

Chi mei opto electronics



**ASSIGN
BUSTER**

Chi-Mei Optoelectronics (CMO) is a world-leading manufacturer of TFT-LCD display panels for use in applications such as desktop monitors, notebook PCs, and LCD TVs. The company was founded on August 6, 1998 and was listed on the Taiwan Stock Exchange (stock symbol 3009) in August 2002. As of early 2006, CMO had over 15, 000 employees worldwide. CMO has long cultivated its base at the Tainan Science-Based Industrial Park, where it currently operates four production facilities including one 3.5-generation fab, one fourth-generation fab, one fifth-generation fab and one 5.5-generation fab. To maintain a high level of competitiveness and flexibility, CMO is relentless in its investment activities and has aggressive plans for the deployment of its next-generation plants. In addition to capacity expansion plans for its current facilities, CMO is in the process of building its second fifth-generation fab, and a new 7.5-generation fab. With its commitment and heavy R&D focus on the highest quality of in-house self-developed technologies, CMO is able to attract the most brilliant TFT-LCD R&D talent in the industry.

In addition to ongoing innovation in production process technologies, CMO strives to satisfy consumer demands and expectations for high quality LCD panels by continually making technology breakthroughs and refinements. CMO is also dedicated to facilitating the clustering of the Optoelectronics Industry, and has put tremendous effort towards vertical integration with its suppliers. CMO has brought together leading upstream suppliers, including producers of glass substrates, backlight units, polarizing films, cold cathode fluorescent lamps and driver integrated circuits.

CMO also initiated the Optoelectronics manufacturing cluster in Tree Valley (previously known as the LCDTV & Industrial Support Park), and has been ahead of the curve in localizing the procurement of key components and equipment to enhance supply chain efficiency. This in turn has significantly stimulated the upgrade and development of Taiwan's innovative Optoelectronics Industry. The world is currently entering a new golden era of high definition digital TV and multimedia.

As one of the leading manufacturers in the global LCD-TV panel industry, CMO continues to focus on the development of advanced technology and innovative products, and shares in the responsibilities of promoting the knowledge-based concept of the "digital home". Last year, CMO organized the "2005 Digital TV Technology Forum" in which government representatives and experts from around the world were invited to share their experiences and visions on the future of the digital home.

We at CMO believe it is our duty and obligation to satisfy our customers' needs and expectations with high quality displays, and to enhance Taiwan's presence in the world's TFT LCD display industry. Corporate Structure Business Performance 2005 Operation Results In 2005, CMO's panel production set another historical record. Annual panel shipment increased by 90% to 23, 685 thousand units, while annual revenue increased by 49% to NT\$152, 844 million. Net profit amounted to NT\$ 8, 047 million. Revenue from LCD-TV panels contributed over 40% of annual sales, with an annual shipment of more than 5. million units. Our annual capital expenditure was NT\$ 62, 018 million. Operation Strategies We expect that the China market will play a very important role in our global operation strategies. Therefore,

we established Ningbo Chi Mei Optoelectronics in the second half of 2005, which was a very important first step to implement CMO's global operation and cost reduction strategies. More importantly, Ningbo Chi Me Optoelectronics, as our first investment in China, also builds a stronger base for the long-term development of CMO in this competitive TFT-LCD industry.

Also, to provide high quality customer service and maintain close customer relationships, CMO established two new subsidiaries, one each in Europe and Singapore. Additionally, CMO will invest more aggressively in the technologies of various key input components to protect our company from potential industry-wide shortages. 2006 Operational Goals Buoyed by the expected strong replacement demand and imminent emergence of digital life, the worldwide TFT-LCD market is forecasted to experience strong growth and profits in 2006.

To strengthen our position as a leading manufacturer of LCD-TV panels, we will keep expanding our production capacity through the mass production and ramp up of our second 5G Fab and Ningbo Chi Mei module assembly plant, as well as achieving higher yields at the 5. 5G Fab and the equipment move-in of the 7. 5G Fab. Meanwhile, CMO will aggressively invest in the market of key input components to achieve cost reductions in an efficient manner. For 2006, with all our employees' efforts and innovations, we have confidence in keeping our position as a leading manufacturer of LCD-TV panels.

In addition, we will continue to strive for higher market share in the notebook computers and desktop monitors markets. Operational Highlights Business Activities CMO's scope of business includes the research, development,

production and sale of TFT-LCD display panels and color filters. 2005 Sales Chart: Industry overview Due to the dominating technology, diversified applications and cost effectiveness, TFT-LCD monitors has become the mainstream product in the flat panel display industry in recent years.

In 2005, the suppliers of the key components such as backlights, color filters, driver ICs, and polarizers benefited greatly from the strong demand generated by the mass production of next-generation TFT-LCD fabs. According to DisplaySearch, Taiwan's share of worldwide LCD TV panel revenues grew dramatically from 27.4% in 2004 to 38.7% in 2005. TFT-LCD is a capital-intensive and technology-intensive industry. The main countries include Taiwan, Korea and Japan. In 2005, LCD TV panels bloomed due to the smooth mass production and ramp up of worldwide fifth generation and above fabs. According to DisplaySearch, the production of LCD TV panels increased to 28 million units in 2005 from 8 million units in 2004. In the past, the main manufacturers focused on competing for higher production capacity. Now, in order to gain better positioning in the future LCD TV market, the key players are paying more attention to accurate demand predictions, flexible production, and new advanced technologies. Also, the price fluctuations of LCD TV panels have smoothed out compared to before 2005.

The following chart is an overview of the TFT-LCD industry: R & D Expenditures Short and Long Term Operating Development Plan In 2006, CMO will continuously strive to capture a higher market share in the TFT LCD market and provide more diversified products A. LCD-TV Product CMO will continuously improve our market shares and revenues in this market. Due to

the strong demand for LCD TVs, we will offer an extensive product line of full HD panels above 40" to fulfill the demands of our clients.

Based on our solid worldwide customer base, CMO will continue to improve the operation performance in each area. Also, CMO will more aggressively explore new business opportunities in developing countries. B. OA Product In 2006, CMO expects to capture 1 to 2% more market share than last year in the desktop monitor and notebook applications. We will offer more competitive wide-format products, and develop 22", 24" and 30" panels for the monitor segment. Also, we will produce notebook panels in our fifth generation fab, which will improve our competitive advantage as well.

In 2006, CMO will not only offer more diversified products, but also continuously provide our customers with better service and cooperation in order to achieve higher a market share in the TFT-LCD industry. Industry growth forecast DisplaySearch has forecasted the large-sized TFT LCD panel demand in 2006 to consist of 7.86 million units for notebook computers and 135 million units desktop computer monitors (11.6 million units for other applications), with respective annual growth rates expected to be 24% and 14%. We produce notebook panels in our 3rd, fourth and fifth generation fabs, which can economically cut sizes such as 12.1", 13.3" wide, 14.1" and 14.1" wide, 15" and 15.4" wide, and 17" wide. Monitor panels are produced in our fourth, fifth, and 5.5 generation fabs, which have economic cutting sizes for 17", 19", 20.1", 19" wide, 22" wide and 24" wide format. CMO's marketing division expects the LCD TV panel market will reach approximately 43 million units with an annual growth rate of 54% in 2006.

More importantly, 32” and above panels will account for more than 40% of the total market.