

E INK HOLDINGS INC.
(Formally Prime View International Co., Ltd.)

Corporate Annual Report 2010

元太科技工業股份有限公司
民國玖拾玖年度公司年報



YOUR WINDOW TO A NEW HORIZON



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Stock Listing:

The company 's common stock is list on the
Taiwan's Gretai Securities Market : 8069

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REVIEW OF COMPANY ACTIVITIES

Date of Establishment :

June 16th, 1992

Milestones in the Company's History:

- Sept 2000 Monthly production capacity reaches 18,000 substrates
- Oct 2000 Securities & Futures Information Center issues authorization for public offering
- Sept 2001 Expanded its monthly production capacity to 36,000 substrates
- Oct 2001 Acquires ISO 9001 certification
- Apl 2002 Taiwan's Investment Commission approves the company's plan to set up a PRC subsidiary, Transcend Optronics (Yangzhou) Co Ltd, through a third region investment entity
- July 2002 Acquires QS-9000 Certification for product quality, ISO 14001 Certification for environmental standards and OHSAS 1800 Certification for occupational health and safety management systems
- Feb 2003 Shares are listed on Taiwan's Emerging Stock Market on Feb 14, 2003
- Oct 2003 Applies for its shares to be listed on Taiwan's GreTai Securities Market (GTSM)
- Jan 2004 GTSM approves the company's application for its shares to be listed
- Mar 2004 Trading on the GTSM commences on March 30th, 2004
- Nov 2004 Taiwan's Investment Commission approves the company's application for indirect investment in Rich Optronics (Yangzhou) Co Ltd in PRC through a third region investment entity
- May 2005 Partners with Philips in EPD (Electronic Paper Display) business
- May 2006 Executes the 1st treasury stock repurchase and retires 296,000 issued shares
- Oct 2006 Establishes US subsidiary to expand sales network in the America
- Nov 2007 Signs a merger memorandum with BOE Hydis Technology of South Korea
- July 2008 Officially acquires share ownership of Hydis Technologies on July 4th
- June 2009 Signs agreement to acquire 100% share ownership of E-Ink Corporation (EIC) USA
- Sept 2009 Signs amended agreement for the 100% share transfer with EIC and shareholder representatives to obtain 100% share ownership of EIC, effective December 23rd, 2009
- Dec 2009 Hydis Technologies signs corporate bond purchase agreement, guarantee agreement, investment agreement and cross-licensing agreement with LG Display of Korea
- May 2010 Taiwan's Investment Commission approves the company's application to establish Transyang Electronics (Yangzhou) Ltd through a third region investment entity
- Nov 2010 The company's latest EPD product, E Ink Pearl™, wins the Popular Science award for "Best of What's New 2010"
- Dec 2010 Wins Printed Electronics awards at The 4th IDTechEx, USA
- Mar 2011 The company's Board of Directors passes a resolution for a second treasury stock repurchase to be used for employee motivation programs

LETTER TO THE SHAREHOLDERS

2010 BUSINESS REVIEW

Global economic recovery in 2010 drove the rapid growth in the market of portable electronic devices. The shipping quantity of EIH's electronic paper displays (EPD) has kept increasing because of the decrease of material costs and the enhancement of yield and manufacturing efficiency. The profit-oriented strategy for the TFT-LCD business with focus on niche markets has been proven to be effective. Rising demand for FFS wide view angle technology has also stimulated business. Apart from the growth in business performance, the gross profit margin in 2010 was maintained above the industry average. The revenue reached a highest record of NT\$25.2 billion, and the net income reached NT\$4.028 billion with earnings per share of NT\$3.81.

In 2010, we tripled the quantity of EPD we had shipped, yet most customers' inventory was depleted by the end of the year, indicating that supply did not meet demand. Reasons for this may be as follows:

1. After our new EPD product, E Ink Pearl™, entered the market in the third quarter of 2010, a large number of highly favorable reviews led to enthusiasm in the market for the product.
2. New markets and customers, such as Europe, China, Russia and other emerging areas, have continuously been developed.
3. The e-reader prices have been reduced to an acceptable level for most customers (US\$139-149 for the WiFi models and US\$179-189 for the 3G models).
4. According to a report from Nelson in the 4th quarter of 2010, iPad usage for reading e-books was relatively small, yet 40% of iPad users also bought a Kindle for e-book reading, according to a JP Morgan report in December 2010.

Regarding TFT-LCD, we continued developing niche markets to avoid intense competition in the consumer product markets. In the second half of 2010, EPD manufacturing capacity was maximized after the outsourcing of module production. The outsourcing and the development of new solutions also supported the steady growth in the TFT-LCD business.

There was also strong increase in demand for FFS wide viewing angle technology. Owing to the demand, Hydis changed its focus from TN to FFS products in the third quarter of 2010, turned loss into profit in the fourth quarter, and further boosted the parent company's profitability.

KEY DEVELOPMENTS IN 2011

A report from IMS Research forecasted that in 2011 the global sales of e-readers (excluding tablet PCs such as iPad2) will reach 23.5 million units, with North America remaining the major market. In this opinion, the North America market will keep growing steadily, while the markets of Japan, Europe and Russia will grow rapidly. Furthermore, the demand for small to medium-sized displays (10.1 inches or smaller) in the consumer market tends to focus on the high-end FFS wide viewing angle technology, so it is expected that Hydis' sales will also grow strongly.

E Ink's business strategies for this year are as follows:

1. Continue to reduce EPD and relevant costs:

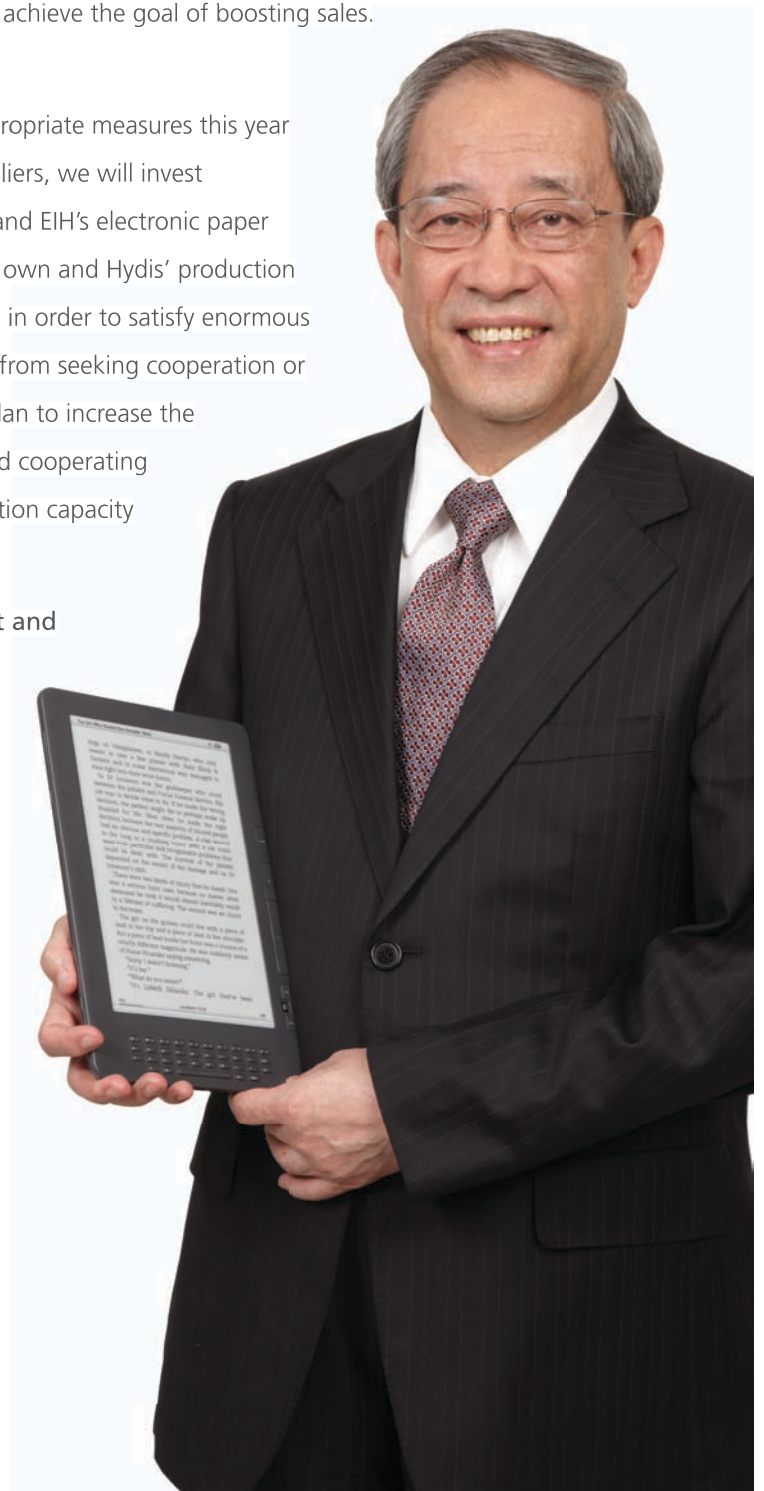
Lowering EPD costs to achieve a win-win situation for us and our customers is always our task of highest significance. The sale of e-readers in the consumer market achieved an outstanding result in 2010, and prices gradually eased to a level acceptable to the average consumer. This achievement was partly due to our endless efforts to reduce EPD costs. In 2011, EIH will continue to increase the purchase of 6-inch TFT back panels, improve the material yield, and reduce production time in order to lower production costs. EIH will also strengthen cooperation with customers and system-on-chip suppliers to speed up the introduction of SOC solutions. This will further lower e-reader costs and help increase the competitiveness of customers' e-reader products to achieve the goal of boosting sales.

2. Production capacity development strategy

With the sale of e-readers exploding in 2010, EIH will adopt appropriate measures this year to increase production capacity. Together with our material suppliers, we will invest substantially in human resources and capital expenditure to expand EIH's electronic paper production capacity. EIH will not only continue to utilize both its own and Hydis' production capacity, but also actively engage in cooperation with other fabs in order to satisfy enormous demand and enhance our competitiveness in the market. Apart from seeking cooperation or outsourcing in developing TFT back panel production, we also plan to increase the module assembly capacity by expanding our own production and cooperating with our business partners to speed up the expansion of production capacity and improve our responses to the market.

3. Environmental improvement, manufacturing improvement and increasing staff productivity

With the increasing demands, EIH invests heavily in improving the environment of its facilities to better employees' quality of life, as well as enhancing employees' stability. This strategy has been proven very successful to date. EIH also invests heavily in production line improvement and automation to further improve product quality and shorten the manufacturing time. These measures have also proven most effective.



4. Developing and promoting cutting-edge display technology

EIH is the only stable supplier of EPD products in the market. In 2010, EIH's electronic paper products were demonstrated to be the market's best EPD technology with more than 90% market share of the e-reader market. In 2010 EIH introduced the faster E Ink Pearl™ electronic paper which was quickly adopted by customers and which sold exceptionally well in the end-user market. For color EPD, EIH launched the E Ink Triton™ electronic paper in November last year. In 2011 we will continue to develop cutting-edge color EPD technology in order to keep ahead of our competitors.

With the touch function becoming an essential feature of EPD, EIH will provide solutions for touch technology, such as a capacitive touch screen and a digital pen, to enhance the e-reader's functionality. EIH's R&D team is also working on a new generation flexible EPD to develop even more market opportunities.

5. Solution enhancement for EPD peripherals

The solutions of the upstream/downstream products and peripherals are also key elements of the e-reader market. Apart from developing EPD technology, EIH is keen to form strategic alliances with players in these industries and to engage in technological cooperation with key component suppliers, thus together developing a broad and comprehensive e-reader market. Entering into these alliances will also increase EIH's revenue and profit. After e-reader hardware manufacturers begin incorporating new IC designs into the design of their own next generation e-reader in 2011, prices will be even more competitive and product functionality will be greatly enhanced.

