

Chairman's Statement

The work done in 2005 has laid solid foundation for TPV to build on our strengths and achieve the mission of making viewing a pleasure for people from all walks of life, sooner rather than later.



Dr Hsuan, Jason
Chairman and Chief Executive Officer

At TPV, we are committed to making viewing a pleasure for people from all walks of life. It is this commitment that motivates us to constantly innovate and explore a myriad of possibilities in shapes and dimensions, year after year.

Fiscal 2005 was by far the most eventful year in the history of TPV. In September 2005, we acquired a part of the monitor and flat screen television business ("Philips Contributed Business") of Koninklijke Philips Electronics N.V. ("Philips"). This acquisition reinforced our commanding position in the global display market. We are now the largest PC monitor manufacturer globally, with 28.9 million units of shipment last year. Our 16.9 percent share of the global TFT-LCD monitor market was 4.9 percent higher than the share of the second-largest manufacturer, and our share of the CRT-monitor market of 23.8 percent was even more dominating.

In December 2005, we concluded the buyout of the remaining interest in our previously 41.7 percent-owned Beijing associate, Beijing Orient Top Victory Electronics Co., Ltd. ("BJOTV"), which added our flexibility in optimising our manufacturing capacity. BJOTV was subsequently renamed as TPV Technology (Beijing) Co., Ltd. ("TPV Beijing").

In the years to come, the takeover of Philips Contributed Business would bring three unassailable advantages to TPV: greater economies of scale in manufacturing and supply chain management, stronger R&D capabilities and a wider geographical reach.



We shall continue to expand our in-house production capability of small components to increase the value added to our products.

Market

The decline in the prices of TFT-LCD displays, which began in the second half of 2004 due to slow end-market demand and excess capacity, continued in the first quarter of 2005. Thereafter, however, monitor demand picked up rather rapidly and the market equilibrium was restored. Prices of monitors steadily inched higher through the year before weakening in December. This resulted in a much better operating environment for monitor integrators such as TPV than the year before. On the other hand, prices of larger TV panels continued to ease as new capacity came on stream and manufacturers lowered prices to stimulate demand and take market share.

Needless to say, prices of TFT-LCD products, as with all other electronics products, will go lower over time as technology matures and efficiency improves. However, a steady decline in prices will only make the products more affordable and that, in turn, can only lift demand.

As anticipated, in 2005, consumer preference continued to move further away from CRT monitors towards the sleeker and more fashionable flat screen displays. Global demand for TFT-LCD monitors soared 54.8 percent in 2005 largely at the expense of CRT monitors, which saw a 29.3 percent drop during the year. Although TFT-LCD monitors now account for 73.3 percent of TPV's business, CRT monitors still constitute a significant 20.2 percent, thanks to our relentless efforts to capture market share.

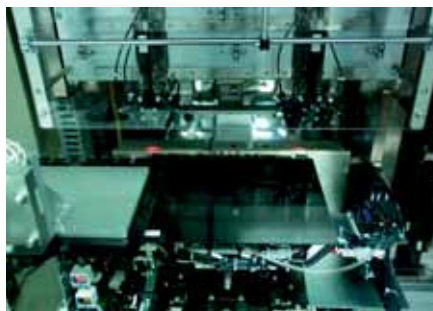
One notable development last year was the rise in the 19-inch TFT-LCD monitor volumes, which increased more than 8.5 times year-on-year and surpassed the 15-inch's revenue contribution to the Group for the first time.

While demand remains strong, the industry continues to be highly competitive and cyclical, given the volatility in component prices. Of course, as a seasoned player in the business, we are confident that we can excel in both good times and bad.

'Timeshifting' has become a popular buzzword in the broadcasting industry. It refers to the fact that people are watching TV not just in their living rooms but also in supermarkets, inside trains, at airports and many other places. This increased scope for watching TV at a variety of locations translates to higher demand for TV panels. TPV stands to benefit immensely from this phenomenon.

Production

As part of the restructuring of the Philips Contributed Business, production at the Doungguan plant was terminated at the end of December 2005 and the plant was officially shut down at the end of March 2006. Its production equipment and volumes have since been moved to our Fuqing plant at a relatively modest cost.



We are blessed with a diversified client base and the support of every major panel maker in Korea, Taiwan and China.

Before the end of last year, TPV concluded joint-venture arrangements with two of our major panel suppliers for the back-end assembly of LCD modules, a relatively labour-intensive process. The joint venture with Chunghwa Picture Tubes Ltd., CPT TPV Optical (Fujian) Co., Ltd., was set up in our new plant in Fuqing; the other joint venture with Hannstar Display Corporation, HannStar-TPV Display (Wuhan) Corp., is located in our Wuhan factory. TPV holds a 20 percent stake in each of these joint ventures for an aggregate capital investment of US\$7.5 million. Locating the LCD-module assembly facilities in our factories holds major advantages, the most important being the enormous savings on shipping, packing material and warehousing costs, as well as the shortening of production lead time and better control over panel quality.

We have embarked on more than 30 different initiatives to enhance the cost structure of our operations through rationalizing the product platform and streamlining the manufacturing process. While the cost structure realignment will undoubtedly generate some synergy in the near term, still greater economic benefits are expected over the longer time horizon. As the development platforms converge, the numbers of both component suppliers and models of products will steadily be rationalized. We have also accelerated the process of assimilating various functions that were earlier outsourced to vendors, such as the manufacturing of inverters. Back-end integration will be one of our key focuses in the coming year. We shall continue to expand our in-house production capability of small components to increase the value added to our products.

