



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

Corporate Annual Report 2011



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■ SPOKEPERSON / DEPUTY SPOKEPERSON:

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<http://www.einkgroup.com>

■ STOCK LISTING:

The Company is listed on the Taiwan Greta Securities
Market under ticker number 8069.
Common Share Transfer Agent & Registrar: SinoPac
Securities at 3F, 17 Po Ai Rd., Taipei, Taiwan, R.O.C.
T. 886 2 2381-6288

■ INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT:

Deloitte & Touche
12F, 156 Min Sheng E Road, Sec. 3, Taipei, Taiwan, R.O.C.
T. 886 2 2545-9988 <http://www.deloitte.com.tw>

■ NAME OF INTERNATIONAL PUBLIC SECURITIES EXCHANGES
AND HOW TO GET INFORMATION ABOUT SECURITIES TRADED
THERE:

Trading house: Luxembourg Stock Exchange
Inquiry method: bloomberg website <http://www.bourse.lu/>

COMPANY MILESTONES

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 30, 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 1 st 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 4
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 23 rd , 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 4 th 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
Jun 2010	Change English name of the company to "E Ink Holdings Inc."
Jan 2011	Approved by the Investment Commission to invest in the Chuanyuan Electronics (Yangzhou) Co., Ltd. in Mainland China through a third-location investment vehicle.
May 2011	The E Ink Triton™ EPD was awarded by the SID as the best display component of year 2011.
Jul 2011	Partners with the Chunghwa Picture Tubes Co., (CPTC) Ltd. by subscribing to the unsecured convertible bonds from its non-public offering after approved by the board of directors.
Oct 2011	The E Ink Triton™ EPD wins 2011 Technology Innovation Award issued by Wall Street Journal, USA.
Nov 2011	The E Ink Pearl™ EPD wins 2011 Innovation Awards for Electronics issued by IET, UK.
Nov 2011	Terminates the joint investment in Hydis with LG Display under a mutual agreement. Hydis redeems its corporate bonds held by LG Display and relieved all the guarantee contracts related with said bonds.

About us

E Ink Holdings Inc. started in 1992 and manufactures Electronic Paper (ePaper based on Electrophoretic technology) and TFT LCD (Thin Film Transistor based Liquid Crystal Display). E Ink is the world's leader in the global ePaper industry and one of the High-Tech Subsidiaries of YFY Group.



LETTER TO THE SHAREHOLDERS

Dear Shareholders,

This year marks the twentieth anniversary of establishment of E Ink Holdings Inc. (f.k.a. Prime View International Co., Ltd.). Throughout the years, we have never stopped exploring forward looking technologies. We were among the forerunners in Taiwan's TFT-LCD manufacturing industry. Now we own the "E Ink" brand and have become one of the major suppliers of electronic paper displays in the global market. Our efforts in the past 20 years embodied in our achievements in the small and medium size display industry cannot be easily overlooked. Last year, in particular, our long-term investment in the e-paper and FFS wide viewing angle display markets paid off. I truly believe we will continue to create another good 20 years and many more thereafter!

1. Business Report for 2011

In 2011 the group has a total revenue of NT\$38.4 billion, net income after tax (NIAT) of NT\$6.5 billion and earnings per share (EPS) of NT\$6.05. In response to the growth in the portable consumer electronic products, performance of the Company's business unit of small and medium size displays excelled. With reduced material costs and improved yield rate and manufacturing efficiency, the shipment volume of electronic paper displays (EPDs) reached a record high. Our TFT-LCD business continued to grow as well because of the niche market strategies and the increased market demand for the FFS displays. In addition to the noticeable increase in sales, revenues, profits and market capitalization reached a high point with the gross profit margin being kept at an above average level.

Last year the shipment volume of EPDs witnessed a 140% growth mainly because of the international display awards granted to our new EPD products (e.g. E Ink Pearl™ EPD) and a comprehensive promotion and application, which was well welcomed in the market. Consumers in the U.S. and European countries acknowledging the benefits of E Ink e-papers, such as eye health friendly, extremely low energy consumption and good viewability in the sunlight, is becoming more willing to purchase such single function e-Readers. In addition, the emergence of other new markets, such as England, France and Russia, also boosted the growth.

For TFT-LCD, we continued to explore other niche markets, such as automobile, to sustain profits and prevent throat-cutting price competition in the consumer markets. Besides, the market demand for the FFS technology continued to have explosive growths. Hydix, our Korean subsidiary, focused its operation by means of C3.5 / G3 fabrications on small size products with better gross profits, and further partnered with other manufacturers by outsourcing medium size products such as tablet computers to them.

2. Business Focal Point for 2012

Due to impact of the instability in the global economic environment and our major client's

A portrait of Scott Liu, Chairman, standing with his arms crossed. He is wearing a dark blue suit, a white shirt, and a red patterned tie. He has short grey hair and is smiling.

Scott Liu
Chairman

inventory adjustment at the end of last year, we have seen a smaller shipment volume on the first half of this year. The North America market demand for the second half of 2012 is not as foreseeable as before. Therefore, the growth of the EPD market this year is relatively low. Despite the significant growth in the Japanese and European markets, more observations are required for the overall shipment volume this year. Also, in view of the trend of high performance FFS technology in the demand for small and medium size displays (≤ 10.1 inches) in the consumer electronic market, we could expect a continuing growth in the sale of Hydix' products.

To accomplish our goals, the Company will adopt the following strategies this year:

(1) Continuing reduction of EPD costs and other related costs

One of our most important tasks has been the on-going efforts to reduce the EPD costs with the goal of creating a win-win situation for our customers and the Company. Looking into 2012, the Company will continue to focus on reducing the EPD production costs by expanding the outsourcing of TFT backplane for major 6-inch models, improving the yield rate for materials, and shortening the lead time. At the same time, we work even closer with our customers and the suppliers of SOC's to timely introduce the SOC applications in an effort to cut down the cost for e-Reader, help our customers enhance e-Reader's competitiveness and push up the sales volume.

(2) Optimization of environment, production process and labor force

In response to the expanded market demand, the Company will keep optimizing employees' work environment to enhance employees' stability, employee back-to-work rate after lunar new year holiday and recruitment rate. We have seen good results so far for our efforts. We have also made every possible endeavor to work to optimize production line and invest in automation, in an effort to improve product quality, shorten lead time and reduce the labor demand per production output. These efforts have resulted in outstanding accomplishment and we will continue these efforts this year.

(3) Promotion of color EPDs and flexible EPDs

Throughout these years EIH has always worked hard and devoted to development of new products. Color EPDs and flexible EPDs have recently got significant technical breakthroughs. We expect to introduce these technologies to various application markets in the second half of this year to venture into new business.

(4) New and improved solution for EPD peripherals

Solutions for e-Reader's upstream / downstream and peripherals sectors also play a critical role in the market development for e-Reader. The Company is not only devoted to the development of EPDs but also is taking the initiative to form strategic alliance with e-Reader's peripherals sector and build technological partnership with major suppliers of e-Reader parts and components in order to jointly create a comprehensive e-Reader market with the goal to increase our revenues and profits. The Company will continue the cooperation with our SOC partners for new chip design so as to keep e-Reader's pricing competitiveness and enhance its functionality.

(5) Continuing promotion efforts in the FFS technology and implementation of production planning and market development for new product applications

The FFS technology has certain competitive characteristics such as low power consumption, wide viewing angle and high viewability in strong light, and is therefore the most suitable for smart phones and tablet computers among all TFT-LCD display technologies. The Company will use Hydix' G3.5 / G3 fabs to produce 4-inch or smaller high-end products for smart phones and at the same time purchase from partnered manufacturers the TFT-LCD glasses



Felix Ho
Vice Chairman

produced by its fabs of G5 / G6 or above for tablet computers with 7-inch or larger panel in order to cut down costs and improve competitiveness and continue to further develop the consumer market for small and medium displays.

(6) Continued promotion of markets for TFT LCD product application and development of niche market with high gross profit

For TFT LCD products, our strategies include "fast delivery", "product integrity" and "customized applications". Our goal is to establish strategic cooperation with customers in the application market on real value-added and mutual trust basis to prepare ourselves for long-term involvement in the application market. We will refrain from throat-cutting pricing war for products with low gross profit margin and maintain profits by exploring into niche markets such as aeronautic, vessel, automobile, agricultural machinery, industrial control, medical and entertainment sectors.

3. Outlook

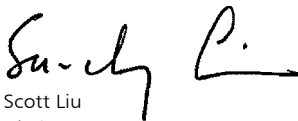
We are at the onset of another 20 years.

With this in mind, the Company will further integrate our talents, technologies, resources and group experiences in the consumer electronic products market and focus on small and medium size displays, in particular e-Reader and application of tablet computer displays, to maintain our leadership and competitive advantage in the EPD and FFS technologies.

We have seen the future trend in Green Reading and Blue Economy. We believe there are great potentials in quasi-paper, such as E Ink e-paper, with characteristics such as extremely low power consumption, durability and good viewability in strong light. This is why we are working hard to explore into other application markets, such as enterprise level commercial products and indoor / outdoor advertisement boards. We believe the new types of application in non-consumer electronic products will be rapidly emerging in the near future.

Meanwhile, with the spirit of "develop forward-looking technology" in our gene, the Company will continue our quest for and development of the most advanced pivotal technology in e-paper and display. Through our global presence, we will have a vertical integration of the supply chain and cooperate with our strategic partners. Looking into a new era, everyone at the Company will work even harder to achieve better business accomplishments for our success in the next 20 years!

E Ink Holdings Inc.