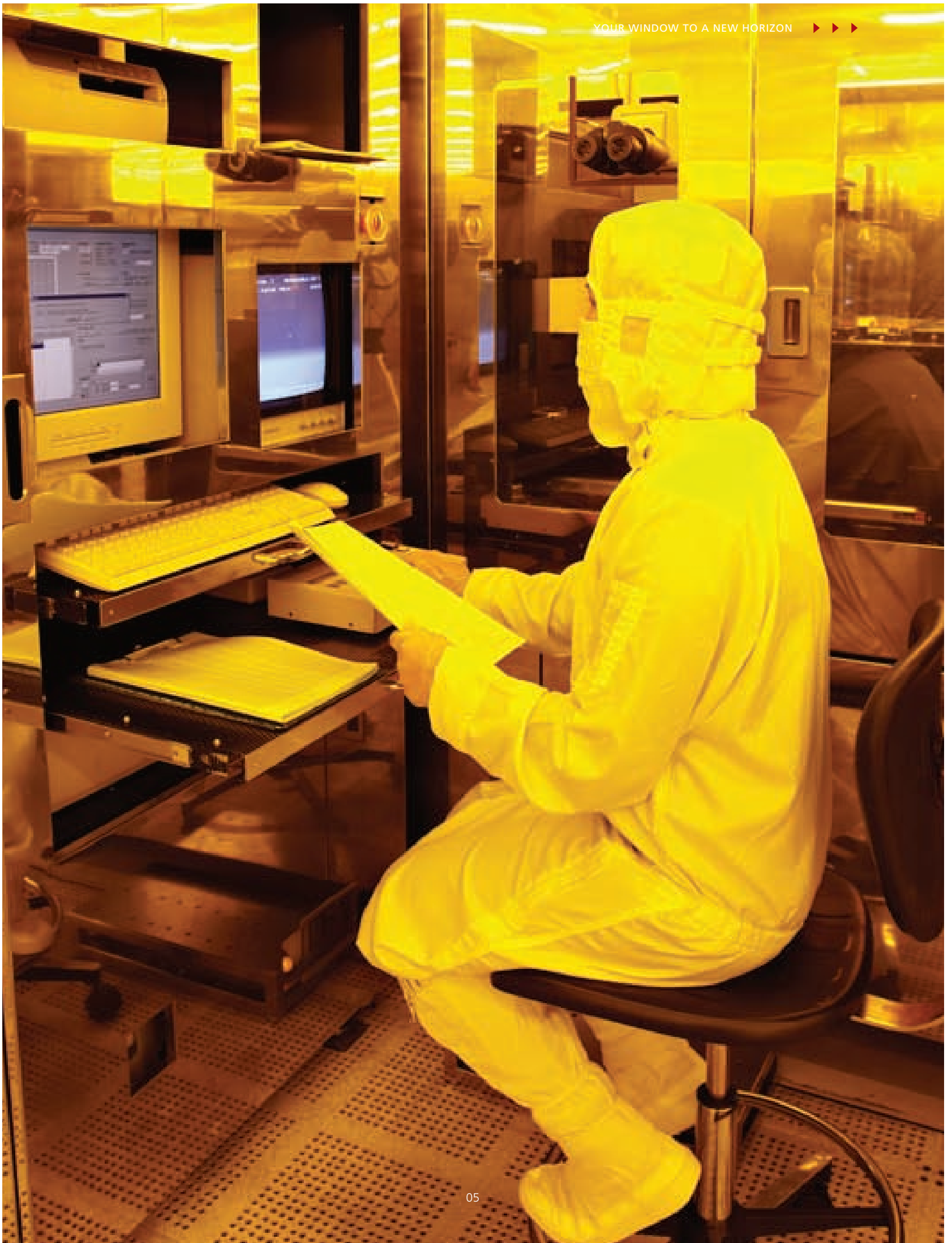
6. Continuous promotion of FFS wide viewing angle technology and plan for capacity expansion and the application market

With characteristics of low energy consumption, a wide viewing angle and viewability in bright light, FFS wide viewing angle technology is currently the best of all TFT-LCD display technologies for smart phone and tablet PCs. EIH will utilize Hydis' G3.5/G3.0 facilities to produce high-end products of 4 inches or smaller for use in smart phones. EIH will also purchase TFT-LCD glass manufactured by the partner's fabs of G5 or above for the products of 7 inches or larger used in tablet PCs. This approach will lower costs, improve competitiveness and will be effective in developing the consumer market for small to medium-sized products.

7. Continuous promotion of TFT-LCD applications and development of high margin markets

For TFT-LCD products, we will exercise a strategy of fast delivery, product completeness and customization for specific applications. We aim to build genuine, value-added and trustworthy cooperative relationships with our customers in the applications market and form a strong basis for our long-term and thorough cultivation of the applications market. We will avoid price wars over low margin products, sustain profitability and develop high margin markets in sectors such as aviation, navigation, agricultural machinery, industrial controls, medicine and entertainment.

YOUR WINDOW TO A NEW HORIZON ▶▶▶



OUTLOOK


EIH is well equipped with talent, technology, resources and experience. In the market for small to medium-sized products, we have many years' experience and will continue to be the leader in the e-reader market and actively develop the applications market for EPD and FFS wide viewing angle technology.

Small and medium-size products are prevalent in our daily lives. Portable electronics products can be seen everywhere, among which the e-reader has a market in tens of millions and where it is estimated that growth can still be tripled. FFS wide viewing angle technology is already used in consumer markets for applications of smart phones and tablet PCs led by iPad and iPhone. FFS has become the most advanced EPD technology available.

Everyone in the company will keep striving to reduce costs and advance its technologies, as well as maximizing the benefits for the customers and shareholders. EIH has been deeply involved in the EPD industry for years. Not only do we have the ability to develop remarkable products, but we possess both key technologies and manufacturing ability. As we continue to develop market applications and new technology, we will also move forward with vertical integration and seek strategic partners for cooperation.

EIH will rely on its key technology and global marketing strategy to maintain its position as a leader in the e-reader market. It will also concentrate on developing TFT-LCD products and FFS wide viewing angle products to seize the dominance in the market. These strategies will enable EIH to engage in much larger scale business and will increase its profits. We will take all actions necessary to ensure that EIH will continue to be a leader in the EPD industry.

E Ink Holdings Inc.


Scott Liu
Chairman

YOUR WINDOW TO A NEW HORIZON ▶▶▶



FINANCIAL HIGHLIGHT

Financial Analysis		2006	2007	2008	2009	2010	2011/03/31
Capital Structure Analysis (%)	Debt Ratio	34.89	30.38	63.01	29.76	32.09	30.37
	Long-term Fund to Fixed Assets Ratio	207.94	290.09	283.65	985.30	1,356.68	1,542.42
Liquidity Analysis (%)	Current Ratio	140.50	145.81	46.70	88.23	108.17	112.34
	Quick Ratio	92.32	137.27	30.59	72.90	83.62	92.18
	Times Interest Earned	36.80	47.41	(3.43)	(3.94)	32.84	103.26
Operating Performance Analysis	Average Collection Turnover	12.78	11.49	4.96	5.84	4.28	3.92
	Days Sales Outstanding	29	32	74	63	85.33	93.22
	Average Inventory Turnover	7.55	11.09	5.81	9.23	7.46	9.39
	Average Inventory Turnover Days	8.82	8.02	3.37	5.68	3.33	3.24
	Average Payment Turnover	48	33	63	40	48.91	38.89
	Fixed Assets Turnover	2.51	3.32	3.39	6.28	9.67	14.64
	Total Assets Turnover	1.04	0.98	0.52	0.45	0.48	0.66
Profitability Analysis	Return on Total Assets	2.16	12.31	(5.03)	(4.26)	12.88	18.70
	Return on Equity	3.37	17.83	(12.78)	(8.47)	18.22	27.03
	Operating Income to Paid-in Capital Ratio	2.37	21.95	10.38	9.67	22.93	11.47
	Pre-tax Income to Paid-in Capital Ratio	4.85	26.45	(12.86)	(10.61)	39.21	64.05
	Net Margin	2.05	11.40	(10.10)	(8.69)	23.67	27.42
	Basic Earnings Per Share (NT\$)	0.37	2.12	(1.31)	(1.40)	3.81	1.56
	Adjusted Earnings Per Share(NT\$)	0.35	1.84	(1.31)	(1.40)	3.81	1.56
	Diluted Earnings Per Share (NT\$)	0.36	2.08	-	-	3.78	1.55
Cash Flow (%)	Adjusted Diluted Earnings Per Share (NT\$)	0.34	1.81	-	-	3.78	1.55
	Cash Flow Ratio	115.90	136.25	5.89	2.74	38.18	9.46
	Cash Flow Adequacy Ratio	148.44	182.50	146.27	160.78	335.71	225.56
	Cash Flow Reinvestment Ratio	14.90	11.69	2.32	0.82	13.18	(3.09)
Leverage	Operating Leverage	8.57	1.56	1.96	1.73	1.21	1.53
	Financial Leverage	1.06	1.03	1.41	1.27	1.05	1.04

Unit: NT\$ in Thousand

Condensed Balance Sheet		2006	2007	2008	2009	2010	2011/03/31
Current Assets		\$ 2,581,449	\$ 3,967,440	\$ 4,403,380	7,505,867	12,099,260	12,532,256
Funds and Long-term Investments		2,562,003	4,836,622	9,522,182	19,189,792	21,023,298	22,614,358
Fixed Assets		3,519,759	2,920,668	2,449,440	1,971,236	1,716,093	1,641,111
Intangible Assets		-	27,484	77,481	58,191	46,589	37,734
Other Assets		689,232	509,828	488,859	250,565	257,093	192,985
Total Assets		9,352,443	12,262,042	16,941,342	28,975,651	35,142,333	37,018,444
Current Liabilities	Before Distribution	1,837,284	2,720,850	9,428,515	8,507,024	11,185,621	11,155,282
	After Distribution	1,867,770	2,950,157	9,428,515	8,507,024	(Note)	11,155,282
Long-term Liabilities		1,230,000	1,724,300	1,094,649	-	0	0
Other Liabilities		196,155	172,387	151,483	116,396	93,097	87,285
Total Liabilities	Before Distribution	3,263,439	4,617,537	10,674,647	8,623,420	11,278,718	11,242,567
	After Distribution	3,293,925	4,846,844	10,674,647	8,623,420	(Note)	(Note)
Capital Stock		5,481,393	5,878,332	6,783,128	9,575,406	10,775,602	10,785,278
Advance Receipts for Common Stock		-	-	1,017	9,254	171	20
Capital Surplus		5,274	236,304	251,333	11,822,662	9,764,320	9,780,594
Retained Earnings (Accumulated Losses)	Before Distribution	504,709	1,465,662	(525,882)	(1,408,095)	4,027,978	5,705,006
	After Distribution	241,109	363,225	(525,882)	(1,408,095)	(Note)	(Note)
Cumulative Transaction Adjustments		102,823	237,523	228,491	34,573	(662,221)	(457,962)
Unrealized Gain/ Loss on Financial Instruments		(5,195)	(173,316)	(471,392)	318,431	(42,235)	(37,059)
Total Equity	Before Distribution	6,089,004	7,644,505	6,266,695	20,352,231	23,863,615	25,775,877
	After Distribution	6,058,518	7,415,198	6,266,695	20,352,231	(Note)	(Note)

Note: Subject to change after shareholders' meeting resolution.