Shipments

Unlike many of our peers, we stay focused in display products — CRT monitors, TFT-LCD monitors, LCD and plasma TVs. Shipments of our CRT units fell more than 6.3 percent last year to 11.2 million units, in line with the declining end-market demand. Despite the shrinking volumes, CRT monitor remains an integral part of our business, supplementing the TFT-LCD business with a stable margin and a steady cash flow. While LCD penetration is high in the developed world, CRT monitor is still the mainstream product for less-affluent populations in developing countries like Brazil, Russia, India and China. We shall therefore increase our presence in these markets to stay ahead of competition.

Research & Development

Our acquisition of the Philips Contributed Business brought into our fold a division of Philips' display products development organization, with its highly skilled and experienced product development team. Its flat screen TV development capability complements the Group's current research and development strengths in monitors and augments the Group's overall technological know-hows in both monitors and TVs. Our new product launches, which numbered 509 in 2005 compared to 409 in 2004, were aimed at bringing better picture quality to the consumers by increasing the size and the resolution of displays. Most product launches in 2005 were in the over 17-inch categories, including 100 LCD TV and 24 plasma TV models, the 19-inch super slim monitors and the 24-inch wide multi-functional monitors. We also launched a few 32-inch LCD TV models and two high definition plasma TV models, all equipped with digital tuners. In 2006, we plan to launch a series of 27-inch, 30-inch and 37-inch multi-functional monitors and 37-inch and 40-inch LCD TVs.

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Geographies

Our customer base is well spread and diversified across geographies. North America continues to be our most important market, accounting for 30.7 percent of the Group's business. Sales to Europe rose 27.1 percent from 2004, representing 27.8 percent of the consolidated turnover. The migration towards TFT-LCD displays was particularly apparent in China, boosting sales there by 54.9 percent to account for 22.0 percent of our consolidated turnover, making it our third largest market.

Results

In 2005, TPV achieved record turnover and profit for the seventh consecutive year since it went public. Driven by a more stable price environment, a stronger end market demand and a growing market share in the monitor sector, the Group's consolidated turnover soared 35.2 percent to US\$5.1 billion. The Philips Contributed Business added revenues of US\$697.4 million for the Group between 5th September 2005 and 31st December 2005.

We were able to nudge our net margin up to 3.0 percent in 2005, as compared to 2.8 percent in 2004. The profit attributable to shareholders rose 44.4 percent to US\$149.6 million and basic earnings per share increased 32.4 percent to US9.90 cents. In the light of these satisfactory results, the Board has recommended the payment of a final cash dividend of US2.00 cents per share.

Taking into account the interim dividend of US0.72 cent, total dividends for the year would amount to US2.72 cents per share, as against US2.09 cents for the previous year.



Outlook

Global TFT-LCD monitor shipments surpassed 104 million units in 2005, notching up a 54.8 percent growth rate. Given that the penetration rates are relatively high in most parts of the world, the demand growth momentum of TFT-LCD monitors will begin to plateau from 2006, where most studies project growth rates between 15 and 20 percent for a total shipment in the neighborhood of 125 million units.

The widely talked about convergence of TV and monitor product platforms has finally begun. This will stimulate demand for multi-functional monitors, which used to be seen as a pure IT product. TV application is the growth driver for the TFT-LCD industry. In fact, it is one of the few areas that still see double-digit growth in the IT sector. Falling prices are the major stimulus driving demand. The Group has made significant inroads into the LCD TV space; sales turnover and unit volume both surged more than ten-fold, to US\$251.3 million and 644,000 units, respectively. Some of our important monitor customers are gradually expanding their product portfolio to include flat TV products. Others are eyeing closely at the opportunity. Global shipments of LCD TVs are projected to double to over 40 million units in 2006. In 2007, over 50 million LCD TVs are expected to be sold worldwide, still accounting for no more than one-quarter of global TV volume. The potential for growth is thus enormous.

TPV is well positioned to reap the fruits of a worldwide LCD TV boom. On the downstream, we are blessed with a diversified client base. On the upstream, we have the support of every major panel maker in Korea, Taiwan and China. We are adding infrastructure and capacity, rationalizing and streamlining functions and processes with a view to achieving substantial savings in costs.

The work that had been done in 2005 has laid a solid foundation for us to build on our strengths and achieve the mission of making viewing a pleasure for people from all walks of life, sooner rather than later.

Appreciation

The year 2005 saw the departure of two directors – Mr Djuhar, Johny and Mr Martin Vincent McHugh. On behalf of the Board, I express my gratitude for their valuable contribution to TPV's growth. Mr Maarten Jan de Vries and Mr Chang Yueh, David have joined our Board in 2005 and I look forward to working closely with them.

Finally, all the achievements of TPV are due to the support and help we have received from our employees, business associates and shareholders. I am deeply grateful to them for their contribution.

Dr Hsuan, Jason

Chairman and Chief Executive Officer
Hong Kong, 3rd April 2006



New product launches, which numbered 509 in 2005 compared to 409 in 2004, enabled us to bring a better viewing experience to the customers.