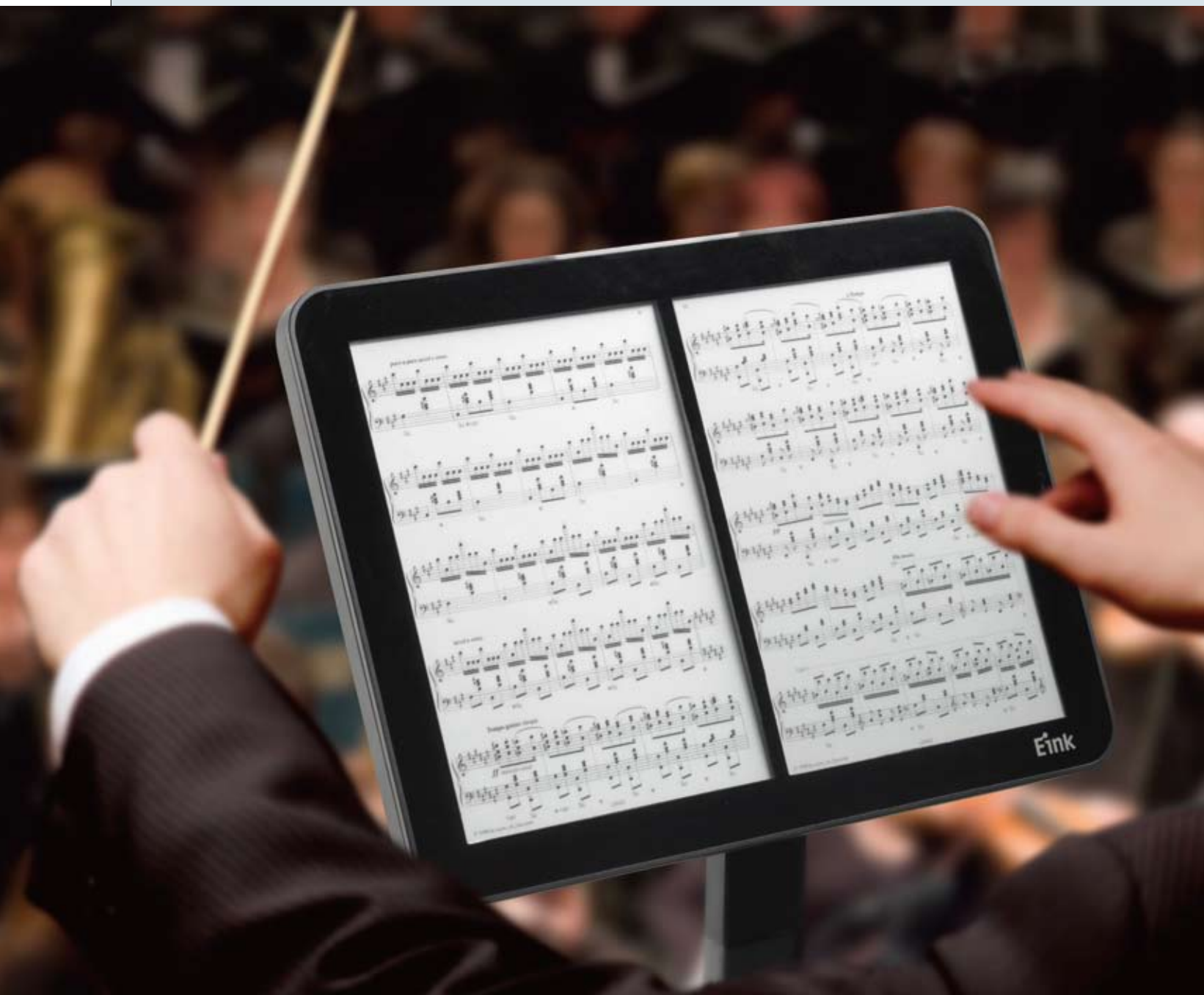
Scott Liu
Chairman



Felix Ho
Vice Chairman

E Ink on Every Smart Surface

*Imagine a range of display platforms that deliver high resolution from any angle.
That offer sunlight readability. And use extremely low power.
E Ink has done more than just imagine them. We've created them.*



FINANCIAL HIGHLIGHTS

Condensed Balance Sheet from 2007 to 2012/03/31

Unit: NT\$ thousands

Item		2007	2008	2009	2010	2011	2012/03/31
Current Assets		\$3,967,440	\$4,403,380	7,505,867	12,099,260	12,575,666	7,062,200
Funds and Long-term Investments		4,836,622	9,522,182	19,189,792	21,023,298	28,927,334	28,132,994
Fixed Assets		2,920,668	2,449,440	1,971,236	1,716,093	1,510,040	1,470,643
Intangible Assets		27,484	77,481	58,191	46,589	22,749	18,186
Other Assets		509,828	488,859	250,565	257,093	222,668	202,736
Total Assets		12,262,042	16,941,342	28,975,651	35,142,333	43,258,457	36,886,759
Current Liabilities	Before Distribution	2,720,850	9,428,515	8,507,024	11,185,621	10,122,741	4,764,804
	After Distribution	2,950,157	9,428,515	8,507,024	14,053,853	*	*
Long-term Liabilities		1,724,300	1,094,649	-	0	5,061,000	5,030,400
Other Liabilities		172,387	151,483	116,396	93,097	69,846	64,034
Total Liabilities	Before Distribution	4,617,537	10,674,647	8,623,420	11,278,718	15,253,587	9,859,238
	After Distribution	4,846,844	10,674,647	8,623,420	14,146,950	*	*
Capital Stock		5,878,332	6,783,128	9,575,406	10,775,602	10,801,728	10,802,790
Advance Receipts for Common Stock		-	1,017	9,254	171	50	0
Capital Surplus		236,304	251,333	11,822,662	9,764,320	9,813,894	9,817,306
Retained Earnings (Accumulated Losses)	Before Distribution	1,465,662	(525,882)	(1,408,095)	4,027,978	7,686,527	6,899,927
	After Distribution	363,225	(525,882)	(1,408,095)	1,159,746	*	*
Cumulative Transaction Adjustments		237,523	228,491	34,573	(662,221)	70,678	(270,371)
Unrealized Gain / Loss on Financial Instruments		(173,316)	(471,392)	318,431	(42,235)	(342,113)	(196,237)
Total Equity	Before Distribution	7,644,505	6,266,695	20,352,231	23,863,615	28,004,870	27,027,521
	After Distribution	7,415,198	6,266,695	20,352,231	20,995,383	*	*

*Pending for shareholders' meeting resolution

Condensed Statement of Income from 2007 to 2012/03/31

Unit: NT\$ thousands (Except EPS: NT\$)

Item		2007	2008	2009	2010	2011	2012/03/31
Net Sales		\$10,737,161	\$8,799,740	\$12,978,548	17,016,427	26,338,668	1,352,097
Gross Profit		1,953,682	1,355,361	1,601,112	3,297,283	4,135,132	100,027
Income from Operations		1,290,313	641,808	925,932	2,470,563	2,674,852	(143,148)
Non-operating Income and Gains		428,848	138,102	124,534	2,004,519	4,237,756	56,942
Non-operating Expenses and Losses		164,608	1,652,017	2,066,124	250,104	244,827	681,394
Income from Operations of Continued Segments-before Tax		1,554,553	(872,107)	(1,015,658)	4,224,978	6,667,781	(767,600)
Cumulative Effect of Changes in Accounting Principle		0	0	0	0	0	0
Net Income (Losses)		1,224,553	(889,107)	(1,127,658)	4,027,978	6,526,781	(786,600)
Basic Earnings Per Share*	Before Tax	2.34	(1.29)	(1.26)	4.00	6.18	(0.71)
	After Tax	1.84	(1.31)	(1.40)	3.81	6.05	(0.73)
Diluted Earnings Per Share*	Before Tax	2.29	-	-	3.97	6.15	(0.71)
	After Tax	1.81	-	-	3.78	6.02	(0.73)

* Based on weighted average shares outstanding in each year

Auditors' Opinions from 2007 to 2011

Year	CPA Firm	CPA	Audit Opinion
2007	Deloitte & Touche	Shu-Wan Lin, Cheng Hung Kuo	An Unqualified Opinions
2008	Deloitte & Touche	Shu-Wan Lin, Cheng Hung Kuo	An Unqualified Opinions
2009	Deloitte & Touche	Chih-Ming Shao, Shu-Wan Lin	A Modified Unqualified Opinions
2010	Deloitte & Touche	Chih-Ming Shao, Shu-Wan Lin	A Modified Unqualified Opinions
2011	Deloitte & Touche	Chih-Ming Shao, Shu-Wan Lin	A Modified Unqualified Opinions

Financial Analysis from 2007 to 2012/03/31

Item		2007	2008	2009	2010	2011	2012/03/31
Capital Structure Analysis (%)	Debt Ratio	30.38	63.01	29.76	32.09	35.26	26.73
	Long-term Fund to Fixed Assets Ratio	290.09	283.65	985.30	1,356.68	2,189.73	2,179.86
Liquidity Analysis (%)	Current Ratio	145.81	46.70	88.23	108.17	124.23	148.22
	Quick Ratio	137.27	30.59	72.90	83.62	105.15	116.33
	Times Interest Earned	47.41	(3.43)	(3.94)	32.84	97.10	(40.56)
Operating Performance Analysis	Average Collection Turnover	11.49	4.96	5.84	4.28	4.47	1.15
	Days Sales Outstanding	32	74	63	85.33	81.69	316.86
	Average Inventory Turnover	11.09	5.81	9.23	7.46	10.17	3.20
	Average Inventory Turnover Days	8.02	3.37	5.68	3.33	2.85	0.76
	Average Payment Turnover	33	63	40	48.91	35.89	114.18
	Fixed Assets Turnover	3.32	3.39	6.28	9.67	17.44	3.68
	Total Assets Turnover	0.98	0.52	0.45	0.48	0.61	0.15
Profitability Analysis	Return on Total Assets	12.31	(5.03)	(4.26)	12.88	16.79	(1.92)
	Return on Equity	17.83	(12.78)	(8.47)	18.22	25.17	(2.86)
	Operating Income to Paid-in Capital Ratio	21.95	10.38	9.67	22.93	24.76	(1.33)
	Pre-tax Income to Paid-in Capital Ratio	26.45	(12.86)	(10.61)	39.21	61.73	(7.11)
	Net Margin	11.40	(10.10)	(8.69)	23.67	24.78	(58.18)
	Basic Earnings Per Share (NT\$)	1.84	(1.31)	(1.40)	3.81	6.05	(0.73)
	Adjusted Earnings Per Share (NT\$)	1.84	(1.31)	(1.40)	3.81	6.05	(0.73)
	Diluted Earnings Per Share (NT\$)	1.81	-	-	3.78	6.02	(0.73)
	Adjusted Diluted Earnings Per Share (NT\$)	1.81	-	-	3.78	6.02	(0.73)

(Continued)

Item		2007	2008	2009	2010	2011	2012/03/31
Cash Flow (%)	Cash Flow Ratio	136.25	5.89	2.74	38.18	46.35	(13.29)
	Cash Flow Adequacy Ratio	182.50	146.27	160.78	335.71	216.45	197.64
	Cash Flow Reinvestment Ratio	11.69	2.32	0.82	13.18	4.43	(1.57)
Leverage	Operating Leverage	1.56	1.96	1.73	1.21	1.16	0.48
	Financial Leverage	1.03	1.41	1.27	1.05	1.03	0.89

*Glossary

1. Capital Structure Analysis

- (1) Debt Ratio = Total Liabilities / Total Assets
- (2) Long-term Fund to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

2. Liquidity Analysis

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventories - Prepaid Expenses) / Current Liabilities
- (3) Times Interest Earned = Earnings before Interest and Taxes / Interest Expenses

3. Operating Performance Analysis

- (1) Average Collection Turnover = Net Sales / Average Trade Receivables
- (2) Days Sales Outstanding = 365 / Average Collection Turnover
- (3) Average Inventory Turnover = Cost of Sales / Average Inventory
- (4) Average Inventory Turnover Days = 365 / Average Inventory Turnover
- (5) Average Payment Turnover = Cost of Sales / Average Trade Payables
- (6) Fixed Assets Turnover = Net Sales / Net Fixed Assets
- (7) Total Assets Turnover = Net Sales / Total Assets

4. Profitability Analysis

- (1) Return on Total Assets = (Net Income + Interest Expenses * (1 - Effective tax rate)) / Average Total Assets
- (2) Return on Equity = Net Income / Average Shareholders' Equity
- (3) Operating Income to Paid-in Capital Ratio = Operating Income / Paid-in Capital
- (4) Pre-tax Income to Paid-in Capital Ratio = Income before Tax / Paid-in Capital
- (5) Net Margin = Net Income / Net Sales
- (6) Earnings Per Share = (Net Income - Preferred Stock Dividend) / Weighted Average Number of Shares Outstanding

5. Cash flow

- (1) Cash Flow Ratio = Net Cash Provided by Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Five-year sum of cash from operations / Five-year sum of capital expenditures, inventory additions, and cash dividend
- (3) Cash Flow Reinvestment Ratio = (Cash Provided by Operating Activities - Cash Dividends) / (Gross Fixed Assets+Investments+Other Assets+Working Capital)

6. Leverage

- (1) Operating Leverage = (Net Sales - Variable Cost) / Income from Operations
- (2) Financial Leverage = Income from Operations / (Income from Operations - Interest Expenses)

Financial Difficulties

The Company should disclose the financial impact to the Company if the Company and its affiliated companies have incurred any financial or cash flow difficulties in 2011 and as of the date of this Annual Report: None

COMPANY INTRODUCTION

E Ink Holdings Inc. (EIH; formerly Prime View International) is now the world's leader in the global ePaper industry. Founded in 1992, headquartered in Hsinchu Taiwan and listed in Taiwan's GTSM and the Luxembourg market, EIH manufactures Electronic Paper (ePaper based on Electrophoretic technology) and TFT LCD (Thin Film Transistor based Liquid Crystal Display). EIH's corporate philosophy aims to deliver revolutionary products, user experiences, and environmental benefits through advanced technology development. This vision has led to EIH continuous investments in the field of electronic paper display.