Unit: NT\$ in Thousand

Condensed Statements of Income	2006	2007	2008	2009	2010	2011/03/31
Net Sales	\$ 9,770,536	\$ 10,737,161	\$ 8,799,740	\$ 12,978,548	17,016,427	6,115,876
Gross Profit	760,123	1,953,682	1,355,361	1,601,112	3,297,283	620,686
Income from Operations	130,052	1,290,313	641,808	925,932	2,470,563	309,313
Non-operating Income and Gains	264,570	428,848	138,102	124,534	2,004,519	1,482,338
Non-operating Expenses and Losses	128,902	164,608	1,652,017	2,066,124	250,104	64,623
Income from Operations of Continued Segments-before Tax	200,720	1,554,553	(872,107)	(1,015,658)	4,224,978	1,727,028
Cumulative Effect of Changes in Accounting Principle	(328)	-	-	-	-	-
Net Income (Losses)	200,392	1,224,553	(889,107)	(1,127,658)	4,027,978	1,677,028
Basic Earnings Per Share	0.37	2.12	(1.31)	(1.40)	3.81	1.56
Diluted Earnings Per Share	0.36	2.08	-	-	3.78	1.55

Unit: NT\$ in Thousand

Financial Status	2010/12/31	2009/12/31	Difference	%
Current Assets	12,099,260	7,505,867	4,593,393	61%
Long-term Investments	21,023,298	19,189,792	1,833,506	10%
Fixed Assets	1,716,093	1,971,236	(255,143)	(13%)
Intangible Assets	46,589	58,191	(11,602)	(20%)
Other Assets	257,093	250,565	6,528	3%
Total Assets	35,142,333	28,975,651	6,166,682	21%
Current Liabilities	11,185,621	8,506,898	2,678,723	31%
Long-term Liabilities	0	0	0	0%
Other Liabilities	93,097	116,522	(23,425)	(20%)
Total Liabilities	11,278,718	8,623,420	2,655,298	31%
Capital Stock	10,775,602	9,575,406	1,200,196	13%
Advance Receipts for Common Stock	171	9,254	(9,083)	(98%)
Capital Surplus	9,764,320	11,822,662	(2,058,342)	(17%)
Retained Earnings (Accumulated Losses)	4,027,978	(1,408,095)	5,436,073	(386%)
Total Shareholders' Equity	23,863,615	20,352,231	3,511,384	17%

Unit: NT\$ in Thousand

Operating Result	2010/12/31	2009/12/31	Difference	%
Gross Sales	17,892,401	13,258,204	4,634,197	35%
Deduct: Sales Returns & Allowances	875,974	279,656	596,318	213%
Net Sales	17,016,427	12,978,548	4,037,879	31%
Cost of Sales	13,719,328	11,377,530	2,341,798	21%
Realized (Unrealized) Gross Profit from Affiliates	184	94	90	96%
Realized Gross Profit	3,297,283	1,601,112	1,696,171	106%
Operating Expenses	826,720	675,180	151,540	22%
Income from Operations	2,470,563	925,932	1,544,631	167%
Non-operating Income & Gains	2,004,519	124,534	1,879,985	1510%
Non-operating Expenses & Losses	250,104	2,066,124	(1,816,020)	(88%)
Income before Income Tax	4,224,978	(1,015,658)	5,240,636	516%
Income Tax Expenses	(197,000)	(112,000)	(85,000)	76%
Income after Income Tax	4,027,978	(1,127,658)	5,155,636	457%

COMPANY DESCRIPTION

E Ink Holdings Inc (EIH), formally Prime View International Co. Ltd (PVI), was founded in 1992 by Taiwan’s leading paper manufacturing and printing group, the Yuen Foong Yu Group. Its corporate philosophy aims to deliver revolutionary products, user experiences, and environmental benefits through advanced technology development. This vision has led to its continuous investments in the field of electronic paper display as well as its 2008 acquisition of Hydys Technologies, manufacturer of the world’s best wide viewing angle LCDs and its 2009 acquisition of E Ink Corp., the worldwide leader in electronic paper. Listed in Taiwan’s GTSM and the Luxembourg market, E Ink is now the world’s largest supplier of displays to the eBook market.

As Taiwan's first TFT-LCD company, PVI (now EIH) established its first production facility in the Hsinchu Science Park in 1994 and successfully mass produced TFT-LCD display panels ranging from 2.45-10.4 inches for consumer electronics, navigation systems, and automotive applications.

For the company to reach the upper echelons of the industry, PVI started to form strategic partnerships with key global players and leading brand names. PVI acquired Philips’ electronic display business in 2005 to develop EPD products, and mass production began in the third quarter of the same year. In late 2006, PVI became the sole supplier of EPD panels for Sony’s eBook readers. In 2007, PVI began supplying EPD to Intel’s Metro Notebook. PVI (now EIH) also started to supply to the well-known Amazon Kindle and many other brand name e-readers from 2007.

In 2009, PVI acquired E Ink Corporation and vertically integrated the EPD technologies and manufacturing. As the leader of EPD industry with the world-famous E Ink® Technology, it was decided that the name of the new company would be E Ink Holdings Inc. This was to reflect the company’s global spread of customers and to develop a

single corporate identity and brand image which would be increasingly recognized in the global market.



Prime View International Co. Ltd (PVI)

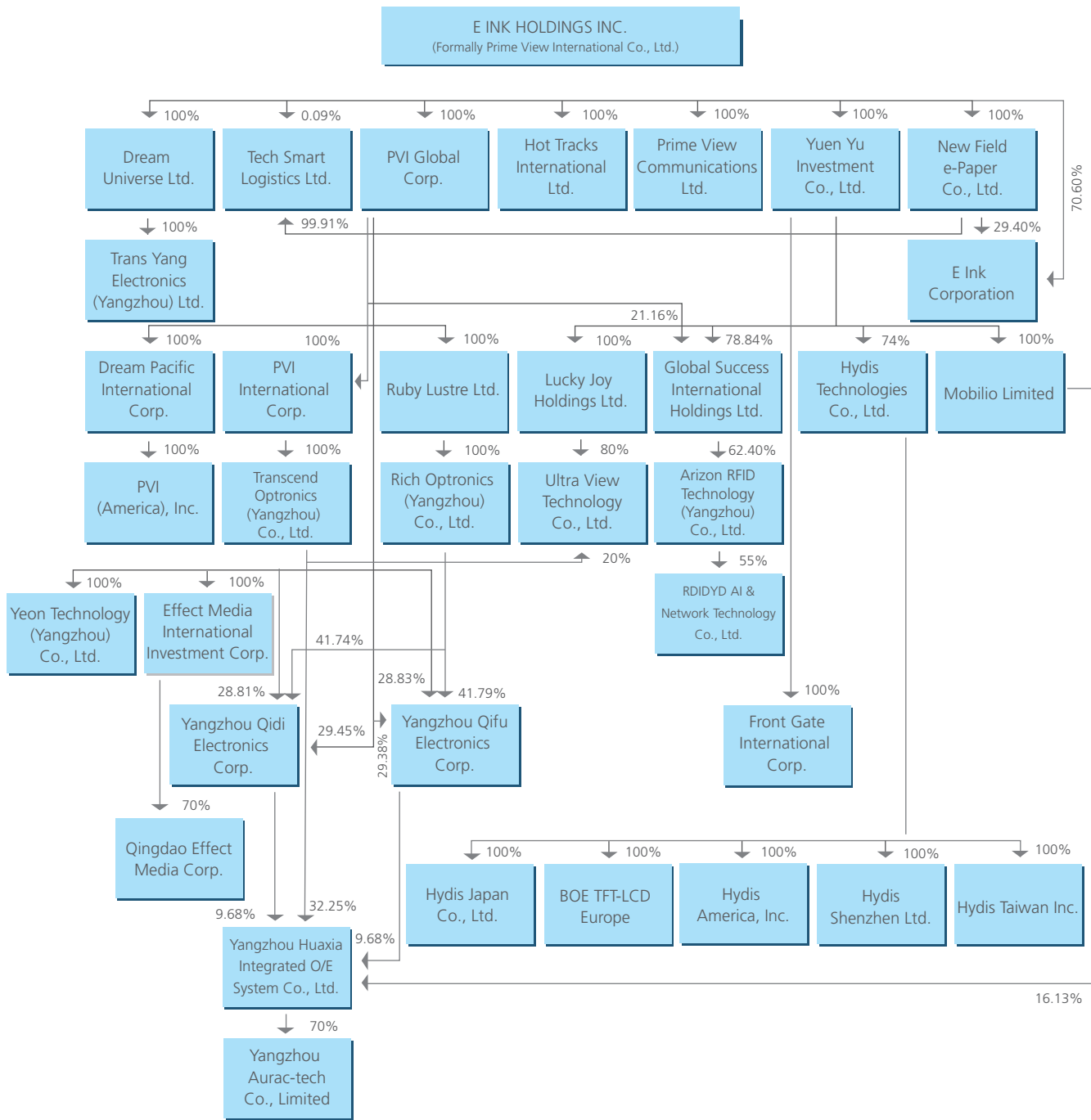


E Ink Holdings Inc (EIH)

EIH’s core technology, E Ink® technology, is ideal for many consumer applications such as eBooks, watches, smartcards, battery and memory indicators, electronic shelf labels and promotional signs. EIH has an impressive track record of creating many outstanding and innovative products, and it is committed to social responsibility. The company adheres strictly to domestic laws and regulations on air pollution, water pollution and emissions and ensures that industrial waste is taken to qualified treatment plants.

E Ink has commitments to innovation, discipline and team work. Innovation requires the application of creativity and originality in the development of new ideas in order to improve products, procedures and services. All staff is required to prioritize adding value for clients when developing new ideas as this will subsequently drive company growth and profit. Discipline requires staff to never compromise, to obey company regulations and standard operating procedures and to finish tasks efficiently. Team work requires staff to work together to overcome difficulties; to be problem solvers, not just problem finders; and to trust and support colleagues in striving to achieve goals. Most importantly, the company is committed to delivering high quality, cost effective goods and services to ensure partnerships flourish and profits grow.

AFFILIATES AND SUBSIDIARIES



REVIEW OF OPERATIONS

BUSINESS DESCRIPTION

Main Business

EIH's main business is the research, development, manufacture and sale of thin film transistor monitor systems, and all processes associated with TFTs, particularly EPD, and the Thin Film Transistor Liquid Crystal Displays (TFT-LCD). Sales from electronic paper product sales accounted for 86% of company revenue in 2010, with TFT-LCD products accounting for 14% of revenue.

Main Products

EIH has two main product categories. One category is electronic paper display products which includes applications for e-readers. The second category is small and medium size TFT-LCD panels and modules under 12.1 inches. Main usages are for automotive and entertainment systems, marine and aviation navigation, security monitoring systems, medical equipment, smartphones, cameras, portable DVDs, digital photo frames, pachinko machines, industrial instruments and cash register systems (POS).

New Product Development

EIH is focusing on four main areas of R&D:

1. Development of EPD and TFT-LCD modules.
2. Development of products for special applications for use in industrial displays, marine displays and the automotive market.
3. Importation of new materials and development of new manufacturing processes to improve and add new features to existing products to satisfy market trends and enhance product competitiveness.
4. Strengthening of international cooperation in manufacturing, resources and technology to develop a new generation of low-cost, low-power display technologies in order to lay the basis for sustainable development.

EIH will continue to supply new products to existing clients and niche markets, and will integrate marketing, design and manufacturing capabilities, based on the development of suitable technologies for new markets.

EIH is committed to providing premium, on-time services to North America and Europe, the world's largest consumer markets. We will expand our research and strategic planning in these markets which will lead to enhanced customer satisfaction, improved product development and faster product delivery. We will also be able to assist customers better to adopt new applications.



INDUSTRY OVERVIEW

EPD Industry

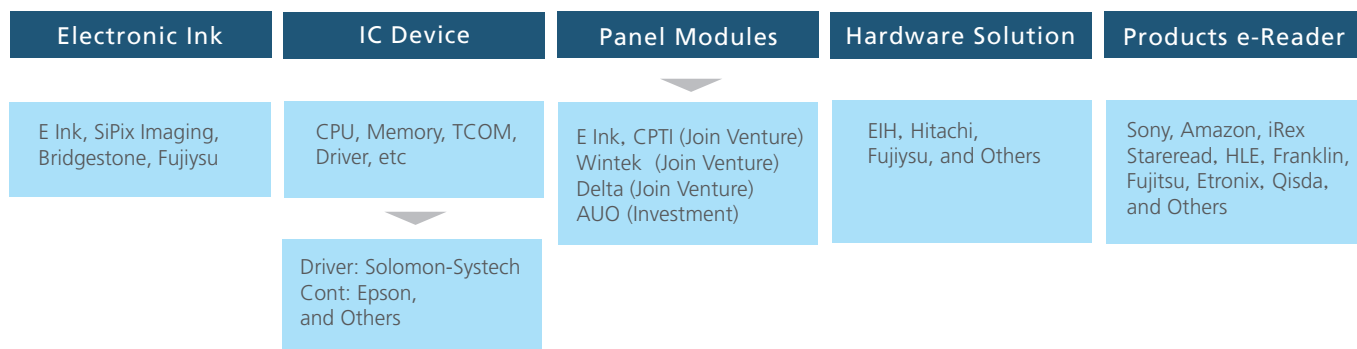
Electronic paper was developed in the early 1970s. The Massachusetts Institute of Technology began using it in 1996 as part of its micro-capsule technology. Later it became known as "electronic ink." The advantages of this reflective technology are no irritation to eyes, ultra-low power consumption, wide viewing angle, yet the electronic paper is just as thin as common writing paper.

Electronic paper technology entered mass production in 2008. Since then, electronic paper technology has been developed with different characteristics such as color, large-format, touchable, flexible and writable screens.

Products with each of these features also required different market positioning. The variety of features drove investment in the industry in addition to the e-readers, especially for products such as smart cards, electronic tags, clocks, phone button display decoration, advertising billboards and other diverse applications.

Commercialization of electronic paper displays began in 2000 when the TFT-LCD industry was experiencing rapid growth. Unlike other display technologies like TFT-LCD and AMOLED, very few other manufacturers were interested in the development of EPD. Consequently, EIH became the world's only supplier of EPD products. However, after the emergence of the Kindle, a substantial market for electronic paper applications emerged which led to many international companies entering the market. Among them was leading TFT-LCD panel maker AUO.

