China Handset Display Industry Report, 2006-2007

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Abstracts

Among all the handset non-semiconductor components, display shares the largest proportion in terms of cost.

OLED shares a negligible proportion, while TFT-LCD is absolutely prevailing with the proportion of over 60%. Furthermore, due to the sharp decline, the proportion of CSTN will drop to below 10% in 2007, and CSTN manufacturers will secede from the mobile phone field in 2008, the reason for this is quite simple: considering the equivalent prices but largely different performances of TFT-LCD and CSTN, manufacturers will choose TFT-LCD undoubtedly.

As for the black and white screen, it will be applied in some of the ultra-low price handsets with the proportion of about 8%, which will decline to about 5% in 2009, a lower speed than CSTN. In addition, considering the power consumption, the auxiliary display of mobile phones will still mainly apply Color STN.

Seemingly, OLED enjoys lots of advantages; however, it also has a fatal defect: TFT-LCD costs merely half or less compared with OLED of the same size. Without absolute advantages in performance, the sole merit of OLED is its thinness, yet at least 0.5 mm thinner than others, so comparatively speaking, the advantage isn't apparent. Additionally, in the year of 2006 when bar phone and slide phone dominated, the output of clamshell mobile phones descended remarkably. The originally prevailing auxiliary screen market of OLED also shrank a lot, which became another disaster of OLED; quite a few OLED manufacturers had to face bankruptcy and many small- and medium-size enterprises stopped all the activities in OLED field as well.

TFT materials include traditional a-Si and LTPS which was widely used in recent years. To high-end products that have higher demand in definition, a-Si has an inborn drawback - relatively small aperture ratio caused by inferior carrier mobility, and this has

become a hard-to-break limitation. By contrast, thanks to the different recrystallization technology, LTPS is superior in carrier mobility and aperture ratio. However, the demand for LTPS handset panels is in small amount for the time being. According to the clients' product layout, LTPS module market may become heater from late 2006 to early 2007. Generally, LTPS module market mainly concentrates in PDA and DC fields, because the panel must be bright enough and have superior resolution so as to support outdoor reading; merely in recent years, LTPS was adopted by high-end mobile phones.

In terms of manufacturers, Samsung SDI and Philips all declined largely, mainly attributed to the fact that they are lack of powerful support in TFT-LCD panel production line. Philips' TFT-LCD panel in Kobe doesn't exert its role seemingly, and it may be spurned or sold after being purchased by TPO which has its own LTPS TFT-LCD panel production lines.

As to the market, 2006 is a hard season. The conditions that supply exceeds demand remained for about a year, and the main products depreciated by 100% or more this year.

At the beginning of 2005, since a large amount of TFT-LCD Generation V production lines were put into operation, the production lines of Generation I-IV had to face the transformation, especially the Generation II and Generation III which would have no competence if continuing the large-size LCD panel production, so these manufacturers successively began to produce small-size LCD panels. In the second half of 2005, the supply volume of small-size LCD panels rose sharply, which caused an excessive supply; on the other hand, the display industry originally having large gross profit margin enjoys a space for depreciation, so the price declined continuously. By the end of 2006, the price had dropped to the lowest limit acceptable to manufacturers, while the market demand for large-size and high resolution handset display remained vigorous, so the overall price of display began to rebound.

The sales revenue of most handset display manufacturers decreased, especially for manufacturers in Taiwan and mainland China. WINTEK, Taiwan's largest handset display manufacturer, only realized sales revenue of NTD 32.6 billion, down by 59% over the RMB 52 billion in 2005; and the net profit before tax declined by over 100%. However, there were also rising manufacturers, such as AVIC Huatian (Chengdu) Science Co., Ltd. which made preparation in the second half of 2005 and put into operation in 2006 but earned profits from the sales of RMB 100 million in mid Dec 2006. Late comers strictly controlled the cost from the beginning, so they adapted well to the

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rapid depreciation of products, while it takes time for old manufacturers to be regulated.

However, after the first quarter of 2007, the demand for high resolution panels increased a lot. Additionally, due to the unprosperous technical transformation of production lines from large-size to small-size panels, the supply began to fall short of the demand, so most manufacturers are intending to raise product prices.

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