As Taiwan's first TFT-LCD company, EIH established its first production facility in the Hsinchu Science Park in 1994 and successfully mass produced TFT-LCD display panels up to 12.1 inches wide for consumer electronics, navigation systems, and automotive applications.

For the company to reach the upper echelons of the industry, EIH started to form strategic partnerships with key global players and leading brand names. EIH 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, EIH became the sole supplier of EPD panels for Sony's eBook readers. In 2007, EIH began supplying EPD to Intel's Metro Notebook. EIH also started to supply to the well-known Amazon Kindle from 2007.

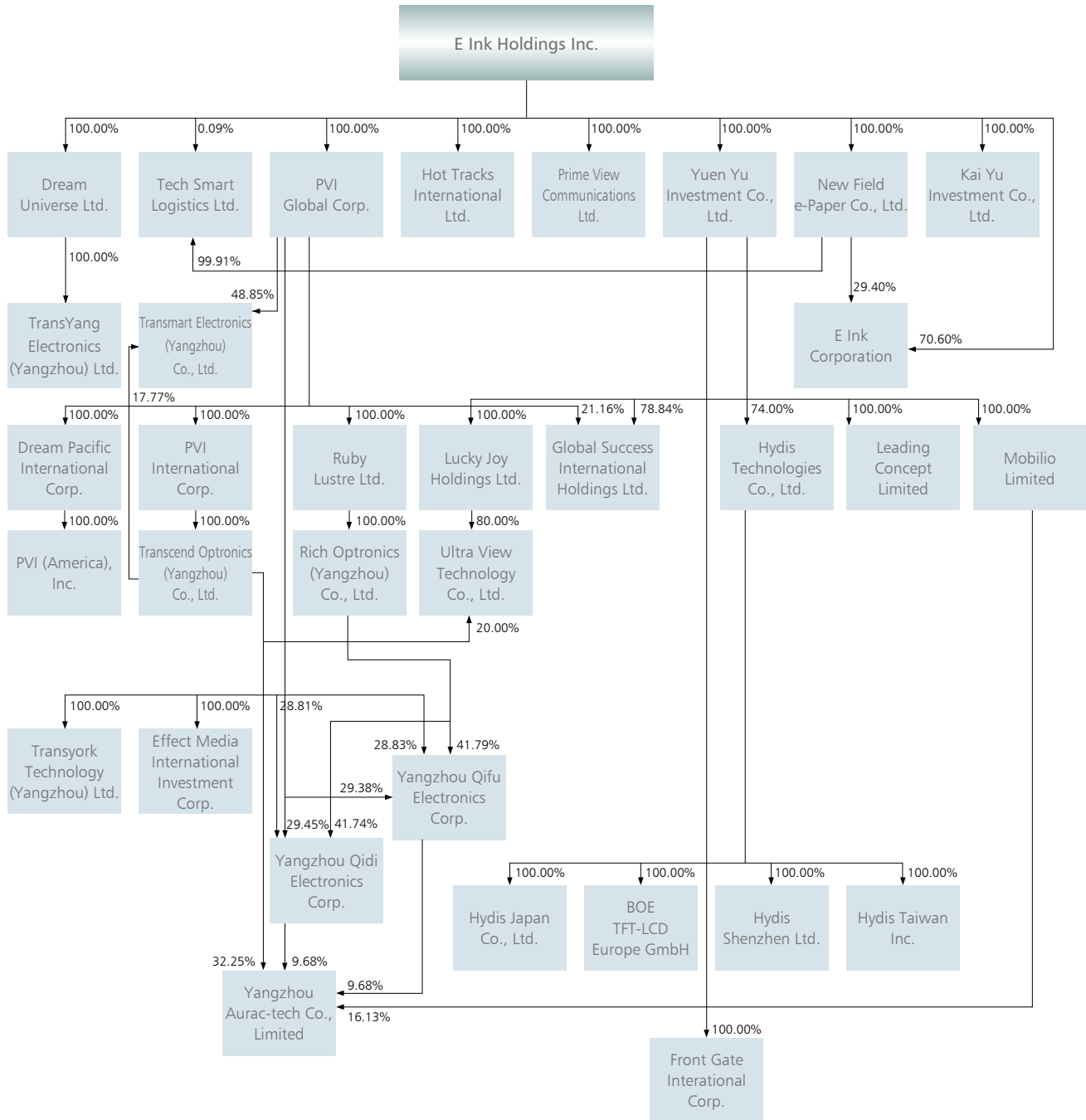
In 2009, EIH acquired E Ink Corporation and vertically integrated the EPD technologies and manufacturing. As the leader of EPD industry with the world-famous E Ink® Technology, it was decided that the name of the corporate identity resulting from the acquiring of E Ink Corporation would be E Ink Holdings 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.

The demand for ePaper has increased dramatically thanks to the booming eBook industry. With the leading ePaper technology, high quality products and outstanding supply chain, EIH is now the world's leader in supplying ePaper modules to global top tier eReader brand names like Amazon, Sony, Hanvon, Barnes & Noble, and has a global market share of 90%.

EIH's core technology, E Ink® technology, is also ideal for many other consumer applications such as 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.

With new products like color, flexible, and touch-enabled ePaper, EIH will lead the eBook industry into a new era.

AFFILIATES AND SUBSIDIARIES

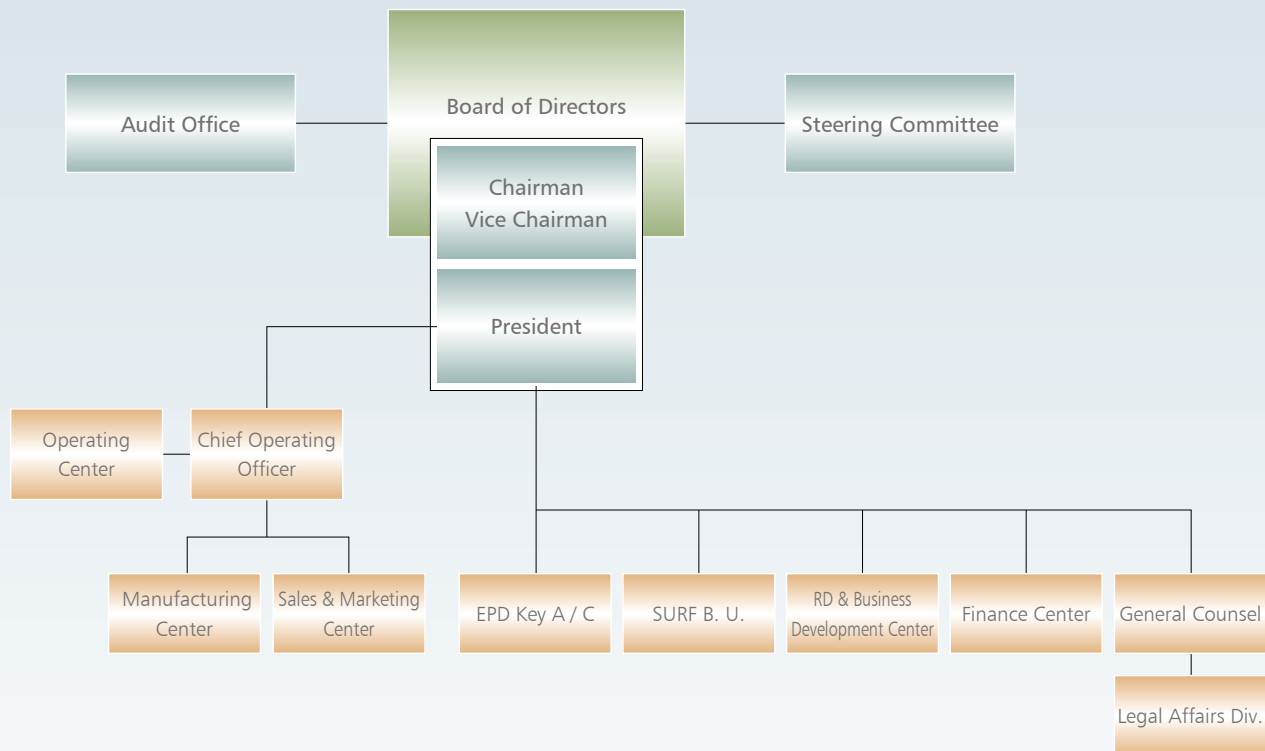


Going the Extra Mile

*From the functional to the beautiful,
our partners and customers have created many exciting products using
E Ink Electronic Paper Display technology.
Explore these categories to get a small glimpse at what EPDs make possible.*



COMPANY ORGANIZATION



OFFICE AND FUNCTIONS

- GM Office**
 Corporate strategies planning and execution, internal operation control, public safety and environmental protection as well as patent strategies management.
- Steering committee**
 Coordinate and integrate operation performance, technology research and development, manufacturing, and marketing and sales of EIH Group.
- Finance Center**
 Human resources, public affairs management and services, finance, accounting, technology system integration and management, operation management planning and execution.
- Operating Center**
 Purchasing for material of products, equipment and construction projects, material requirement planning, bonded warehouse and logistics management, quality and reliability management, marketing, public relations and manufacturing plans coordination and intergration.
- Legal Affairs Div.**
 Corporate legal affairs and documentation management and compliance.

- **Manufacturing Center**

Production process analysis, and manufacturing planning and management.

- **Sales & Marketing Center**

Business marketing planning, coordination and execution, customer service for new product introduction and mass production verification.

- **EPD Key A / C**

EPD key accounts' business development, management, and customer service for new product introduction and mass production verification.

- **SURF B. U.**

SURF (SDC / SDM) research and development, product design, production and sales.

- **RD & Business Development Center**

Technology research and development, mass production implementation, problem feedback and analysis, design service, and business development to enhance competitiveness and expand applications in EPD products.



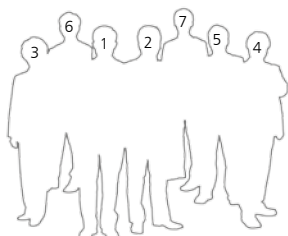
MANAGEMENT TEAM

TITLE / OFFICE	NAME	On-board Date (Note)
Chairman	Scott Liu	07-01-2003
Vice Chairman	Felix Ho	16-03-2012
President	C. C. Tsai	03-07-2010
Chief Operating Officer	C.H. Chiu	05-05-2008
Chief Sales Officer	Thomas Lin	01-03-2010
Chief Production Officer (General Management Office)	James Hong	15-03-2010
Deputy Chief Technology Officer (Research & Development Center)	Yung-Sheng Chang	01-02-1996
Deputy Chief Business Development Officer (SURF B.U.)	Johnson Lee	16-02-2006
Vice President (Oversea Project)	Douglas Tao	04-02-1995
Vice President (Oversea Project)	Yun-Dau Hsu	23-03-2004
Special Assistant to Chairman	Wayne Huang	24-08-1998
General FAB Director (Manufacturing Center)	Jui-Pin Wu	17-07-2001
Assistant Vice President (SURF B.U.)	T. H. Peng	11-07-2006
Assistant Vice President (Manufacturing Center)	Shaun Chen	16-11-2009
Assistant Vice President (Product Development Div.)	Tung-Liang Lin	25-05-1995
General Counsel (Legal Affairs Div.)	Hsianmin Chen	11-10-2010
Assistant Vice President (President Office)	Jason Lin	07-10-2009
Assistant Vice President (Oversea Project)	Luke Chen	01-10-2010
Assistant Vice President (Oversea Project)	Lloyd Chen	15-01-2010
Assistant Vice President (LCD Sales & Marketing Center)	Jeff Chang	07-06-2011
Lead Of Finance (Finance Center)	Edward Chen	10-08-2006
Lead Of Accounting (Finance Center)	Jason Lin	26-03-2012

Note: On-board date means the official date joining EIH.