The four main global electronic paper technology suppliers are currently E Ink, SiPix, Bridgestone and Fujitsu, of which E Ink and SiPix are Taiwanese panel manufacturers. Other manufacturers have entered into strategic partnerships with Taiwanese companies to set up R & D centers and factories. This means Taiwan will remain among the leading players in the electronic paper industry.



Source: Topology Research Institute 2009

Small- and Medium-Sized TFT-LCD Products

With the gradual recovery of the global economy in 2010, the demand for small sized (under 5 inch) TFT-LCD terminal products is now recovering. However, as a result of oversupply in the global LCD market, a majority of firms faced serious losses. Particularly some leading manufacturers using G7 and G6 fabs to produce medium size modules and G5 fabs to produce smaller sizes, bring into significant price pressure in this market segment. Despite these factors, Taiwanese manufacturers of small and medium sized TFT LCD products were expected to achieve production growth of 10%.

Upstream and Downstream Flows in the Industry

For electronic paper display production, EIH relies mostly on its own TFT-LCD production facilities, but it also outsources to G5 production lines. In the electronic paper supply chain, EIH takes on the role of upstream supplier as well as midstream manufacturer of panels and modules.

Electronic Paper Display Manufacturing

1. Electronic Paper Display Market

In 2005, EIH acquired Philips' electronic paper display business. EIH and Philip were both experienced in R&D of the small and medium sized panel technology, and together they began to mass produce the display panels and electronic paper products in the third quarter of 2005. With EIH having such a successful entry into the electronic paper market, Sony chose EIH to be its sole supplier of e-reader panels in 2006. EIH also supplied e-reader displays for Intel's Metro Notebook in 2007. In late 2007, in a joint venture EIH and Amazon launched the Kindle e-reader to enable consumers to easily download e-books from the internet. To ensure stable and secure supplies of technology and component materials and to integrate the EPD upstream and downstream network, EIH's acquisition of E Ink Corporation USA was finalized in 2009.



Not only does EIH possess the most advanced, patented electronic paper technology, it also has the electronic paper mass production experience and know-how, which is an unrivalled combination in the industry. Mass production of electronic paper is made difficult due to technological barriers. Very few global display module manufacturers have the technology to produce electronic paper. Many other manufacturers still struggle to improve

production yields. When they showcase a new product it usually remains at prototype stage or only enters limited production.

2. TFT-LCD

The global TFT-LCD panel industry has entered a mature stage of development. Both domestic and overseas manufacturers have similar benchmarks. The main difference is that they employ different marketing strategies in different market segments. For example, EIH produces TFT-LCD panels for markets with special applications.

A. Consumer Electronics and Mobile Phone TFT-LCDs

TFT-LCD panels are used in a range of consumer electronics applications including video cameras, digital cameras, portable DVD players and digital photo frames. As there are more standardized products and more general requirements for panel quality and specifications, price competition and reduced gross margins force manufacturers to exercise strict cost control and management systems to achieve lower production costs across the industry. Therefore, the small and medium-sized panel manufacturers in the consumer market are mostly Taiwanese companies which have good management ability to compete with Chinese manufacturers. EIH has avoided fierce price competition in the standard applications markets and succeeded in maintaining profit margins through the development of other product lines and markets for its long-term customers, choosing mainly customer orders with margin base. As for the mobile phone product, EIH only has a 2.5 generation fab which means it could be risky to produce a single product which could be susceptible to the short life cycle of mobile phone panels, rapidly changing consumer preferences, seasonal cycles and economic factors. In 2010 EIH consequently decided to exit this market and turn to the niche market instead.



B. Niche TFT-LCD Markets

Niche markets include the military use of instrument panels, car navigation and entertainment systems, marine and aviation navigation and/or digital display panels, security monitoring systems, medical equipment, automotive and industrial instrument panel production. This market is characterized by a small quantity of suppliers and great diversity in customization specifications. Customers in the TFT-LCD niche market attach great significance to technical support capabilities, customization capabilities and long-term cooperation and place these factors ahead of pricing. In the niche TFT-LCD market, EIH faces most competition from Japanese manufacturers such as Sharp, NEC and Hitachi. However, customers in the niche market are highly disparate and each has their own partners and sales channels. The niche market is far less competitive than the consumer electronics and mobile phone TFT-LCD market which led to EIH's LCD business sustaining profitability in 2010.

Competition and Positioning

Due to being actively involved in EPD development since 2005, EIH's production yield rate and technological development are at least 2-3 years ahead of its competitors. EIH holds more than 90% market share. Global leading e-reader brand names including Amazon, Sony, and B & N all use E Ink EPD in their e-readers. Although other panel manufacturers are involved in EPD, EIH has a particularly strong R&D team which gives EIH a strong competitive advantage in technology research and product development. As the new generation facilities' 6th, 7th and 8th generation production lines continue to expand, the older facilities will convert to the production of small and medium-sized TFT-LCDs, thus increasing the total production capacity of small and medium sized products. It will also increase competition in the market for small and medium-sized TFT-LCD products.

Besides consumer electronics, small and medium sized TFT LCD panels for specific application need much greater integration of services. In this niche market, EIH has many years' experience and benefits from placing a high priority on the development of good customer relations. In the US and European markets, EIH remains the major supplier of customized small and medium-sized TFT-LCD products. Even though EIH's production capacity is smaller than some of its competitors, its integration is higher and more flexible. It offers more integrated services and is willing to customize products to meet customers' special requirements. EIH is therefore able to maintain its position in a highly competitive market.

RESEARCH AND DEVELOPMENT OVERVIEW

Our strategic operations and market planning in 2010 were designed to meet the growing demand of e-readers. EIH's research focused on electronic paper research, development and introduction of products with flexible, color and touch features. EIH will also aggressively expand its production capacity to maintain its leading position in the electronic paper market. TFT-LCD products will continue to be rolled out according to the product roadmap. New products will include collaborating timing control IC, various touch technology, wide viewing angle (WVA) technology and high specification displays for military and automotive use. Demand for these technologies and demand from our customers in the niche market will enable EIH to maintain sustainable development in such a highly competitive industry.

Electronic Ink Technology – Pearl™

Having the world's leading electronic ink technology in its grasp, E Ink unveiled a new generation of electronic paper, named Pearl™. It has enhanced screen reflectivity, which leads to a clearer view and a better reading experience. Already on the market, Pearl™ provides a 50% increase in contrast ration and has the brightest screen among any electronic paper device. Fonts and images are displayed clearer than ever before. Users can enjoy reading the text as comfortably as reading words printed on paper. E Ink's Pearl™ is light weight, green and eco-friendly, causes less eye strain, and can be utilized in e-readers, e-magazines, and many other devices. It offers great convenience and replaces traditional printed paper reading without sacrificing reading comfort.

Color Electronic Paper - EIH Triton™

EIH has added a color display to its electronic paper family called Triton™. The development of color electronic paper not only retains the high contrast of the black and white and gray scales, but provides the unprecedented fun factor and support for as color charts, maps, photos, illustrations. Apart from retaining the 16-grayscale, EIH Triton™ uses color filtering technology to support more than a thousand colors so that images in books, illustrations, charts and cartoons are more striking and lifelike. Even under sunlight, EIH Triton™ electronic paper can still be as bright as any black and white electronic paper screen, providing a clear image which can be viewed from any angle.

EIH Pearl™ and Triton™ products have a response rate 20% faster than the first generation black and white electronic paper devices. Users can quickly move through pages, click on features lists, use notes or simply browse through available animations. EIH's electronic paper delivers a faster, sharper response to meet consumer's needs. The response speed of electronic paper technology also make it a suitable display for advertising billboards and other marketing applications.

EIH Triton™ is based on the same micro-capsule electrophoresis-based technology used for black and white electronic paper. This technology has been widely used in many leading brand name e-readers which have displayed stable quality and superior performance, thus maintaining their popularity among consumers. Electrophoretic electronic paper has two important characteristics. The first characteristic is that no power is required to maintain the image or page of text. The second important characteristic is that the superior display clarity and up to 2-weeks of battery life for most e-reader devices. These are important considerations in the booming e-reader market.

Flexible Electronic Paper

Production of flexible electronic paper will begin next year. The main feature of flexible electronic paper is that it is unbreakable because of the use of a plastic backplane. It is also much lighter than glass-based panel. The thickness of the backplane



is thinner than the glass that was previously used in electronic paper devices. If utilizing the plastic backplane in an e-reader, take Kindle DX for example, the original device's weight of 500 grams can be brought down to 300 grams. E Ink's flexible electronic paper display uses EIH MagicMirror reflective technology, A-Si TFT design, and a newly developed flexible technology. Other features are flip-chip technology and the use of plastic materials which are lightweight, impact resistant, break-resistant and portable. All these features are aimed at impressing users and viewers.

Touchable Electronic Paper Display

EIH is actively working with other technology companies to develop e-touch for its devices. These modules, with the addition of the built-in touch feature, do not reduce the reflectivity of the electronic paper display. The new product design will also offer many additional benefits. EIH intends to develop the new touch display using capacitive and electromagnetic touch modules to shorten customers' device development time and to reduce the cost for customers.

FFS (Fringe Field Switching) Technology

FFS is the state-of-the-art wide view technology offering the broadest viewing angle. Combining special characteristics of both horizontal wide-viewing angle and vertical wide-viewing angle, FFS provides a full 180 degrees viewing angle. Furthermore, reflective design on the array enhance legibility, even in the brightest sunlight. As a whole, FFS technology has characteristics of low power consumption, high transmission rate, high luminescence, faster response time, authentic color and high color resolution. FFS is presently used in applications including smart phones, desktop PCs and automobile applications. The most important keys of today's FFS applications are yield rate and cost. In the future, as technology improves, FFS technology will also be used in large-scale products, such as industrial use and television applications.

MOEA Special Project

EIH has achieved a number of technology developments in 2010, including simulation for high resolution TFT back panels; electronic driving systems for color EPD modules; driving waveforms; laser release technology to separate PI from glass substrate; high saturation color filters and white photo-resist, etc.

BUSINESS DEVELOPMENT OBJECTIVES

EIH's main business development objectives are as follows:

Short-term business development objectives

1. Follow product trends, provide customers with new products and upgrades, provide customers with support, extend product life cycles, effectively share original development costs and develop more electronic paper applications.
2. Improve product quality, gain more product recognition, and increase penetration of E Ink products by leading global companies.
3. Improve manufacturing yields and productivity break throughs.
4. Establish local service systems for the United States and Europe and strengthen distribution channels in these markets.
5. Continue to promote new products and applications.

Long-term business development objectives

1. Continue international cooperation, joint development of new display technologies and development of cutting-edge new applications products in the market. Also continue with advanced technology development and improvement and ensure the diversity in the development of new display technologies and products.
2. Develop long-term effective marketing channels to ensure smooth interaction between production and technical units. Promote effective staff support for overall and individual development, thus creating a win-win situation for all.
3. Maintain the company's dominance in product development.

MARKET OVERVIEW

Sales by Region

Units: NT\$ Thousand; %

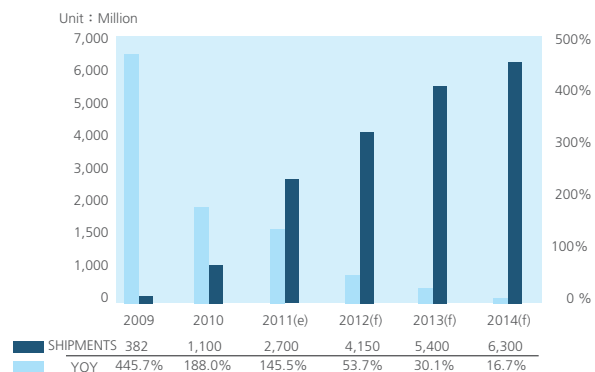
Sales Region	2010		2009	
	Sales Amount	Percentage	Sales Amount	Percentage
Domestic	12,415,631	72.96%	6,233,875	48.03%
Asia	3,850,667	22.63%	5,971,381	46.01%
America	578,847	3.40%	561,723	4.33%
Others	171,282	1.01%	211,569	1.63%
Total	17,016,427	100.00%	12,978,548	100.00%

Since the acquisition of Philip's electronic paper display business in 2005, EIH has become the only mass producer of electronic paper displays using the electronic paper technology invented by E-Ink USA. This includes manufacturing devices for Amazon's "Kindle", Sony's "Reader", and B & N's "Nook" enabling EIH to take more than 90% market share. TFT-LCD niche products are EIH's main focus in TFT-LCD development. However, in this market the customers, product applications and geographic markets are highly diverse. Each niche manufacturer's share of the TFT-LCD panel market is relatively small.

