 92.3 days) were in line with the Group's target.

The Group's gearing ratio, which represents the ratio of total bank debts to total assets, was maintained at a healthy level of 13.8 percent while current ratio improve from 133.0 percent to 144.0 percent.

Challenges such as these bring out the best in a disciplined, resilient and ambitious company such as TPV.



Management Discussion and Analysis



Workforce

As at 31st December 2004, the Group employed 11,354 employees worldwide. The remuneration terms of these employees were consistent with the industry practice in the respective countries/places where the Group operates. In addition, the Group has established employee share option scheme to motivate and reward employees to achieve the Company's objectives.

Year	Workforce				Total
	Production	Research & Development	Sales & Marketing	Others	
2002	4,692	454	111	1,351	6,608
2003	5,888	493	166	1,812	8,359
2004	7,356	640	257	3,101	11,354

Foreign Exchange Risk

At 31st December 2004, the Group had outstanding commitments in respect of forward contracts in order to hedge the Group's exposure in foreign currencies from its operations as follows:

	2004 US\$'000	2003 US\$'000
Sell Euros for US dollars	3,796	20,535
Sell Japanese Yen for US dollars	-	1,366
Sell US dollars for Renminbi	440,000	395,000
Sell Renminbi for US dollars	425,000	-

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

The Group's 41.7 percent-owned associate, BJOTV, sold approximately 4.1 million units of displays in 2004, of which 3.1 million were CRT-based, 1.0 million were LCD-based and over 14,000 were plasma-based. Consolidated turnover for BJOTV rose by 39.4 percent to US\$528.3 million, while net profit increased 8.5 percent to US\$11.5 million.