DIRECTORS AND SUPERVISORS

TITLE	NAME	Date Elected
Chairman	Representatives of Cheng-Yu Co., Ltd. Scott Liu	24-06-2011
Vice Chairman	Representatives of Cheng-Yu Co., Ltd. Felix Ho	24-06-2011
Director	Representatives of Yuen Foong Paper Co., Ltd Chuang-Chuang Tsai	24-06-2011
Director	Representatives of Cheng-Yu Co., Ltd. Shou-Chung Ho	24-06-2011
Director	Representatives of Cheng-Yu Co., Ltd. Johnson Lee	24-06-2011
Director	Representatives of Yuen Foong Paper Co., Ltd Ta-Shau Shih	24-06-2011
Director	Representatives of Yuen Foong Paper Co., Ltd Chun-Chieh Huang	24-06-2011
Independent Director	Ten-Chung Chen	24-06-2011
Independent Director	Yung-Cheng Chen	24-06-2011
Supervisor	Representatives of Yuen Foong Paper Co., Ltd. Li-Chun Hsiao	24-06-2011
Supervisor	Representatives of Yuen Foong Paper Co., Ltd. Ching-Yuan Chang	24-06-2011
Supervisor	Ching-I Wang	24-06-2011



Key Management:

1. Scott Liu / Chairman
2. Felix Ho / Vice Chairman
3. C. C. Tsai / President
4. C.H. Chiu / Chief Operating Officer
5. James Hong / Chief Production Officer (General Management Office)
6. Yung-Sheng Chang / Deputy Chief Technology Officer (RD & Business Development Center)
7. Johnson Lee / Deputy Chief Business Development Officer (RD & Business Development Center)

E Ink. See More.TM

Today, we're the world leader in eBook displays.

Tomorrow, we expect to lead the way in eTextbooks and signage.

The next generation of E Ink applications is under development to enable so much more.



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 electronic paper displays (e-paper display, EPD), and the Thin Film Transistor Liquid Crystal Displays (TFT-LCD). Sales from e-paper product sales accounted for 99.3% of company revenue in 2011, with TFT-LCD products accounting for 0.7% of revenue.

Main Products

EIH has two main product categories. One category is e-paper display products which includes applications for e-readers and segment display. The second category is small and medium size TFT-LCD panels and modules under 12.1 inches. Main usages are for niche market applications, such as vehicles and entertainment systems, ship and air navigation, security monitoring systems, medical instruments, video phones, cameras, portable DVDs, digital photo frames, pachinko, industrial instruments and POS.

New Product Development

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

- (1) Development for new EPD and TFT- LCD module aimed at meeting customer requirements and expanding applications based on feedback information from market interactions.
- (2) More products developments for special market applications, including industrial, marine, and automotive displays.
- (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 customers in the existing market, and will integrate marketing, design and manufacturing capabilities to develop appropriate technologies and penetrate niche markets.

EIH is committed to provide on-site technology services in major markets, such as America, China, Japan and Europe. This enables us not only to response to customers more effectively and quickly but also to well know our customers for better customer satisfaction and faster and more market requirements oriented solutions by keen observations, innovative strategic thinking, and suitable product developments. This also solidifies our development by assisting customers in enriched new applications.

INDUSTRY OVERVIEW

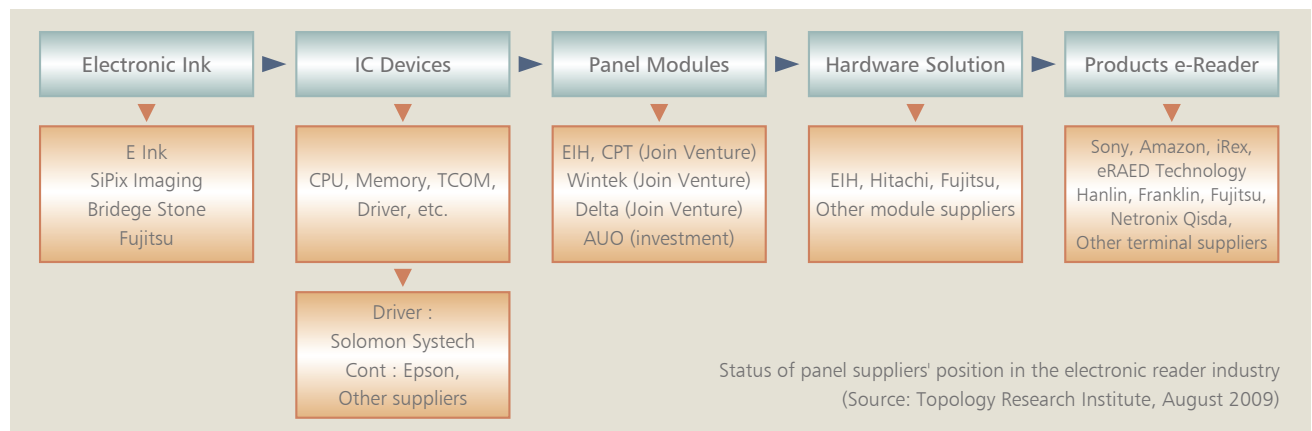
EPD Industry

Electronic paper was developed in the early 1970s. The basic electrophoretic technology, now known as electronic ink, was established by the MIT in 1969 when tackling the dying particle condensation problem with "micro capsulation technology".

Through stages of R&D, sample and small amount production, and full production, electronic paper technology entered mass production in 2008. Differences in electronic paper manufacturing technology have led to electronic paper products with different characteristics such as color, large-format, flexible, writable and touchable screens. Products with each of these features also required different market positioning. The variety of features drove investment in the industry, especially for products such as smart cards, electronic tags, clocks, phone button display decoration, advertising billboards and even e-books and other diverse applications.

Commercialization of e-paper displays began in 2000 when the TFT-LCD panel industry was experiencing rapid growth. In spite of EPD's attractive features of thinness (as paper), super low power consumption, wide viewing angle, and backlight module needlessness, far fewer manufacturers entered this market when compared with those interested in TFT-LCD and AMOLED display technologies. Consequently, EIH became the world's only supplier of EPD products for years.

The debut of Kindle overturned the situation as it drastically expands EPD's applications. Its future is even more attractive after AUO, the top leader of TFT-LCD industry, announced entry into the EPD market.



Currently, the five main global electronic paper technology suppliers are E Ink, SiPix, Bridgestone, Fujitsu, and Mirasol, of which E Ink and Sipix are controlled by Taiwanese panel brand owners. The other manufacturers have entered into strategic partnerships with Taiwanese companies to set up R&D centers and domestic production. This means Taiwan will remain among the leading players in the electronic paper industry.

Small-and Medium-Sized TFT LCD industry

Other than the applications in the Tablet PC, the small-and medium sized LCD markets show little demands increase in 2011 as a result of weak economy. Hampered by lower –than-expected 3D TV sales, most industry players suffer with 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 small sized LCD market.

Upstream, Midstream and Downstream Flows in the Industry

Upstream	Equipment		Material		Components	
	1. Lithography / etching 2. PECVD 3. Sputter 4. LCD equipments 5. Assembly equipments 6. Inspection/testing equipments		1. Liquid crystal 2. Glass substrate 3. Polarizer 4. Chemical material used in production		1. Driver IC 2. Control PCB 3. Backlight module 4. TAB / COG	
Midstream	TFT-LCD production					
	Production of substrate glass array		Cell or panel production		Module assembling	
Downstream	Consumer applications					
	Computer	Consumer device	Commercial	Industrial	Communication	Automotive transportation

Source: IT IS Project, ERSO and the Economy and Trading Center, ITRI

For electronic paper display production, EIH relies mostly on its own TFT-LCD production facilities, but it also outsources to G5 production lines. The electronic paper supply chain is composed of the upstream industry for electronic ink suppliers, midstream industry for module manufacturers, and the downstream industry for brand owners. EIH takes on the role of upstream supplier as well as midstream manufacturer of panels and modules

Product Development Trends

1. Electronic Paper Display EPD

Riding the huge potential of electronic paper market and developing EPD products, EIH abandoned the cut-throat price competition model of TFT-LCD industry's business cycle and entered a new blue ocean market. In 2005, we acquired Philips' electronic paper display business, and started mass producing electronic paper products in the third quarter of 2005 on the basis of the Philips' and EIH's long time electronic book reader development experiences as well as our own expertise in small-and medium-sized panels. With EIH having such a successful entry into the electronic paper market, we are qualified as the sole supplier for Sony's e-reader panel in late 2006. EIH also came to be the exclusive supplier of EPD for the external monitor of Intel's Metro Notebook in middle of 2007, and joint launched with Amazon the Kindle e-reader, featuring wireless download in end of 2007. We are leading the world market in EPD. To ensure stable and secure supplies of technology and component materials and to integrate the EPD upstream and downstream network, EIH merged of E Ink Corporation USA in 2009, and enhanced the development in relevant applications including electronic tag, color e-book reader and soft display.

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 industry has entered a mature stage of development. Both domestic and overseas panel manufacturers are similar with respect to their technology basis. 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

Application of TFT-LCD in consumer electronics markets may cover video cameras, digital cameras, portable DVD players, and digital photo frames. These markets are subject to fierce price competition and low gross margin as there are more standardized products and more general requirements for panel quality and specifications. Successful manufacturers in these markets must possess robust production costs control and management system as well down-to-the-bottom manufacturing costs. This, inevitably, leaves the markets to Taiwanese and China manufacturers well known for their management capabilities. 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.

B. Niche TFT-LCD

Niche markets of TFT-LCD may be composed of panels for military use, 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. These markets feature small quantity, diversity and custom specifications. Customers in the TFT-LCD niche market attach great significance to technical support capabilities, customization capabilities and long-term close cooperation relations and place these factors ahead of pricing. Here our competitors are most likely Japanese suppliers including Sharp, NEC, and Hitachi. Direct competitions

among suppliers are far rare when compare with that in the TFT-LCD consumer electronics ones as a result of diversified customers and segmented markets and channel relationship. That is also the key factor that EIH can still have a good bottom line with the LCD business in 2011.

Competition and Positioning

In terms of EPD products, EIH leads its competitors with a 2-3 years gap in production technology, product yield, and new technology development (e.g. soft and color EPD) thanks to its early entry in this field since 2005. Based on the holding of EPD key material supplier, E INK and EPD market status information, EIH's market share in the electronic book readers market is above 90%. Global leading e-reader brand names including, Amazon, Sony, B&N, and KOBO employ EIH's 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. This leads to increased capacity and competition in small-and medium-sized TFT-LCD. In addition to being used in consumer electronics applications, small-and medium-sized TFT-LCD are required by many special application markets that require more integrated service and feature small production lot and more variations. In these special application markets, EIH keeps on providing its small-and medium-sized TFT-LCD products for customers with special requirements based on its accumulated experiences and long term relations. In spite of its limited production capacities, EIH still maintains strong competitiveness in these special application markets with more integrated services and on-demand customization.

RESEARCH AND DEVELOPMENT OVERVIEW

Facing with expanding e-book market and demand in 2011, EIH focused in the R&D of electronic paper by not only keeping on enhancing its black and white electronic paper module products but also launching new products in soft, color, and touch-ready electronic paper products. EIH also expanded capacities to maintain its leading position in the electronic paper market. Regarding the TFT-LCD products, EIH still focused at developing timing control IC, various touch and WVA (wide viewing angle) technologies, and high specification displays for military and automotive use. EIH plans to integrate all those specific display technologies to meet all those special requirements raised by our niche market customers to maintain sustainable growth in the highly competitive display industry.