Supply and Demand

Digitimes, a highly respected IT media organization in Taiwan, forecasts that shipments of EPD are likely to reach 27 million units in 2011 with a market value of US\$3.2 billion. This is forecast to increase to 63 million units in 2014, an increase of 233%. Market value in 2014 is forecast to reach US\$3.15 billion.

Global e-paper Unit Shipment

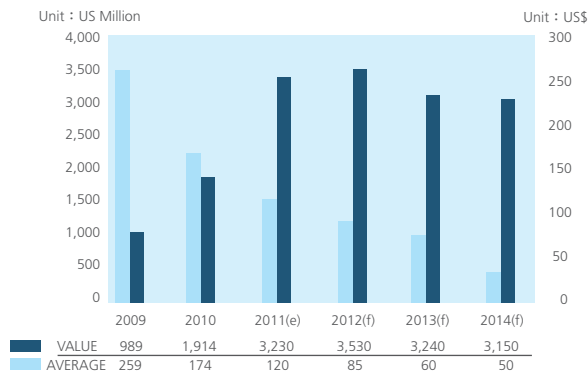


Source : DIGITIMES, 2011/4

Revenue from Global e-paper shipments

In the fast-growing e-reader market, Taiwan has the most complete supply chain for downstream assembly and can exert the most influence in attempting to reduce costs in electronic paper device production. With some of the largest electronic paper technology companies in the world based in Taiwan, Taiwan will become the global development center for the electronic paper industry, and further become even more important to the global consumer electronics industry. Another research organization, DisplaySearch, predicts that in the short term, e-reader production will comprise a high proportion of output value for some Taiwanese enterprises. However, in the long term, other EPD technology companies will enter the e-reader market and pose a serious challenge to the Taiwanese manufacturers.

Estimates of the Global e-reader Market



Source : DIGITIMES, 2011/4

According to Digitimes, the immense scope of the e-reader market would reach US\$1.9 billion in 2010, then increase sharply to reach US\$3.5 billion in 2012.

As there is still substantial growth potential for the electronic paper market, and as global e-reader sales continue to grow, the role of electronic paper products will have more significance. According to Andrew Tribute, another industry commentator, global e-reader sales are running at about

400,000 units per month. E-reader sales will increase as more digital applications emerge.

As evidence of this, Amazon and Sony held more than 70% market share in the e-reader market in 2008 and 2009, even though total market shipments that year numbered less than 3 million units. As more vendors entered the market in 2010, the cost of e-readers subsequently declined and the e-reader market grew significantly. The actual size of the market in 2010 is estimated to be greater than 11 million units.

In 2011, e-readers are expected to show substantial increase in market share resulting in shipments likely to reach more than 25 million units. The greatest potential for electronic paper devices is to replace traditional paper production and to be used in electronic paper readers, advertising billboards, electronic tags and smart cards. These devices will also be used in emerging markets for applications such as watches, furniture, decorations, portable storage capacity displays and many other applications. Electronic paper applications in the future will create even more opportunities in the market.

TFT-LCD Monitors

In 2009, due to the Financial Crisis and the elimination of CSTN LEC, Taiwanese manufacturers of low-end mobile displays which used TFT-LCD received many large orders from international brands. Although the market rapidly recovered in 2010, Taiwanese manufacturers of low-end TFT-LCD monitors recorded less revenue growth compared to 2009 as the manufacturing capacity for LTPS TFT-LCD could not meet demand.

For digital camera displays, global demand for A-Si TFT LCDs has steadily increased. In 2009, shipments grew 31.5% compared to 2008. However, the number of users of A-Si TFT LCD slowed and stabilized in 2010. Shipments of panels for digital cameras used from Taiwanese manufacturers registered annual growth of 6.7% in 2010, 4.3% higher than global shipments of digital cameras.

Market Savvy

Based on EIH's outlook for the industry, EIH will utilize its existing strength and dominant market position to expand into the markets for all EPD applications and TFT-LCD devices. EIH will utilize TFT-related technologies to develop new products and new applications in order to maintain steady growth in sales and profit.

1. Understanding market needs

Since 1992, EIH has focused on small and medium sized TFT-LCD products and established a technology service oriented manufacturing business. Through this long-term investment and focus, the Company's accumulated experience is a valuable, irreplaceable resource. By having in-depth and smart understanding of all aspects of the industry and customers, EIH is market 'savvy' and will produce new EPD designs even faster and distribute the new products to vendors even quicker. This is a win-win relationship which will form the basis of long-term stability and profitability for the Company.

2. Complete product lines and capabilities

EIH has a complete production line for small and medium sized TFT-LCD products. The Company is also actively involved in procuring material resources to ensure long-term stable supply of products. Furthermore, EIH is always exercising its creativity to manufacture products to meet new market demands, but also to ensure the company's dominance in the market. Key products include EPD panels ranging in width from 1.9 inches to 9.7 inches, and TFT-LCD products up to 12.1 inches wide.

3. 'Going the extra mile' for Customers

Through its superior customization service, EIH has successfully established itself in the market. The Company provides its main customers in the niche market with benefits which include products that return better profit

can enjoy the benefits and security from marketing a unique product over a specified period.

4. Customer Relations

EIH has a culture of developing good relationships between the company and its customers. One of the Company's principle customer support strategies is to assign technical staff to help a customer to resolve any product issue encountered. This often enables the customer to go to market before its competitors. The Company's quality manufacturing and excellent service gives our customers product advantage.

5. Product Development: Meeting Changing Needs

Drawing on its expertise in technological development and marketing projects, EIH maintains an efficient production schedule. However, EIH aims to shorten the product development process even further. Currently, the time frame for specification development to preparation for mass production averages three or four months for a new product. In the future, EIH aims to complete the process within three months. Shortening the lead time will cut costs. Keeping product development expenses as low as possible in such a competitive market is one of EIH's highest priorities, yet EIH still intends to develop special products to meet demand.

6. Product Development at Minimal Cost

To create competitive price advantage, EIH exercises strict cost control throughout the product development process including the design and testing stages. Strict cost control is even more stringent products developed for clients with special requirements. In the development process, new products cannot be guaranteed to be successful. However, if a new product is price competitive due to tight cost control and minimized expenditure during development, it will have a greater chance of success.

YOUR WINDOW TO A NEW HORIZON ▶▶▶



7. Sales Channels Abroad

Taiwan is a major ODM and OEM services producer. For ODM / OEM products, product design mainly focuses on the requirements of global brands. The United States remains the world's largest market, with very adequate R & D resources and market information. EIH aims to strengthen its distribution network in the US and to improve pre-sales and after-sales care to ensure stable growth in U.S. sales. In October 2006, the Company formally established a subsidiary in the United States to meet these objectives through 'on the ground' presence. The subsidiary also provides technical and sales services to its US customers.

The European Union has the industrial base and traditionally creative culture and environment suitable for developing a new generation of electronic products. E Ink will assist its European customers to support development of markets and innovative products.

China is one of the world's largest production centers. It is the main supplier of consumer products to the global market. TFT-LCD manufacturers are fully focused on the Asia Pacific region. EIH has in depth understanding of regional market conditions and trends. EIH established office and technical support in China, Hong Kong and Korea many years ago. Due to having a common culture and language with the Greater China Region, EIH is easier to win the trust and confidence of customers than Japanese and Korean manufacturers.

Strengths & Opportunity and Weaknesses & Threats

Strengths & Opportunities:

EIH is one of the world's most important suppliers of EPD devices. Its shipments of EPD monitor devices account for 90% of global market share. Estimated EPD demand this year is likely to grow significantly. EIH is committed to expand EPD production capacity, reduce costs to meet market demand and maintain its 90% market share. For TFT-LCD products, this year's focus will be on niche market opportunities and high margin products to meet the needs of partners in this market segment.

The acquisition of E-ink in Dec 2009 ensures the supply of EPD technology and materials. Through integration of EPD downstream, middle-stream and upstream segments of the supply chain which will be achieved from in-depth study and optimal configuration, costs will be reduced. This will ensure that EIH can maintain its position as EPD market leader.

Production lines at Hydis' will be used to produce EPD to enhance capacity utilization. Furthermore, access to external strategic partners who have the ability to provide flexible capacity will, on the one hand, assist when there is a full capacity demand, while on the other hand, establish a strategic partnership of mutual trust and mutual benefit which will lay a foundation for cooperation, conducive to sustainable growth.

In 2010, when EPD demand exceeded EIH and Hydis's TFT capacity, EIH outsourced production to other productions lines which reduced the EPD production cost.

In terms of TFT-LCD business strategy, EIH will not only focus on the development of profit-oriented, high-margin niche markets, but also on development of product customization. The Company will actively work with customers to develop niche type products in order to expand the product range and increase market coverage.

Weaknesses & Threats

A. Increasing competition due to rapid EPD market growth

EIH will strengthen its R & D technology so we can widen the gap between us and our competitors, while maintaining the lead in the market. In the second half of 2010, the Company launched a new EPD product, Pearl™, which was well received by the market. The Company will strive in the future to enhance color and quality so that EPD has even more market potential.

B. Other 3G/4G/4.5G panel productions in small & medium-sized created significant price pressure in TFT-LCD market

EIH established a strategic memorandum with other TFT-LCD industries for production collaboration and flexible production capacity. EIH also aims to refine and improve technological development and manufacturing processes to ensure price competitiveness. Looking abroad, EIH will expand our US and European sales networks and strengthen customization to meet customers' special requirements and win business from our competitors.



the atmosphere every year. The numbers become more and more compelling from there. In 2004, world paper production reached 359 million metric tons, emitting 74 million metric tons of CO2 in its production. People throw away approximately one billion trees worth of paper each year, and a portion of that paper is incinerated, creating more carbon emissions. One Sunday's worth of newspapers in the US requires cutting down 500,000 trees. Conversely, a study out of the University of California Berkeley shows that reading a newspaper electronically releases 32 to 140 times less CO2 and uses 27 times less water than reading the paper version. In short, the difference between electronic ink and printed paper could have a dramatic effect on CO2 in the atmosphere in just one day. If people could replace all paper newspapers with eNewspapers, 95 million trees that would remove 98 million tons of greenhouse gas every year could be saved.

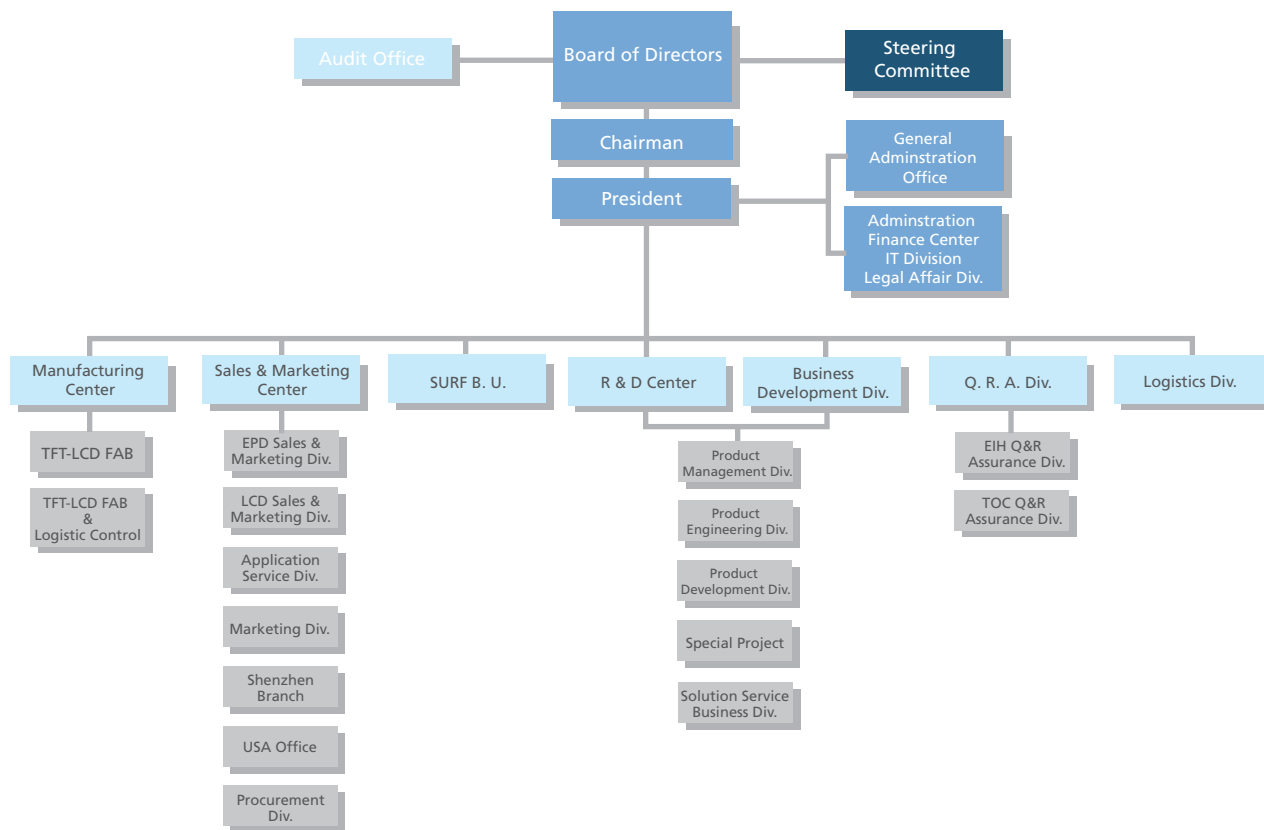
From a corporate perspective, EIH is striving to lower our carbon footprint in our worldwide manufacturing operations. EIH received ISO 14001 certification for environmental management systems since 2002. In 2005, EIH executed a complete inventory of greenhouse gas emissions and gained external certification. EIH makes continuous efforts to conserve energy, which reduce both carbon dioxide gas emission and costs. Our manufacturing needs to be as green as our products.