New 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™ which leads to a clearer view and a better reading experience. The Pearl™ provides a 50% increase in contrast ratio and the best whiteness among available electronic papers now in the market. With better fonts and images display users can enjoy reading the text as comfortably as reading words printed on paper. E Ink's Pearl technology features thinness and light weight and environmental friendliness and can be read for a long time without power charging again. This is an ideal product that can be applied in eBook reader, e-reference book, and e-magazine to replace conventional paper or LCD screens that require back lights. This is a product that provides users with the convenience of electronic product and maintain the reading comfort same as paper. Debuted in 2010, the Pearl™ products continue its hot sales in 2011.

Color Electronic Paper - E Ink Triton™

Color electronic paper not only can display in B&W and gray scale but also bring unprecedented vivid experience for graphs, maps, photos, comics, and advertisements that require all kinds of color supports. In addition to its 16 gray scale the E Ink Triton™ provides thousands of colors to enrich illustrations, diagrams, and comics to be more attractive and lively. Even under direct sunlight, the E Ink Triton™ electronic paper still displays clear images as that of B&W ones at any viewing angle.

Same as E Ink Pearl™ electronic paper, the E Ink Triton™ possesses very good page update speed, 20% faster than the first generation B&W one. The E Ink Triton™ electronic paper meets consumers' needs by reacting on the spot when browsing web page, clicking menu items, making remarks, and viewing simple animations. It will have more diversified demo performance when being applied in large posters or marketing materials.

The E Ink Triton™ employs widely adopted micro capsulation electrophoretic technology which is adopted by scores of international brand eBook readers. Its stable quality and excellent viewing performance are well accepted by all those customers .

The electrophoretic electronic paper not only features reading comfort similar to that of paper but also possesses bistability that enables it to maintain existing images without any power consumption. Crispy display performance and more than 2 weeks' device battery power endurance are two critical factors that make eBook readers one of hot sale products.

Flexible Electronic Paper

EIH is about to launch its flexible electronic paper display (Flexible EPD) by the beginning of next year. The plastic backplane supported Flexible EPD is robust and hard to break and lighter and thinner than the existing glass-based electronic paper display. Those features are even more important for larger size electronic paper module products. Similar with the glass back plate electronic paper display, this new Flexible EPD is targeted at the ebook reader markets. If utilizing the plastic backplane in an e-reader device, take Kindle DX for example, the original device's weight of 500 grams can be brought down to 300 grams.

EIH's EPD uses the MagicMirror reflective display technology and a-Si TFT design experience. At the same time, by fine-tuning flip chip process to match the stress condition of plastic material, EIH develops the flexible technology and All-plastic display with features of light weight, robust , hard to break and easy for carrying so that to achieve the goal of being lightweight and robust . The target customers are all global leading firms. In addition, as it is now a trend for Environmental Protection, it's also more fashionable to take human nature, environmental protection and energy saving as their motivation. And it makes the market of flexible e-paper products even more optimistic.

Touch function embedded Electronic Paper Display

In addition to commonly adopted capacitive touch technology, EIH is actively working with other technology companies to develop e-touch for the touch embedded electronic paper display. These newly designed modules, with the addition of the built-in touch function not only maintain reflection rate of EPD but also offer many other design benefits to facilitate more possibilities in new product developments. Many other new touch technologies are also in the pipeline of development.

Super High Resolution EPD products

Resolution of commercially available e-reader falls in the range of 150~200 ppi (pixel per inch). In certain special applications, e.g. paperless office, customers may need a resolution of 300 ppi or even higher. EIH launched its 9.7-inch B&W electronic paper module with 300 ppi and 11.5-inch one with 300 in 2011. Products based on this module, demonstrated by EIH and its partners in the FPD International 2011 at Yokohama, Japan was highly appreciated by customers and has been adopted by couple of customers for design-in. It is expected that products with this module embedded may be introduced by end of 2012 or beginning of 2013.

Fringe Field Switching (FFS) technology

FFS is the technology that offers the widest viewing angle now. Its high transmission and wide viewing angle characteristics are made possible by rotating the almost uniformly aligned crystal liquid molecules with the boundary electric fields. It combines features of horizontal and vertical wide viewing angles to offer up to almost 180 degrees of viewing angle. The reflective components on its array design generate reinforcing sun light readability effect under strong lighting condition. In all, FFS is a perfect combination of low power consumption, high transmittance rate, high brightness, fast response, no color shift and high color reproduction. It is now used in smart phone, tablet PC, and vehicle electronics . Yield

and cost are two key factors to expand FFS technology's applications and current focus is to have continuous improvements for more industrial applications.

Multi-domain Vertical Alignment (MVA) wide viewing angle liquid crystal technology

Further to FFS technology, EIH is actively researching and developing MVA wide viewing angle liquid crystal technology and applying it in the field of industrial and automotive products. Some deliveries were made in 2011.

BUSINESS DEVELOPMENT OBJECTIVES

Short-Term Business Development Objectives

1. Follow up product trends, provide customer with upgraded new products, support customers to extend product life cycle, effectively share original development costs, and develop more comprehensive applications.
2. Improve product quality for adoptions and recognition by more global leading international companies.
3. Continue to enhance manufacturing yield and production capacity of panel and module plants.
4. Establish local service systems for the United States, Europe, China and Japan, and strengthen distribution channels in these markets.
5. Continue to penetrate new application markets.

Long-Term Business Development Objectives

1. Continue international cooperation to joint development of new display technologies and apply them in leading products for new application markets. This is the way to ensure EIH's key role in the industry of diversified technology advancements.
2. Develop long term and effective marketing channels for smooth interactions between production and technology units to effectively support overall and individual growth and to create win-win developments.
3. Maintain leading position in product development.

MARKET OVERVIEW

Market Analysis

EIH's Excellent Performance

EIH is now serving customers all over the world in recent years. It introduced its new business identity in 2011 to integrate business images of its thirteen subsidiaries and offices in electronic paper business and LCD business. EIH is making its new brand E Ink® to increase recognition of E Ink electronics paper in the global market.

Statistics provided by PIDA, Taiwan indicate that the output of the global electronic paper market in 2011 reached 1.3 billion with 68% YoY growth. E-book reader takes the lion's share of it with a share of 80%, shipment of 27.3 million units and up to 140% YoY growth.

EIH's global EPD market share tops 90% and focuses at the eBook reader segment. The EPD module launched in 2011 combines the feature of slim board, touchable panel and high-res and satisfies demands posed by scores of international eBook readers including Amazon Kindle Touch, Sony Wi-Fi Reader, Bookeen Cybook and Hanvon E 920.

SURF display technology focused in applications for watches, mobile phones, point of purchase, smart cards, USD drives, and monitors for consumer electronics in 2011.

In 2011, the small-and medium-sized TFT-LCD niche products focused at special consumer electronic devices including smart phone, navigation system, and driving recorder for selected customers and orders with predefined gross margin.

The small-and medium-sized panels with FFS wide viewing angle technology have entered the market not only of consumer electronic devices (e.g. smart phone), but also of tablet PCs in 2011. EIH began to supply these panels for tablet PCs, such as Kindle Fire. The latest global tablet PC Market forecast by IDC (March 2012) stated that the shipment of Kindle Fire, just launched in Q4, is 4.7 million units and that it has edged into the second notch in global market with a market share of 16.8%.

Unconsolidated Gross Sales by Region

Unit: NT\$ thousands

Sales Region	Year 2011		Year 2010	
	Gross Sales	Percentage	Gross Sales	Percentage
Domestic	20,659,917	78.44%	12,415,631	72.96%
Asia	3,637,543	13.81%	3,850,667	22.63%
America	1,662,177	6.31%	578,847	3.40%
other	379,031	1.44%	171,282	1.01%
Total	26,338,668	100.00%	17,016,427	100.00%

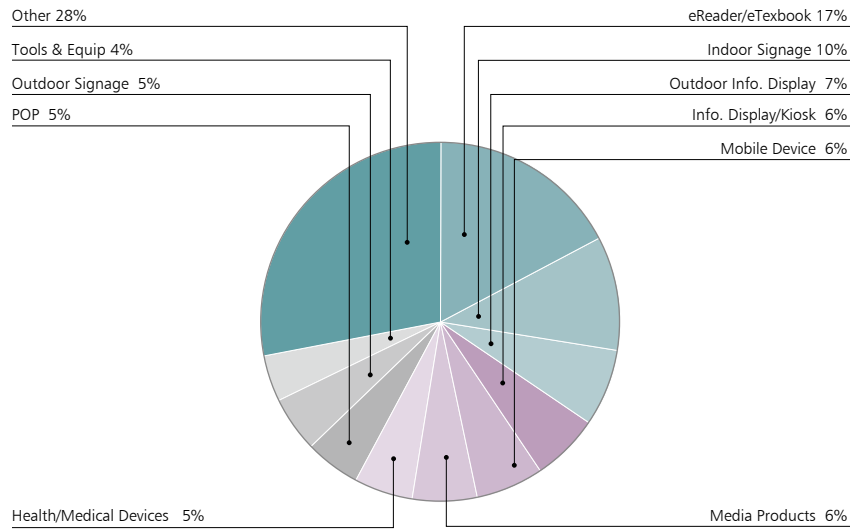
Supply, Demand and Growth Outlook

1. Application of Electronic Paper in e-Book Reader

PIDA estimates that global shipment of eBook reader jumped to 27.3 from 11.4 million units last year, a drastic 3-digit growth rate of 140%. It forecasts that in spite of maturing of the eBook reader market, significant growths can be expected to be over 60 million units with shipment up to 65 million units in 2015.



Top 10 Last 6 Months Running Average



Distribution of users interested in E Ink electronic paper Source: EIH, February 2012

The future of electronic paper is even brighter when applications are used in other vertical markets, e.g. commercial and education. E Ink electronic paper's low power consumption, eye friendliness, readable under sunlight, and compactness gives it very strong competitiveness in these two markets.

Various market research reports indicate that end consumers expect color saturated, rugged, and higher resolution display in leisure reading or business and education applications in the future. To meet this challenge, EIH has been focusing at the R&D of EPD improvement and plans to launch its competitive and enhanced EPD products starting 2012.

2. Other Applications of Electronic Paper

Further to replacing conventional paper for reading, E Ink electronic paper is also applied in wrist watches, smart phones, POP, electronic tags, smart cards, and USB drives, to name a few.

Statistics made by EIH in six months (as of end of February 2012) indicate that 83% of those who interested in electronic paper applications keep their eye on non eBook reader ones. Billboard related applications, e.g. indoor signage and outdoor information displays, takes up to 30% of these non-eBook reader applications, a market of great potential.

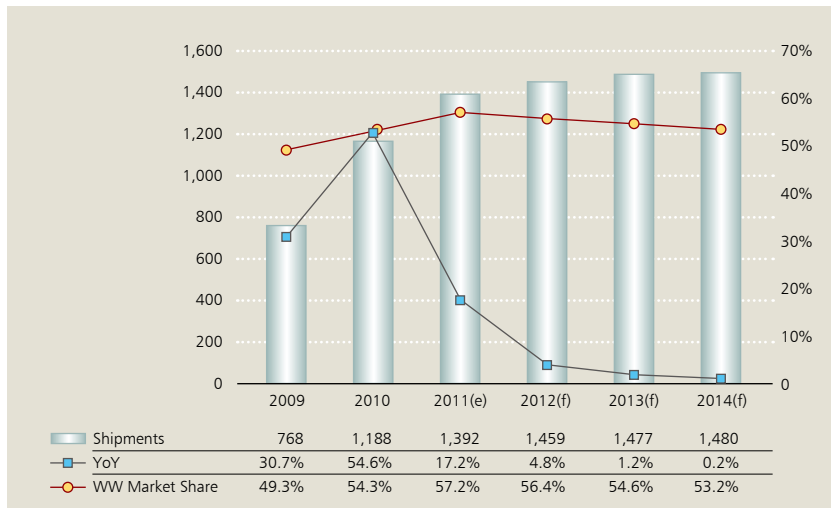
Global requirements may increase even more sharply as more and more innovative applications in tool & equipment, medical products, home furnishings to name a few, are waiting to be exercised.

3. Small-and Medium- sized TFT-LCD

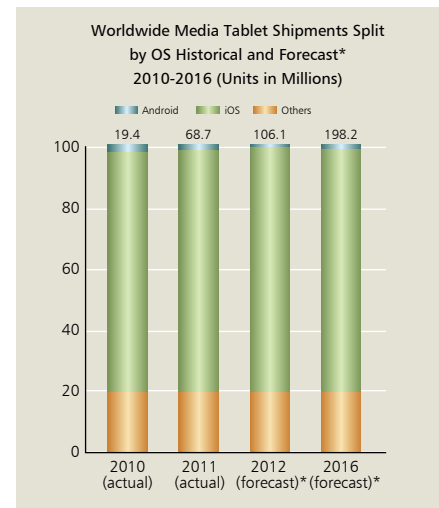
Digitimes estimates that growth of shipment of small-and medium-sized TFT-LCD out of Taiwan will decline gradually in 2012~2014, so does its global market share.

Two factors lead to this, puts Digitimes. The one is competition from Chinese suppliers and the other shift to Japanese LTPS TFT LCD and Korean AMOLED technologies. In summary, competition in small-and medium-sized TFT-LCD markets is getting stronger in every segment from panels of low end mobile phones to advanced applications in high-end smart phones, digital cameras, and table PCs.

IDC estimates that the global shipments of tablet PC may reach 106 million units in 2012, 20 million units more compared with its last forecast of 87 million. The reports indicates that market share of Android based units will out grow that of iPad as more and more low end Android devices are getting introduced to the market. However, iPad series of products will still lead the tablet PC market.



Unit: Million pieces Source: Digitimes, January 2012



Unit: Million pieces Source: IDC, March 2012

Competitive Niche

EIH competitive niche lies in its patent protected technologies in EPD, SURF displays, and TFT-LCD with wide view angle as well as its deep knowledge in niche application market, fast launch of market needed products.

1. Understanding market needs

EIH has been focusing in the module market of small-and medium-sized TFT-LCD since its foundation in June 1992. It thus establishes a technology service oriented marketing strategy and develops new partnership with customers from long-term interaction relations. Through this long-term investment and focus, EIH'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.

2. Comprehensive product lines and capabilities

EIH not only has comprehensive product lines of EPD, SURF displays, and small-and medium-sized TFT-LCD, but also can benefit its customers with early entry by projecting market trend precisely, investing both human and material resources proactively, and continuously developing products to meet new market demands.

3. Going the extra mile for Customers

EIH does its best to build up win-win relationship with its customers and grow them into prosperous business when they are limited with limited knowledge in display technology, little experiences in solving problems of interfaces between products of both parties, and inadequate capacity in PCB design.

4. Fast product development

Drawing on its expertise in technological development and marketing projects, EIH maintains an efficient production schedule. However, EIH is keen in shortening its 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.

5. Minimal product development expenses

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.

6. Mastering sales channel and regional markets

The United States is still the top market in the world and capable of developing more satisfactory or consumer oriented products with its adequate R&D resource and market information. To acquire the leading opportunity in product development, EIH determines to employ Americas abundant R&D resources by introducing design services at the beginning of product development cycle. This may increase direct or indirect sales in America by interacting with leading brand owners and ensure steady growth there with enhanced dealership and service network.

Europe is the perfect location for fostering new generation electronic products with its creativity environment fusion by its industrial base and traditional culture. EIH is striving to grab the benefits brought by early stage in product life cycle by its established presence in Europe and its support to key customers for more market oriented and innovative products.

China is the world's production center and the main supplier of consumer products to the global market. Electronic paper and TFT-LCD manufacturers are fully focused on the Asia-Pacific region. EIH has in depth understanding of the trend, EIH has established sales offices in China, Hong Kong and Korea long time ago to provide on site and fast technological services and supports. Its strength of same language and same culture also helps it get vast amount of orders and trusts in Mainland China and Hong Kong.

Factors for and against development and coping strategies

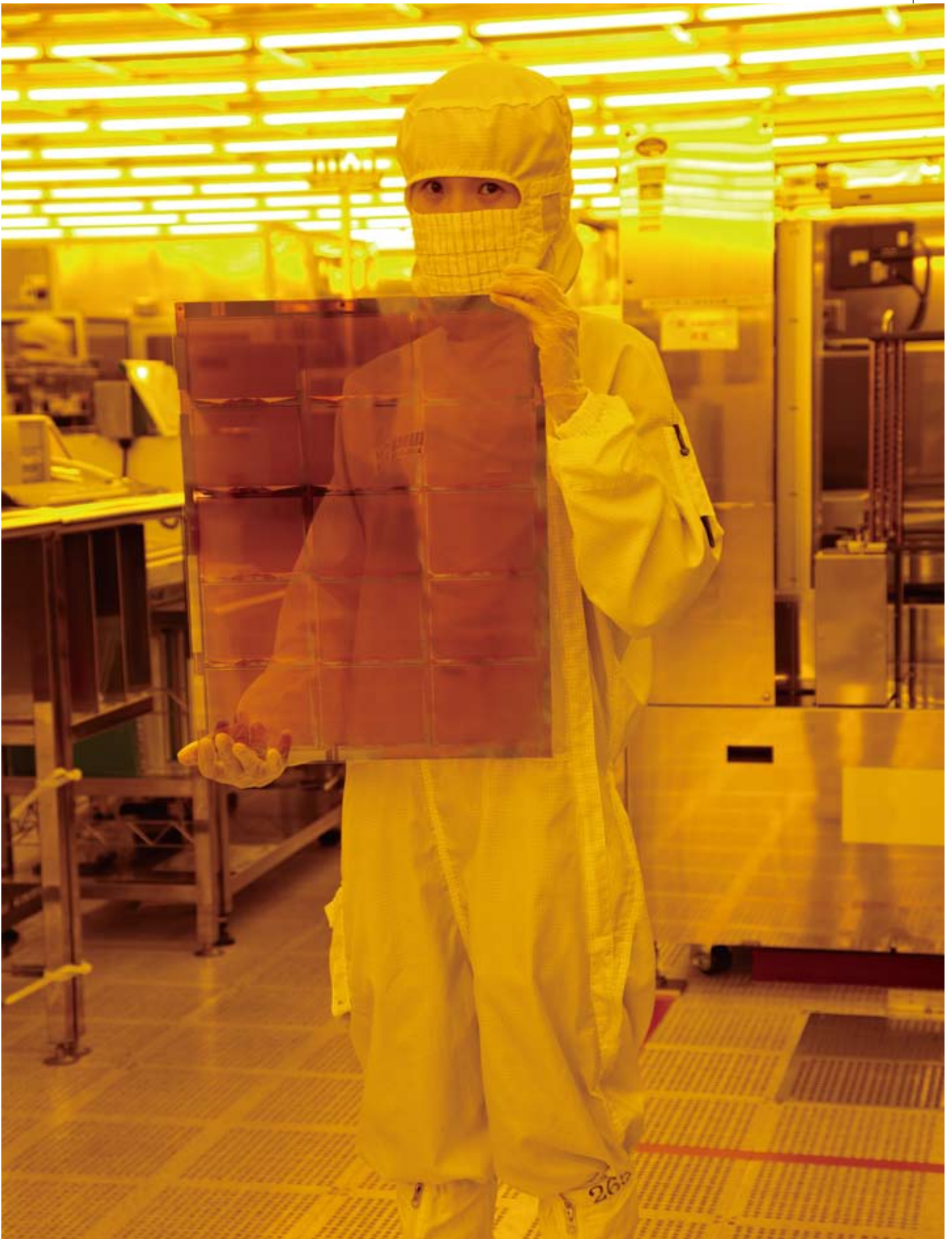
1. Favorable factors

- A. FFS and E Ink electronic paper patents enable E Ink Corporation to further integrate the upper and middle industry chains in LCD and EPD for lower costs and a more advanced leading position.
- B. Improve profitability by partnering with large size panel brand owners for expanded capacity of high performance and low costs.
- C. In addition to focusing on existing niches and mainstream markets of mobile phones, tablet computers, and ebook readers, the LCD and EPD business strategy also aims at more new projects and market coverage by developing niche applications jointly with customers.

2. Unfavorable factors and coping strategies

Continuous price competition, as more panel suppliers are entering the markets of small- and medium-sized panels.

Coping strategies: Improve market competitiveness through strategic partnerships for more cost-effective capacities.



Color Active Matrix

E Ink continues to revolutionize the ePaper market with E Ink Triton Imaging Film. Color ePaper displays enabled by Triton deliver high-contrast, sunlight readable, low-power performance that further closes the digital divide between paper and electronic displays. Triton enables color ePaper solutions, enhancing the visual experience for ePublishing markets such as eBooks, eNewspapers, eMagazines, and eTextbooks.



E INK HOLDINGS INC.

Financial Statements for the Years Ended
December 31, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010, the investments in which the Corporation had equity-method investments by Yuen Yu Investment Co., Ltd. The investments amounted to NT\$176,378 thousand and NT\$153,551 thousand as of December 31, 2011 and 2010, respectively, which accounted for about 0.4% for both years of the Corporation's total assets. The Corporation's equity of NT\$8,972 thousand in their net income in 2011 and equity of NT\$7,948 thousand in their net loss in 2010 were about 0.1% and 0.2%, respectively, of the Corporation's income 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, 2011 and 2010, 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.

We have also audited the consolidated financial statements of E Ink Holdings Inc. and its subsidiaries as of and for the year ended December 31, 2011 and 2010, and have expressed a modified unqualified opinion on those statements in our report dated March 16, 2012.

March 16, 2012

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 SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 2 and 4)	\$ 2,140,525	5	\$ 3,155,562	9
Notes and accounts receivable, net of allowance for doubtful accounts of \$10,600 thousand and \$5,400 thousand in 2011 and 2010 (Note 2 and 3)	448,217	1	510,192	2
Receivables from related parties (Notes 2 and 18)	6,204,429	14	4,626,272	13
Other receivables - related parties (Note 18)	1,186,480	3	668,208	2
Inventories (Notes 2 and 6)	1,765,059	4	2,601,074	7
Prepayments (Note 18)	695,209	2	419,334	1
Deferred income tax assets - current (Notes 2 and 15)	102,923	-	91,168	-
Other current assets (Notes 2 and 5)	32,824	-	27,450	-
Total current assets	12,575,666	29	12,099,260	34
INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 7)	26,183,148	61	20,801,384	59
Financial assets at fair value through profit or loss (Notes 2 and 5)	1,411,950	3	-	-
Available-for-sale financial assets (Note 2)	331,247	1	128,447	1
Financial assets carried at cost (Note 2)	77,601	-	93,467	-
Bond investments with no active market (Notes 2 and 8)	923,388	2	-	-
Total investments	28,927,334	67	21,023,298	60
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9 and 11)				
Cost				
Buildings	2,050,203	5	2,427,237	7
Machinery and equipment	6,142,924	14	6,315,949	18
Other equipment	1,048,346	2	1,098,817	3
Total cost	9,241,473	21	9,842,003	28
Less: Accumulated depreciation	7,769,442	18	8,147,884	23
	1,472,031	3	1,694,119	5
Construction in progress and prepayments for equipment	38,009	-	21,974	-
Net property, plant and equipment	1,510,040	3	1,716,093	5
INTANGIBLE ASSETS (Note 2)	22,749	-	46,589	-
OTHER ASSETS				
Assets leased to others, net of accumulated depreciation of \$300,654 thousand in 2011 and \$257,770 thousand in 2010 (Notes 2)	-	-	42,884	-
Deferred charges, net (Note 2)	168,142	1	131,964	1
Deferred income tax assets - noncurrent (Notes 2 and 15)	37,074	-	38,329	-
Others, net of accumulated depreciation of \$241,632 thousand in 2011 and \$216,557 thousand in 2010 (Notes 2 and 12)	17,452	-	43,916	-
Total other assets	222,668	1	257,093	1
TOTAL	\$ 43,258,457	100	\$ 35,142,333	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 16, 2012)