ENVIRONMENTAL MATTERS

EIH products are highly energy efficient. For example, over 20 hours a 12" LCD device uses the same quantity of power as generated by 36 AA batteries, while an E-Ink 12" display uses just one battery's worth of power. Furthermore, an E-Ink enabled e-reader will last three weeks on a single charge while an LCD-based display will need to be recharged after just one and a half days. The energy efficiency of EIH's production technology will therefore be of great significance in future product design.

Benefits of EIH products compared to the printed paper can be measured in the size of the consumer's carbon footprint. A single tree can remove about one metric ton of CO2 from the air every year. On average, each harvested tree produces 173 reams of paper. Therefore, each ream of paper is roughly equal to 12 pounds of CO2 that will not be removed from

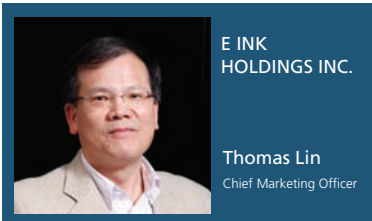
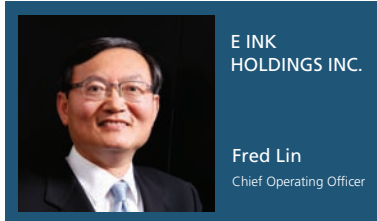
ORGANIZATION



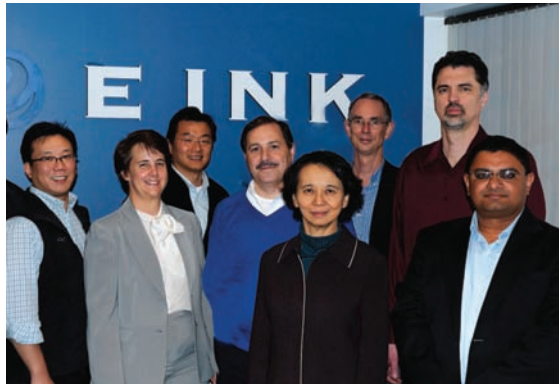
MANAGEMENT TEAM

TITLE/OFFICE	NAME	ELECTION DATE
Chairman	Scott Liu	28-07-1999
President	C. C. Tsai	30-03-2011
Senior Special Assistant to Chairman	Y.S. Fu	30-03-2011
Global Chief Operating Officer	Fred R. Lin	01-07-2009
Global Chief Sales Officer (General Management Office)	Thomas Lin	01-03-2010
Global Deputy Chief Sales Officer (General Management Office)	Wayne Huang	24-08-1998
Global Deputy Chief Technology Officer (General Management Office)	Yung-Sheng Chang	01-02-1996
Global Chief Production Officer (General Management Office)	C.H. Chiu	05-05-2008
Global Deputy Chief Production Officer (General Management Office)	James Hong	15-03-2010
Global Deputy Chief Business Development Officer (General Management Office)	Johnson Lee	01-03-2008
Vice President (Oversea Project)	Douglas Tao	04-02-1995
Vice President (Oversea Project)	Yun-Dau Hsu	23-03-2004
General FAB Director (Manufacturing Center)	Jui-Pin Wu	17-07-2001
Assistance Vice President (Oversea Project)	Jason Lin	07-10-2009
Assistance Vice President (Product Development Div.)	Tung-Liang Lin	25-05-1995
Assistance Vice President (Product Management Div.)	Luke Chen	01-10-2010
Assistance Vice President (SURF B.U.)	T. H. Peng	06-07-2009
Assistance Vice President (Manufacturing Center)	Shaun Chen	16-11-2009
Assistance Vice President (Administration & Finance Center)	Eddie Chang	27-10-2010
General Counsel (Legal Affairs Div.)	Hsianmin Chen	11-10-2010
Assistance Vice President (Oversea Project)	Lloyd Chen	15-01-2010

KEY MANAGEMENT

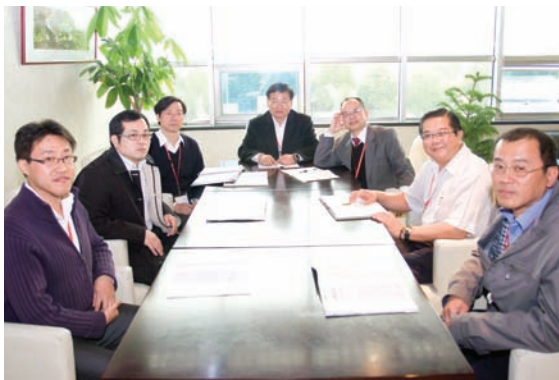


US, KOREA AND CHINA SUBSIDIARIES:



E Ink Corporation
US Subsidiary

- From left to right:
L-1. Felix Ho; Chairman of EIC
L-2. Susan Visser; VP, Product Development
L-3. Simon Nip; CFO
L-4. Joe Forcucci; VP, Operations
L-6. Mike McCreary; VP, Research and Advanced Development
L-7. Paul Apen; Chief Business Development Officer
L-8. Sriram Peruvemba; Chief Marketing Officer



Transcend Optonics (Yangzhou) Co., Ltd.
China Subsidiary

- From left to right:
L-1. Fred Zhang; Vice Manager of Transmart Manufacturing Department
L-2. Brian Zeng; Assistant General Manager of Manufacture Center
L-3. Henry Hsieh; Assistant General Manager of Finance Department
L-4. Jason Lin; General Manager
L-5. Roger chan; Vice General Manager of Administrative financial center
L-6. Danny Hsu Director of Outsourcing Department
L-7. Sjchen Chen; Director of Engineering Department



Hydis Technologies Co., Ltd.
Korea Subsidiary

- From left to right:
L-1. Fumio, Nemoto; SVP of Development/ Logistic/Manufacturing
L-2. Lloyd, Chen, SVP of Finance & Administration
L-3. Wayne Huang; CEO
L-4. Seok-Bong, Kim; VP of Administration Center
L-5. Chun-Hee Park; President

DIRECTORS AND SUPERVISORS

POSITION	NAME	DATE OF ELECTION
Chairman	Su-Cheng Liu	June 13, 2008
Director	Yow-Shiuan Fu	June 13, 2008
Director	Chuang-Chuang Tsai	June 13, 2008
Director	Show-Chung Ho	June 13, 2008
Director	Ta-Shau Shih	June 13, 2008
Director	Chun-Chieh Huang	June 13, 2008
Director	Cheng-Hao Lee	June 13, 2008
Independent Director	Ten-Chung Chen	June 13, 2008
Supervisor	Li-Chun Hsiao	June 13, 2008
Supervisor	Ching-Yuan Chang	June 13, 2008
Supervisor	Ching-I Wang	June 13, 2008

OFFICE AND FUNCTIONS

OFFICE / DEPARTMENT	DUTY / RESPONSIBILITY
President Office	Corporate strategy / Internal control planning and execution / Environmental protection
General Administration Office	Overall Planning & Integration of Group Operation Performance / Product development / Manufacturing / Marketing
Administration Finance Center	Human resources / Public affairs / Finance & accounting / Business planning & management
IT Division	Information Technology planning & development/New technology & system intergration
Legal Affair Division	Legal affairs
Manufacturing Center	TFT-LCD logistics and integration
TFT-LCD FAB	Product manufacturing and planning
TOC TFT-LCD FAB & Logistic Control	LCD module assembly
Sales & Marketing Center	Sales strategic planning and implementation / Marketing strategy and implementation
EPD Sales & Marketing Division	EPD product development / EPD sales & marketing
LCD Sales & Marketing Division	LCD product development / LCD sales & marketing
Application Service Division	Customer support for mass production verification for new product
Marketing Division	Corporate marketing & public relations
Shenzhen Branch	Product development/Sales & marketing – Greater China region
USA Office	Product development/Sales & marketing – USA
Procurement Division	Materials procurement/Equipment and engineering procurement & planning
SURF B. U.	SDC/SDM product research & design, manufacture and marketing
Research & Development Center	Technology R&D / Product development / Patent management
Product Management Division	New product development and promotion
Product Engineering Division	New product mass production test/Related issues solutions
Product Development Division	Product development / Product enhancement/New technology development
Special Project	Technology design and development for special products
Business Development Division	Business development / Improve product competitiveness
Systems Development Division	EPD systems developments
Q.R.A. Division	EIH and TOC quality control
EIH Q&A Assurance Division	EIH raw materials quality control / EIH product assurance
TOC Q&A Assurance Division	TOC raw materials quality control / TOC product assurance
Logistics Division	Raw materials planning / Logistics support and warehousing management

E Ink Holdings Inc.

Financial Statements for the
Years Ended December 31, 2010 and 2009 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders

E Ink Holdings Inc.

We have audited the accompanying balance sheets of E Ink Holdings Inc. (the "Corporation") as of December 31, 2010 and 2009, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of BOE Mobile Display Technology Co., Ltd., as of December 31, 2010 and the financial statements of Beijing BOE Optoelectronics Technology Co., Ltd. and BOE Mobile Display Technology Co., Ltd., as of December 31, 2009, the investments in which the Corporation had equity-method investments by Yuen Yu Investment Co., Ltd. The investments amounted to NT\$153,551 thousand and NT\$2,742,034 thousand as of December 31, 2010 and 2009, respectively, which accounted for about 0.4% and 9.5%, respectively, of the Corporation's total assets, respectively. The Corporation's equity of NT\$7,948 thousand in their net loss in 2010 and equity of NT\$61,712 thousand in their net income in 2009 were about 0.2% and 6.1%, respectively, of the Corporation's income (loss) before income tax. These investees' financial statements were audited by other auditors whose reports have been furnished to us, and, our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of E Ink Holdings Inc. as of December 31, 2010 and 2009, and the results of its operation and its cash flow for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, effective January 1, 2009, the Corporation adopted the newly revised Statement of Financial Accounting Standards No. 10 "Inventories." We have also audited the consolidated financial statements of E Ink Holdings Inc. and subsidiaries as of and for the year ended December 31, 2010 and have expressed a modified unqualified opinion on those statements in our report dated February 15, 2011.