LIABILITIES AND SHAREHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Note 10)	\$ -	-	\$ 2,005,582	6
Accounts payable	822,580	2	730,932	2
Payables to related parties (Note 18)	8,341,365	19	5,685,298	16
Income tax payable (Notes 2 and 15)	142,682	-	64,877	-
Accrued expenses	643,069	2	585,435	2
Payables to contractors and equipment suppliers	40,847	-	126,325	-
Current portion of long-term liabilities (Notes 2 and 11)	-	-	1,903,030	6
Other current liabilities (Note 5)	<u>132,198</u>	-	<u>84,142</u>	-
Total current liabilities	<u>10,122,741</u>	<u>23</u>	<u>11,185,621</u>	<u>32</u>
LONG-TERM LIABILITIES				
Long-term liabilities, net of current portion (Note 11)	<u>5,061,000</u>	<u>12</u>	<u>-</u>	<u>-</u>
OTHER LIABILITIES				
Deferred credits (Notes 2 and 18)	69,718	-	92,965	-
Others	<u>128</u>	-	<u>132</u>	-
Total other liabilities	<u>69,846</u>	-	<u>93,097</u>	-
Total liabilities	<u>15,253,587</u>	<u>35</u>	<u>11,278,718</u>	<u>32</u>
CAPITAL STOCK				
Common stock at par value of NT\$10.00				
Authorized: 2,000,000 thousand shares; Issued and outstanding:				
- 2011: 1,080,173 thousand shares				
- 2010: 1,077,560 thousand shares	10,801,728	25	10,775,602	31
Advance receipts for common stock	<u>50</u>	-	<u>171</u>	-
Total capital stock	<u>10,801,778</u>	<u>25</u>	<u>10,775,773</u>	<u>31</u>
CAPITAL SURPLUS				
Additional paid-in capital from share issuance in excess of par value - common stock	9,102,776	21	9,065,424	26
Additional paid-in capital from share issuance in excess of par value - bond conversion	525,200	1	525,200	2
From long-term investments	144,173	1	150,800	-
Employee stock options	<u>41,745</u>	-	<u>22,896</u>	-
Total capital surplus	<u>9,813,894</u>	<u>23</u>	<u>9,764,320</u>	<u>28</u>
RETAINED EARNINGS				
Legal reserve	402,798	1	-	-
Special reserve	704,456	2	-	-
Unappropriated earnings	<u>6,579,273</u>	<u>15</u>	<u>4,027,978</u>	<u>11</u>
Total retained earnings	<u>7,686,527</u>	<u>18</u>	<u>4,027,978</u>	<u>11</u>
OTHERS				
Cumulative translation adjustments	70,678	-	(662,221)	(2)
Unrealized gain (loss) on financial instruments	(342,113)	(1)	(42,235)	-
Treasury stock - 522 thousand shares	<u>(25,894)</u>	-	<u>-</u>	-
Total other equity	<u>(297,329)</u>	<u>(1)</u>	<u>(704,456)</u>	<u>(2)</u>
Total shareholders' equity	<u>28,004,870</u>	<u>65</u>	<u>23,863,615</u>	<u>68</u>
TOTAL	<u>\$ 43,258,457</u>	<u>100</u>	<u>\$ 35,142,333</u>	<u>100</u>

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 18)	\$ 26,948,046	102	\$ 17,892,401	105
SALES RETURNS AND ALLOWANCES	609,378	2	875,974	5
NET SALES	26,338,668	100	17,016,427	100
COST OF SALES (Notes 6, 17 and 18)	22,203,536	84	13,445,812	79
	4,135,132	16	3,570,615	21
REALIZED INTERCOMPANY GAIN (Notes 2)	-	-	184	-
GROSS PROFIT	4,135,132	16	3,570,799	21
OPERATING EXPENSES (Notes 17 and 18)				
Selling expenses	290,307	1	232,658	1
General and administrative expenses	619,653	3	433,560	3
Research and development expenses	550,320	2	434,018	3
Total operating expenses	1,460,280	6	1,100,236	7
OPERATING INCOME	2,674,852	10	2,470,563	14
NONOPERATING INCOME AND GAINS				
Interest income (Note 18)	32,742	-	42,053	-
Investment income recognized under the equity method (Note 7)	3,898,704	15	1,812,507	11
Gain on disposal of property, plant and equipment (Note 18)	23,312	-	23,247	-
Exchange gain, net	202,981	1	-	-
Rental revenue	53,052	-	61,631	-
Others	26,965	-	65,081	1
Total nonoperating income and gains	4,237,756	16	2,004,519	12
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 9)	65,354	-	121,122	1
Exchange loss, net	-	-	76,407	-
Financial expenses	40,427	-	-	-
Depreciation of assets leased to others	42,884	-	51,460	-
Valuation loss on financial assets	71,470	1	-	-
Others	24,692	-	1,115	-
Total nonoperating expenses and losses	244,827	1	250,104	1
INCOME BEFORE INCOME TAX	6,667,781	25	4,224,978	25
INCOME TAX EXPENSE (Notes 2 and 15)	141,000	-	197,000	1
NET INCOME	\$ 6,526,781	25	\$ 4,027,978	24

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic earnings per share	\$ 6.18	\$ 6.05	\$ 4.00	\$ 3.81
Diluted earnings per share	\$ 6.15	\$ 6.02	\$ 3.97	\$ 3.78

The accompanying notes are an integral part of the financial statements.

(Concluded)

(With Deloitte & Touche audit report dated March 16, 2012)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Cash Dividends)

	Retained Earnings (Notes 2 and 13)											Total Shareholders' Equity
	Issued and Outstanding Capital Stock (Notes 11 and 13)		Advance Receipts for Common Stock (Notes 2 and 13)						Other Equity (Notes 2 and 13)			
	Shares (Thousands)	Amount		Capital Surplus (Notes 2 and 13)	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock (Notes 2 and 14)		
BALANCE, JANUARY 1, 2010	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 shares	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	
Appropriations of 2010 earnings												
Legal reserve	-	-	-	-	402,798	-	(402,798)	-	-	-	-	
Special reserve	-	-	-	-	-	704,456	(704,456)	-	-	-	-	
Cash dividends - \$2.66 per share	-	-	-	-	-	-	(2,868,232)	-	-	-	(2,868,232)	
Conversion of employee stock options	2,613	26,126	(121)	34,028	-	-	-	-	-	-	60,033	
Net income in 2011	-	-	-	-	-	-	6,526,781	-	-	-	6,526,781	
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	(95,492)	-	(95,492)	
Adjustment due to change in equity in investee	-	-	-	15,546	-	-	-	-	(204,386)	-	(188,840)	
Translation adjustments	-	-	-	-	-	-	-	732,899	-	-	732,899	
Acquisition of treasury stock - 522 thousand shares	-	-	-	-	-	-	-	-	-	(25,894)	(25,894)	
BALANCE, DECEMBER 31, 2011	1,080,173	\$ 10,801,728	\$ 50	\$ 9,813,894	\$ 402,798	\$704,456	\$ 6,579,273	\$ 70,678	\$ (342,113)	\$ (25,894)	\$ 28,004,870	

The accompanying notes are an integral part of the financial statements.

(With Deloitte & Touche audit report dated March 16, 2012)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 6,526,781	\$ 4,027,978
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	351,436	478,772
Amortization	127,996	86,868
Allowance (reversal of allowance) for doubtful accounts	5,200	(11,610)
Realized intercompany gain	-	(184)
Impairment loss	15,866	-
Investment loss (income) recognized under the equity method	(3,898,704)	(1,812,507)
Gain on disposal of property, plant and equipment, net	(23,312)	(23,247)
Deferred income taxes	(10,500)	118,929
Discount amortization of convertible bonds	-	831
Net Changes in operating assets and liabilities		
Notes and accounts receivable	56,775	1,131,035
Receivables from related parties	(1,578,157)	(3,451,525)
Other receivable - related parties	(372,807)	-
Inventories	836,015	(1,525,090)
Prepaid expenses	(275,875)	575,161
Other current assets	(5,374)	21,575
Accounts payable	91,648	531,982
Payables to related parties	2,656,067	4,052,691
Income tax payable	77,805	(16,668)
Accrued expenses	57,634	89,017
Other current liabilities	53,648	45,570
Net cash provided by operating activities	<u>4,692,142</u>	<u>4,319,578</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in financial assets at fair value through profit or loss	(1,411,950)	-
Decrease (increase) in other receivables - related parties	(124,380)	470,995
Acquisition of available-for-sale financial assets	(298,292)	-
Acquisition of investments accounted for by the equity method	(1,210,086)	(1,214,680)
Proceeds from investment company capital reduction	250,000	252,000
Acquisition of financial assets carried at cost	-	(50,000)
Acquisition of bond investment with no active market	(923,388)	-
Proceeds from disposal property, plant and equipment	1,888	-
Acquisition of property, plant, and equipment	(164,725)	(49,602)
Increase in intangible assets	(2,514)	(30,035)
Increase in deferred charges	(143,412)	(135,258)
Decrease (increase) in other assets	1,389	(7,412)
Net cash used in investing activities	<u>(4,025,470)</u>	<u>(763,992)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		

(Continued)

	2011	2010
Decrease in short-term bank loans	(2,005,582)	(2,343,768)
Increase (decrease) in short-term bills payable	-	(199,853)
Increase in long-term liabilities	3,157,970	810,530
Conversion of employee stock options	60,033	104,639
Redemption of convertible bonds	-	(507)
Increase (decrease) in guarantee deposits received	(4)	6
Cash paid for acquisition of treasury stock	(25,894)	-
Cash dividends	<u>(2,868,232)</u>	<u>-</u>
Net cash used in financing activities	<u>(1,681,709)</u>	<u>(1,628,953)</u>
NET INCREASE (DECREASE) IN CASH	(1,015,037)	1,926,633
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,155,562</u>	<u>1,228,929</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,140,525</u>	<u>\$ 3,155,562</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 69,342</u>	<u>\$ 132,326</u>
Income tax paid	<u>\$ 73,695</u>	<u>\$ 94,739</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Other receivable-proceeds from investment company capital reduction	<u>\$ 21,085</u>	<u>\$ -</u>
Current portion of long-term liabilities	<u>\$ -</u>	<u>\$ 1,903,030</u>
Conversion of convertible bonds	<u>\$ -</u>	<u>\$ 386,314</u>
Transfer of account receivable to financial assets carried at cost	<u>\$ -</u>	<u>\$ 15,866</u>
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT		
Acquisition of property, plant and equipment	<u>\$ 79,247</u>	<u>\$ 144,814</u>
Decrease (increase) in payables to contractors and equipment suppliers	<u>85,478</u>	<u>(95,212)</u>
Payment in cash	<u>\$ 164,725</u>	<u>\$ 49,602</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated March 16, 2012)

(Concluded)



E INK HOLDINGS INC. AND SUBSIDIARIES.

Consolidated Financial Statements for the Years Ended
December 31, 2011 and 2010 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, 2011 and 2010, 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, 2011 and 2010, the investments in which the Corporation had equity-method investments by Yuen Yu Investment Co., Ltd. The investments amounted to NT\$176,378 thousand and NT\$153,551 thousand as of December 31, 2011 and 2010, respectively, which accounted for about 0.4% for both years of the consolidated assets. The Corporation's equity of NT\$8,972 thousand in their net income in 2011 and equity of NT\$7,948 thousand in their net loss in 2010 were about 0.1% and 0.2%, respectively, of the consolidated income 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, 2011 and 2010, 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.