February 15, 2011

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

BALANCE SHEET

DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

	2010		2009	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash (Note 4)	\$ 3,155,562	9	\$ 1,228,929	4
Notes and accounts receivable, net of allowance for doubtful accounts of \$5,400 thousand and \$17,010 thousand in 2010 and 2009 (Note 2)	510,192	2	1,645,483	6
Receivables from related parties (Notes 2 and 15)	4,626,272	13	1,174,747	4
Other receivables - related parties (Note 15)	668,208	2	1,139,203	4
Inventories (Notes 2, 3 and 5)	2,601,074	7	1,075,984	4
Prepayments (Note 15)	419,334	1	994,495	3
Deferred income tax assets - current (Notes 2 and 12)	91,168	-	198,001	1
Other current assets	27,450	-	49,025	-
Total current assets	12,099,260	34	7,505,867	26
INVESTMENTS				
Investments accounted for by the equity method (Notes 2 & 6)	20,801,384	59	19,038,996	66
Available-for-sale financial assets (Note 2)	128,447	1	123,195	-
Financial assets carried at cost (Note 2)	93,467	-	27,601	-
Total investments	21,023,298	60	19,189,792	66
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 7 and 9)				
Cost				
Buildings	2,427,237	7	2,426,707	8
Machinery and equipment	6,315,949	18	6,244,164	22
Other equipment	1,098,817	3	1,018,835	4
Total cost	9,842,003	28	9,689,706	34
Less: Accumulated depreciation	8,147,884	23	7,758,300	27
	1,694,119	5	1,931,406	7
Construction in progress and prepayments for equipment	21,974	-	39,830	-
Net property, plant and equipment	1,716,093	5	1,971,236	7
INTANGIBLE ASSETS (Note 2)	46,589	-	58,191	-
OTHER ASSETS				
Assets leased to others, net of accumulated depreciation of \$257,770 thousand in 2010 and \$206,310 thousand and in 2009 (Notes 2 and 14)	42,884	-	94,344	1
Deferred charges, net (Note 2)	131,964	1	41,937	-
Deferred income tax assets - noncurrent (Notes 2 and 12)	38,329	-	50,425	-
Others, net of accumulated depreciation of \$216,557 thousand and \$189,202 thousand in 2010 and 2009 (Notes 2, 10 & 14)	43,916	-	63,859	-
Total other assets	257,093	1	250,565	1
TOTAL	\$ 35,142,333	100	\$ 28,975,651	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 15, 2011)

LIABILITIES AND SHAREHOLDERS' EQUITY	2010		2009	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Note 8)	\$ 2,005,582	6	\$ 4,349,350	15
Short-term bills payable	-	-	199,853	1
Financial liabilities at fair value through profit or loss (Note 2)	12,149	-	24,169	-
Accounts payable	730,932	2	198,950	1
Payables to related parties (Note 15)	5,685,298	16	1,632,607	5
Income tax payable (Notes 2 and 12)	64,877	-	81,545	-
Accrued expenses	585,435	2	498,648	2
Payables to contractors and equipment suppliers	175,375	1	31,113	-
Current portion of long-term liabilities (Notes 2 and 9)	1,903,030	5	1,476,260	5
Other current liabilities	22,943	-	14,403	-
Total current liabilities	11,185,621	32	8,506,898	29
OTHER LIABILITIES				
Deferred credits (Notes 2 and 15)	92,965	-	116,396	1
Guarantee deposits received	132	-	126	-
Total other liabilities	93,097	-	116,522	1
Total liabilities	11,278,718	32	8,623,420	30
CAPITAL STOCK				
Common stock at par value of NT\$10.00				
Authorized: 2,000,000 thousand shares; Issued and outstanding:				
- 2010: 1,077,560 thousand shares				
- 2009: 957,541 thousand shares	10,775,602	31	9,575,406	33
Advance receipts for common stock	171	-	9,254	-
Total capital stock	10,775,773	31	9,584,660	33
CAPITAL SURPLUS				
Additional paid-in capital from share issuance in excess of par value - common stock				
Additional paid-in capital from share issuance in excess of par value - bond conversion	9,065,424	26	6,178,342	21
From long-term investments	525,200	2	1,640,657	6
Employee stock options	150,800	-	120,357	1
Equity component of convertible bonds	22,896	-	3,509	-
Convertible preferred stock	-	-	2,220	-
Total capital surplus	9,764,320	28	11,822,662	41
Retained earnings (accumulated deficit)				
Unappropriated earnings (accumulated deficit)	4,027,978	11	(1,408,095)	(5)
OTHER EQUITY				
Cumulative translation adjustments	(662,221)	(2)	34,573	-
Unrealized gain (loss) on financial instruments	(42,235)	-	318,431	1
Total other equity	(704,456)	(2)	353,004	1
Total shareholders' equity	23,863,615	68	20,352,231	70
TOTAL	\$ 35,142,333	100	\$ 28,975,651	100

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	Issued and Outstanding Capital Stock (Notes 9 and 11)		Advance Receipts for Common Stock (Notes 2 & 11)	Capital Surplus (Notes 2 & 11)	Retained Earnings(Accumulated Deficit) (Notes 2 and 11)		Other Equity (Notes 2 and 11)		Total Shareholders' Equity
					Legal Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	
	Shares (Thousands)	Amount							
BALANCE, JANUARY 1, 2009	678,313	\$ 6,783,128	\$ 1,017	\$ 251,333	\$ 354,785	\$ (880,667)	\$ 228,491	\$ (471,392)	\$ 6,266,695
Offset of deficit	-	-	-	(245,445)	(354,785)	600,230	-	-	-
Issuance of common stock for cash - January 2009	70,000	700,000	-	-	-	-	-	-	700,000
Issuance of common stock for cash - August 2009	80,000	800,000	-	1,626,218	-	-	-	-	2,426,218
Issuance of global depository receipts	70,000	700,000	-	4,496,321	-	-	-	-	5,196,321
Issuance of convertible preferred stock	-	-	-	3,877,577	-	-	-	-	3,877,577
Conversion of convertible bonds	52,050	520,501	-	1,640,657	-	-	-	-	2,161,158
Equity component of convertible bonds	-	-	-	2,220	-	-	-	-	2,220
Conversion of employee stock options	7,178	71,777	8,237	59,312	-	-	-	-	139,326
Net loss in 2009	-	-	-	-	-	(1,127,658)	-	-	(1,127,658)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	54,913	54,913
Adjustment due to change in equity in investee	-	-	-	114,469	-	-	(154,570)	734,910	694,809
Translation adjustments	-	-	-	-	-	-	(39,348)	-	(39,348)
BALANCE, DECEMBER 31, 2009	957,541	9,575,406	9,254	11,822,662	-	(1,408,095)	34,573	318,431	20,352,231
Offset of deficit	-	-	-	(1,408,095)	-	1,408,095	-	-	-
Conversion of employee stock options	6,283	62,829	(9,083)	50,893	-	-	-	-	104,639
Net income in 2010	-	-	-	-	-	4,027,978	-	-	4,027,978
Conversion of preferred stock	104,147	1,041,471	-	(1,041,471)	-	-	-	-	-
Conversion of convertible bonds	9,589	95,896	-	290,418	-	-	-	-	386,314
Unrealized gain on financial instruments	-	-	-	-	-	-	-	5,252	5,252
Adjustment due to change in equity in investee	-	-	-	49,913	-	-	-	(365,918)	(316,005)
Translation adjustments	-	-	-	-	-	-	(696,794)	-	(696,794)
BALANCE, DECEMBER 31, 2010	1,077,560	\$10,775,602	\$ 171	\$ 9,764,320	\$ -	\$ 4,027,978	\$ (662,221)	\$ (42,235)	\$ 23,863,615

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 15, 2011)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

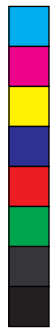
	2010	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 4,027,978	\$ (1,127,658)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	478,772	637,721
Amortization	86,868	92,100
Allowance (reversal of allowance) for doubtful accounts	(11,610)	11,800
Realized intercompany gain	(184)	(94)
Investment loss (income) recognized under the equity method	(1,812,507)	1,735,273
Gain on disposal of property, plant and equipment, net	(23,247)	(34,993)
Discount amortization of convertible bonds	831	6,900
Deferred income taxes	118,929	25,503
Compensation cost of employee stock options	-	109,993
Impairment loss	-	17,500
Net Changes in operating assets and liabilities:		
Notes and accounts receivable	1,131,035	(1,141,947)
Receivables from related parties	(3,451,525)	(67,652)
Inventories	(1,525,090)	313,700
Prepaid expenses	575,161	(315,233)
Other current assets	21,575	(19,751)
Financial liabilities at fair value through profit or loss	(12,020)	9,056
Accounts payable	531,982	(28,815)
Payables to related parties	4,052,691	(133,325)
Income tax payable	(16,668)	58,560
Accrued expenses	89,017	127,416
Other current liabilities	8,540	(43,129)
	4,270,528	232,925
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in other receivables - related parties	470,995	(1,139,203)
Acquisition of investments accounted for by the equity method	(1,214,680)	(6,832,432)
Proceeds from investment company capital reduction	252,000	-
Acquisition of financial assets carried at cost	(50,000)	-
Acquisition of property, plant, and equipment	(552)	(121,712)
Increase in intangible assets	(30,035)	(22,321)
Increase in deferred charges	(135,258)	(18,794)
Decrease (increase) in other assets	(7,412)	427
	(714,942)	(8,134,035)

(Continued)

	2010	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(2,343,768)	(1,500,650)
Increase (decrease) in short-term bills payable	(199,853)	199,853
Increase (decrease) in long-term liabilities	810,530	(1,058,300)
Conversion of employee stock options	104,639	139,326
Issuance (redemption) of convertible bonds	(507)	2,550,000
Increase in guarantee deposits received	6	-
Increase in capital	-	8,212,546
	<u>(1,628,953)</u>	<u>8,542,775</u>
NET INCREASE IN CASH	1,926,633	641,665
CASH, BEGINNING OF YEAR	1,228,929	587,264
CASH, END OF YEAR	\$ 3,155,562	\$ 1,228,929
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 132,326	\$ 207,087
Income tax paid	\$ 94,736	\$ 27,937
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 1,903,030	\$ 1,476,260
Conversion of convertible bonds	\$ 386,314	\$ 2,148,858
Transfer of account receivable to financial assets carried at cost	\$ 15,866	\$ -
Issuance of convertible preferred stock to acquire subsidiary's common stock	\$ -	\$ 3,877,577
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT, AND EQUIPMENT		
Acquisition of property, plant and equipment	\$ 144,814	\$ 80,701
Decrease (increase) in payables to contractors and equipment suppliers	(144,262)	41,011
Payment in cash	\$ 552	\$ 121,712

(Concluded)

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 15, 2011)



E Ink Holdings Inc.

Consolidated Financial Statements for the
Years Ended December 31, 2010 and 2009 and
Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders

E Ink Holdings Inc.

We have audited the accompanying consolidated balance sheets of E Ink Holdings Inc. and its subsidiaries (the "Corporation") as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of BOE Mobile Display Technology Co., Ltd., as of December 31, 2010 and the financial statements of Beijing BOE Optoelectronics Technology Co., Ltd. and BOE Mobile Display Technology Co., Ltd., as of December 31, 2009, the investments in which the Corporation had equity-method investments by Yuen Yu Investment Co., Ltd. The investments amounted to NT\$153,551 thousand and NT\$2,742,034 thousand as of December 31, 2010 and 2009, respectively, which accounted for about 0.4% and 7.8%, respectively, of the consolidated assets, respectively. The Corporation's equity of NT\$7,948 thousand in their net loss in 2010 and equity of NT\$61,712 thousand in their net income in 2009 were about 0.2% and 3.7%, respectively, of the consolidated income (loss) before income tax. These investees' financial statements were audited by other auditors whose reports have been furnished to us, and, our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of the other auditors.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of E Ink Holdings Inc. and its subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the consolidated financial statements, effective January 1, 2009, the Corporation and its subsidiaries adopted the newly revised Statement of Financial Accounting Standards No. 10 - "Inventories."

February 15, 2011

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

BALANCE SHEET

DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Par Value)

	2010		2009	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash (Note 4)	\$ 5,686,773	14	\$ 2,819,068	8
Available-for-sale financial assets (Notes 2 and 5)	80,240	-	-	-
Notes and accounts receivable, net of allowance for doubtful accounts of \$85,037 thousand in 2010 and \$70,042 thousand in 2009 (Notes 2 and 6)	3,463,364	8	2,604,070	8
Receivables from related parties (Notes 2 and 19)	34,193	-	27,854	-
Other financial assets (Note 20)	311,679	1	114,756	-
Inventories (Notes 2 and 7)	6,564,937	16	4,420,331	13
Prepayments	1,053,350	3	623,567	2
Deferred income tax assets - current (Notes 2 and 16)	357,932	1	491,923	1
Other current assets	119,217	-	85,989	-
Total current assets	17,671,685	43	11,187,558	32
INVESTMENTS (Note 2)				
Investments accounted for by the equity method (Notes 8 and 11)	293,625	1	2,899,628	8
Available-for-sale financial assets (Notes 5 and 20)	847,296	2	1,208,203	3
Financial assets carried at cost (Notes 9 and 11)	2,748,432	7	289,478	1
Total investments	3,889,353	10	4,397,309	12
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10, 11 and 20)				
Cost				
Buildings	7,889,639	19	8,131,738	23
Machinery and equipment	19,904,688	49	19,905,575	57
Other equipment	3,671,961	9	3,658,045	10
Total cost	31,466,288	77	31,695,358	90
Less: Accumulated depreciation	22,756,630	56	22,412,939	64
Accumulated impairment	130,938	-	141,940	-
	8,578,720	21	9,140,479	26
Construction in progress and prepayments for equipment	467,210	1	285,177	1
Net property, plant and equipment	9,045,930	22	9,425,656	27
INTANGIBLE ASSETS (Notes 2 and 11)				
Patent	3,207,177	8	3,739,067	10
Goodwill	6,060,003	15	4,834,099	14
Other	417,980	1	997,537	3
Total intangible assets	9,685,160	24	9,570,703	27
OTHER ASSETS				
Assets leased to others, net accumulated depreciation of \$257,770 thousand in 2010 and \$206,310 thousand in 2009 (Notes 2 & 18)	42,884	-	94,344	-
Deferred charges, net (Note 2)	214,967	1	133,483	-
Deferred income tax assets - noncurrent (Notes 2 and 16)	91,057	-	197,814	1
Others (Notes 2 and 14)	120,937	-	147,064	1
Total other assets	469,845	1	572,705	2
TOTAL	\$ 40,761,973	100	\$ 35,153,931	100

	2010		2009	
	Amount	%	Amount	%
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Notes 12 and 20)	\$ 3,213,592	8	\$ 5,842,033	17
Short-term bills payable	-	-	199,853	-
Accounts payable	5,035,174	12	2,040,425	6
Payables to related parties (Note 19)	104,277	-	192,822	-
Income tax payable (Notes 2 and 16)	66,437	-	269,769	1
Accrued expenses	1,428,433	4	816,896	2
Payables to contractors and equipment suppliers	738,754	2	374,782	1
Current portion of long-term liabilities (Notes 2, 13 and 20)	2,818,380	7	2,200,725	6
Other current liabilities	497,063	1	212,670	1
Total current liabilities	13,902,110	34	12,149,975	34
LONG-TERM LIABILITIES (Notes 2, 13 and 20)				
Long-term liabilities, net of current portion	1,584,549	4	1,305,251	4
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 14)	498,351	1	471,167	1
Payables to related parties (Note 19)	-	-	90,053	-
Other	381,739	1	163,240	1
Total other liabilities	880,090	2	724,460	2
Total liabilities	16,366,749	40	14,179,686	40
EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT				
Capital stock				
Common stock at par value of NT\$10.00; Authorized: 2,000,000 thousand shares; Issued and outstanding:				
- 2010: 1,077,560 thousand shares				
- 2009: 957,541 thousand shares	10,775,602	27	9,575,406	27
Advance receipts for common stock	171	-	9,254	-
Total capital stock	10,775,773	27	9,584,660	27
Capital surplus				
Additional paid-in capital from share issuance in excess of par value - common stock	9,065,424	22	6,178,342	18
Additional paid-in capital from share issuance in excess of par value - bond conversion	525,200	1	1,640,657	5
From long-term investments	150,800	1	120,357	-
Employee stock options	22,896	-	3,509	-
Equity component of convertible bonds	-	-	2,220	-
Convertible preferred stock	-	-	3,877,577	11
Total capital surplus	9,764,320	24	11,822,662	34
Retained earnings				
Unappropriated earnings(accumulated deficit)	4,027,978	10	(1,408,095)	(4)
Others				
Cumulative translation adjustments	(662,221)	(2)	34,573	-
Unrealized gain (loss) on financial instruments	(42,235)	-	318,431	1
Total others	(704,456)	(2)	353,004	1
Total equity attributable to shareholders of the parent	23,863,615	59	20,352,231	58
MINORITY INTEREST				
Total shareholders' equity	24,395,224	60	20,974,245	60
TOTAL	\$ 40,761,973	100	\$ 35,153,931	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 15, 2011)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

	Issued and Outstanding		Advance Common Stock (Notes 2 & 11)	Capital Surplus (Notes 2 & 11)	Retained Earnings (Accumulated Deficit) (Notes 2 and 15)		Other Equity (Notes 2 and 15)		Equity		Total Shareholders' Equity
	Capital Stock (Notes 9 and 11)				Legal Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Attributable to Shareholders of the Parent	Minority Interest	
	Shares (Thousands)	Amount									
BALANCE, JANUARY 1, 2009	678,313	\$ 6,783,128	\$ 1,017	\$ 251,333	\$ 354,785	\$ (880,667)	\$ 228,491	\$ (471,392)	\$ 6,266,695	\$ 1,352,272	\$ 7,618,967
Offset of deficit	-	-	-	(245,445)	(354,785)	600,230	-	-	-	-	-
Issuance of common stock for cash - January 2009	70,000	700,000	-	-	-	-	-	-	700,000	-	700,000
Issuance of common stock for cash - August 2009	80,000	800,000	-	1,626,218	-	-	-	-	2,426,218	-	2,426,218
Issuance of global depositary receipts	70,000	700,000	-	4,496,321	-	-	-	-	5,196,321	-	5,196,321
Issuance of convertible preferred shares	-	-	-	3,877,577	-	-	-	-	3,877,577	-	3,877,577
Conversion of convertible bonds	52,050	520,501	-	1,640,657	-	-	-	-	2,161,158	-	2,161,158
Equity component of convertible bonds	-	-	-	2,220	-	-	-	-	2,220	-	2,220
Conversion of employee stock options	7,178	71,777	8,237	59,312	-	-	-	-	139,326	-	139,326
Consolidated net loss in 2009	-	-	-	-	-	(1,127,658)	-	-	(1,127,658)	(599,421)	(1,727,079)
Unrealized gain on financial instruments	-	-	-	-	-	-	-	54,913	54,913	-	54,913
Adjustment due to change in equity in investee	-	-	-	114,469	-	-	(154,570)	734,910	694,809	-	694,809
Translation adjustments	-	-	-	-	-	-	(39,348)	-	(39,348)	-	(39,348)
Change in minority interest	-	-	-	-	-	-	-	-	-	(130,837)	(130,837)
BALANCE, DECEMBER 31, 2009	957,541	9,575,406	9,254	11,822,662	-	(1,408,095)	34,573	318,431	20,352,231	622,014	20,974,245
Offset of deficit	-	-	-	(1,408,095)	-	1,408,095	-	-	-	-	-
Conversion of employee stock options	6,283	62,829	(9,083)	50,893	-	-	-	-	104,639	-	104,639
Consolidated net income in 2010	-	-	-	-	-	4,027,978	-	-	4,027,978	(114,362)	3,913,616
Conversion of preferred shares	104,147	1,041,471	-	(1,041,471)	-	-	-	-	-	-	-
Conversion of convertible bonds	9,589	95,896	-	290,418	-	-	-	-	386,314	-	386,314
Unrealized gain on financial instruments	-	-	-	-	-	-	-	5,252	5,252	-	5,252
Adjustment due to change in equity in investee	-	-	-	49,913	-	-	-	(365,918)	(316,005)	-	(316,005)
Translation adjustments	-	-	-	-	-	-	(696,794)	-	(696,794)	-	(696,794)
Change in minority interest	-	-	-	-	-	-	-	-	-	23,957	23,957
BALANCE, DECEMBER 31, 2010	1,077,560	\$10,775,602	\$ 171	\$ 9,764,320	\$ -	\$ 4,027,978	\$ (662,22)	\$ (42,235)	\$ 23,863,615	\$ 531,609	\$ 24,395,224

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 15, 2011)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2010	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income (loss)	\$ 3,913,616	\$ (1,727,079)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	1,781,752	1,806,769
Amortization	612,060	179,542
Allowance for doubtful accounts	19,536	12,310
Gain on sale of investments, net	(2,774)	(1,912)
Investment loss (income) recognized under the equity method	19,745	(61,335)
Loss (gain) on disposal of property, plant and equipment, net	12,683	(2,030)
Impairment loss	27,679	207,842
Discount amortization of convertible bonds	15,603	6,900
Deferred income taxes	517,777	14,392
Compensation cost of employee stock options	19,470	109,993
Net changes in operating assets and liabilities:		
Notes and accounts receivable	(1,356,408)	(1,329,950)
Receivables from related parties	(236,646)	368,135
Other financial assets	(230,036)	-
Inventories	(3,316,769)	576,073
Prepayments	(484,182)	(214,013)
Other current assets	(107,285)	(105,191)
Financial liabilities at fair value through profit or loss	(12,056)	9,056
Accounts payable	3,655,993	495,890
Payables to related parties	180,629	(120,840)
Income tax payable	(203,332)	(278,196)
Accrued expenses	561,276	176,184
Other current liabilities	287,256	(64,854)
Accrued pension liabilities	54,449	39,426
	<u>5,730,036</u>	<u>97,112</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in available-for-sale financial assets	(80,000)	101,935
Acquisition of financial assets carried at cost	(50,000)	(63,980)
Proceeds from disposal of financial assets carried at cost	5,873	-
Acquisition of property, plant, and equipment	(1,325,233)	(578,602)
Proceeds from disposal of property, plant and equipment	4,439	6,117
Increase in intangible assets	(45,014)	(34,246)
Increase in deferred charges	(167,372)	(58,739)
Decrease (increase) in other assets	21,419	(5,059)
Net cash flow from acquisition of subsidiaries' shares	-	(6,437,447)
	<u>(1,635,888)</u>	<u>(7,070,021)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(2,512,995)	(1,360,545)
Increase in short-term bills payable	(199,853)	199,853
Increase (decrease) in long-term liabilities	943,670	(1,966,774)
Increase (decrease) in payables to related parties - noncurrent	(90,053)	90,053
Issuance of convertible bonds	929,817	2,550,000

(Continued)

	2010	2010
Redemption of convertible bonds	(507)	-
Increase in other liabilities	243,796	844
Conversion of employee stock options	104,639	139,326
Increase (decrease) in minority interest	59,848	(130,837)
Issuance of common stock for cash	-	8,212,546
	<hr/>	<hr/>
Net cash provided by (used in) financing activities	(521,638)	7,734,466
CURRENCY TRANSLATION ADJUSTMENT	(704,805)	39,791
NET INCREASE IN CASH	2,867,705	801,348
CASH , BEGINNING OF YEAR	2,819,068	2,017,720
CASH , END OF YEAR	<u>\$ 5,686,773</u>	<u>\$ 2,819,068</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 309,734</u>	<u>\$ 350,364</u>
Income tax paid	<u>\$ 931,572</u>	<u>\$ 423,706</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Transfer of account receivable to financial assets carried at cost	<u>\$ 15,866</u>	<u>\$ 3,877,577</u>
Transfer of investment accounted for by the equity method to financial assets carried at cost	<u>\$ 2,571,366</u>	<u>\$ -</u>
Current portion of long-term liabilities	<u>\$ 2,818,380</u>	<u>\$ 2,200,725</u>
Conversion of convertible bonds	<u>\$ 386,314</u>	<u>\$ 2,148,858</u>
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT, AND EQUIPMENT		
Acquisition of property, plant and equipment	<u>\$ 1,695,560</u>	<u>\$ 611,007</u>
Increase in payables to contractors and equipment suppliers	<u>(370,327)</u>	<u>(32,405)</u>
Payment in cash	<u>\$ 1,325,233</u>	<u>\$ 578,602</u>

(Continued)

YEARS ENDED DECEMBER 31, 2010 AND 2009
(In Thousands of New Taiwan Dollars)

Additional disclosure of acquisition of subsidiaries' shares:

In 2009, E Ink Holdings Inc. (EIH) and New Field e-Paper Co., Ltd. wholly acquired the common shares of E Ink with cash and EIH issuing convertible preferred shares. The fair values of acquired assets and liabilities were as follows:

Cash	\$	206,367
Accounts receivable		436,983
Inventories		1,688,560
Deferred income tax assets - current		289,331
Prepayments and other current assets		93,553
Property, plant and equipment, net		152,426
Deferred income tax assets - noncurrent		137,181
Other assets		54,223
Accounts payable		(500,356)
Accrued expenses		(296,227)
Long-term liabilities		(960,596)
Deferred credits		(162,957)
Net		<u>1,138,488</u>
Percentage of equity interest		<u>100%</u>
		1,138,488
Goodwill		9,382,903
Issuance of convertible preferred stock		<u>(3,877,577)</u>
Cash paid	\$	<u><u>6,643,814</u></u>

(Concluded)

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 15, 2011)

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