March 16, 2012

Notice to Readers

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2011		2010	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Note 2 and 4)	\$ 4,373,327	10	\$ 5,686,773	14
Available-for-sale financial assets (Notes 2 and 7)	-	-	80,240	-
Notes and accounts receivable, net of allowance for doubtful accounts of \$86,403 thousand in 2011 and \$85,037 thousand in 2010 (Notes 2, 3 and 6)	9,432,609	20	3,463,364	8
Receivables from related parties (Notes 2 and 21)	272,372	1	34,193	-
Other financial assets (Note 22)	46,640	-	311,679	1
Inventories (Notes 2 and 8)	5,773,028	13	6,564,937	16
Prepayments	593,030	1	1,053,350	3
Deferred income tax assets - current (Notes 2 and 18)	426,018	1	357,932	1
Other current assets (Notes 2 and 5)	161,879	-	119,217	-
Total current assets	21,078,903	46	17,671,685	43
INVESTMENTS				
Investments accounted for by the equity method (Notes 2 and 9)	282,542	-	293,625	1
Financial assets at fair value through profit or loss (Notes 2 and 5)	1,672,015	4	-	-
Available-for-sale financial assets (Notes 2 and 7)	985,957	2	847,296	2
Financial assets carried at cost (Notes 2 and 10)	2,635,442	6	2,748,432	7
Total investments	5,575,956	12	3,889,353	10
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11, 14 and 22)				
Cost				
Buildings	7,739,860	17	7,889,639	19
Machinery and equipment	20,834,707	45	19,904,688	49
Other equipment	3,487,376	8	3,671,961	9
Total cost	32,061,943	70	31,466,288	77
Less: Accumulated depreciation	23,374,508	51	22,756,630	56
Accumulated impairment	372,961	1	130,938	-
	8,314,474	18	8,578,720	21
Construction in progress and prepayments for equipment	974,303	2	467,210	1
Net property, plant and equipment	9,288,777	20	9,045,930	22
INTANGIBLE ASSETS (Notes 2 and 12)				
Patent	2,898,717	6	3,207,177	8
Goodwill	6,062,358	13	6,060,003	15
Others	236,256	1	461,523	1
Total intangible assets	9,197,331	20	9,728,703	24
OTHER ASSETS				
Assets leased to others, net accumulated depreciation of \$300,654 thousand in 2011 and \$257,770 thousand in 2010 (Notes 2)	-	-	42,884	-
Deferred charges, net (Note 2)	653,593	1	171,424	1
Deferred income tax assets - noncurrent (Notes 2 and 18)	41,252	-	91,057	-
Others (Notes 2 and 15)	348,518	1	120,937	-
Total other assets	1,043,363	2	426,302	1
TOTAL	\$ 46,184,330	100	\$ 40,761,973	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 2012)

LIABILITIES AND SHAREHOLDERS' EQUITY	2011		2010	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Notes 13 and 22)	\$ 909,069	2	\$ 3,213,592	8
Accounts payable	5,533,246	12	5,035,174	12
Payables to related parties (Note 21)	33,896	-	104,277	-
Income tax payable (Notes 2 and 18)	159,470	-	66,437	-
Accrued expenses	1,508,046	3	1,428,433	4
Payables to contractors and equipment suppliers	346,905	1	738,754	2
Receipts in advance	189,226	1	371,689	1
Current portion of long-term liabilities (Notes 2, 14 and 22)	30,275	-	2,818,380	7
Other current liabilities (Notes 2 and 5)	262,479	1	125,374	-
Total current liabilities	8,972,612	20	13,902,110	34
LONG-TERM LIABILITIES (Notes 2, 14 and 22)				
Long-term liabilities, net of current portion	8,027,052	17	1,584,549	4
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2, 9 and 15)	683,612	1	498,351	1
Others	311,654	1	381,739	1
Total other liabilities	995,266	2	880,090	2
Total liabilities	17,994,930	39	16,366,749	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:				
- 2011: 1,080,173 thousand shares				
- 2010: 1,077,560 thousand shares	10,801,728	24	10,775,602	27
Advance receipts for common stock	50	-	171	-
Total capital stock	10,801,778	24	10,775,773	27
Capital surplus				
Additional paid-in capital from share issuance in excess of par value - common stock	9,102,776	20	9,065,424	22
Additional paid-in capital from share issuance in excess of par value - bond conversion	525,200	1	525,200	1
From long-term investments	144,173	-	150,800	1
Employee stock options	41,745	-	22,896	-
Total capital surplus	9,813,894	21	9,764,320	24
Retained earnings				
Legal reserve	402,798	1	-	-
Special reserve	704,456	2	-	-
Unappropriated earnings	6,579,273	14	4,027,978	10
Total retained earnings	7,686,527	17	4,027,978	10
Others				
Cumulative translation adjustments	70,678	-	(662,221)	(2)
Unrealized gain (loss) on financial instruments	(342,113)	(1)	(42,235)	-
Treasury stock - 522 thousand shares	(25,894)	-	-	-
Total others	(297,329)	(1)	(704,456)	(2)
Total equity attributable to shareholders of the parent	28,004,870	61	23,863,615	59
MINORITY INTEREST				
	184,530	-	531,609	1
Total shareholders' equity	28,189,400	61	24,395,224	60
TOTAL	\$ 46,184,330	100	\$ 40,761,973	100

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2011		2010	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 21)	\$ 39,066,525	102	\$ 26,129,122	104
SALES RETURNS AND ALLOWANCES	638,404	2	950,193	4
NET SALES	38,428,121	100	25,178,929	100
COST OF SALES (Notes 8, 20 and 21)	26,400,577	69	16,705,428	66
GROSS PROFIT	12,027,544	31	8,473,501	34
OPERATING EXPENSES (Note 20)				
Selling expenses	811,363	2	690,516	3
General and administrative expenses	2,448,479	6	1,878,626	8
Research and development expenses	1,762,273	5	1,572,037	6
Total operating expenses	5,022,115	13	4,141,179	17
OPERATING INCOME	7,005,429	18	4,332,322	17
NONOPERATING INCOME AND GAINS				
Interest income (Note 21)	44,206	-	16,116	-
Exchange gain, net	273,356	1	99,623	1
Rental revenue (Note 21)	68,715	-	66,012	-
Patent royalty revenue	243,078	1	522,930	2
Others (Note 21)	150,776	-	259,900	1
Total nonoperating income and gains	780,131	2	964,581	4
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 11 and 21)	200,701	1	295,079	1
Loss on disposal of property, plant and equipment	108,229	-	12,683	-
Financial expenses	40,427	-	-	-
Depreciation of assets leased to others	42,884	-	51,460	-
Impairment loss (Notes 10, 11 and 12)	353,065	1	27,679	-
Valuation loss on financial assets	68,515	-	-	-
Others	80,732	-	67,421	1
Total nonoperating expenses and losses	894,553	2	454,322	2
INCOME BEFORE INCOME TAX	6,891,007	18	4,842,581	19
INCOME TAX EXPENSE (Notes 2 and 18)	(559,957)	(2)	(928,965)	(3)
CONSOLIDATED NET INCOME	\$ 6,331,050	16	\$ 3,913,616	16
ATTRIBUTABLE TO:				
Shareholders of the parent	6,526,781	17	4,027,978	16
Minority interest	(195,731)	(1)	(114,362)	-
	\$ 6,331,050	16	\$ 3,913,616	16

	2011		2010	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	\$ 6.18	\$ 6.05	\$ 4.00	\$ 3.81
Diluted	\$ 6.15	\$ 6.02	\$ 3.97	\$ 3.78

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated March 16, 2012)

(Concluded)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars, Except Cash Dividends)

	Issued and Outstanding Capital Stock (Notes 14 and 16)		Advance Receipts for Common Stock (Notes 2 and 16)	Retained Earnings (Notes 2 and 16)				Other Equity (Notes 2, 16 and 17)			Equity Attributable to Shareholders of the Parent	Minority Interest	Total Shareholders' Equity
	Shares (Thousands)	Amount		Capital Surplus (Notes 2 and 16)	Legal Reserve	Special Reserve	Unappropriated Earnings (Accumulated Deficit)	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock			
BALANCE, JANUARY 1, 2010	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	(662,221)	(42,235)	-	23,863,615	531,609	24,395,224
Appropriation of 2010 earnings													
Legal reserve	-	-	-	-	402,798	-	(402,798)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	704,456	(704,456)	-	-	-	-	-	-
Cash dividends - \$2.66 per share	-	-	-	-	-	-	(2,868,232)	-	-	-	(2,868,232)	-	(2,868,232)
Conversion of employee stock options	2,613	26,126	(121)	34,028	-	-	-	-	-	-	60,033	-	60,033
Consolidated net income in 2011	-	-	-	-	-	-	6,526,781	-	-	-	6,526,781	(195,731)	6,331,050
Unrealized gain on financial instruments	-	-	-	-	-	-	-	-	(95,492)	-	(95,492)	-	(95,492)
Adjustment due to change in equity in investee	-	-	-	15,546	-	-	-	-	(204,386)	-	(188,840)	-	(188,840)
Translation adjustments	-	-	-	-	-	-	-	732,899	-	-	732,899	-	732,899
Acquisition of treasury stock - 522 thousand shares	-	-	-	-	-	-	-	-	-	(25,894)	(25,894)	-	(25,894)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	(151,348)	(151,348)
BALANCE, DECEMBER 31, 2011	<u>1,080,173</u>	<u>\$10,801,728</u>	<u>\$50</u>	<u>\$9,813,894</u>	<u>\$402,798</u>	<u>\$704,456</u>	<u>\$6,579,273</u>	<u>\$70,678</u>	<u>\$(342,113)</u>	<u>\$(25,894)</u>	<u>\$28,004,870</u>	<u>\$184,530</u>	<u>\$ 28,189,400</u>

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 16, 2012)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2011 AND 2010

(In Thousands of New Taiwan Dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 6,331,050	\$ 3,913,616
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	1,574,623	1,781,752
Amortization	687,957	612,060
Allowance (reversal of allowance) for doubtful accounts	(2,243)	19,536
Gain on sale of investments, net	(1,552)	(2,774)
Investment loss recognized under the equity method	5,383	19,745
Loss on disposal of property, plant and equipment, net	108,229	12,683
Impairment loss	353,065	27,679
Discount amortization of convertible bonds	18,907	15,603
Deferred income taxes	(6,019)	517,777
Compensation cost of employee stock options	22,173	19,470
Net changes in operating assets and liabilities:		
Notes and accounts receivable	(5,813,667)	(1,356,408)
Receivables from related parties	(27,207)	(236,646)
Other financial assets	266,798	(230,036)
Inventories	857,742	(3,316,769)
Prepayments	475,600	(484,182)
Other current assets	(28,657)	(107,285)
Financial liabilities at fair value through profit or loss	(11,761)	(12,056)
Accounts payable	513,516	3,655,993
Payables to related parties	(70,381)	180,629
Income tax payable	93,033	(203,332)
Accrued expenses	61,033	561,276
Receipts in advance	(173,212)	305,479
Other current liabilities	240,838	(18,223)
Accrued pension liabilities	185,622	54,449
Net cash provided by operating activities	5,660,870	5,730,036
CASH FLOWS FROM INVESTING ACTIVITIES		
Increase in financial assets at fair value through profit or loss	(1,668,887)	-
Acquisition of available-for-sale financial assets	(439,579)	(80,000)
Proceeds from disposal of available-for-sale financial assets	81,844	-
Acquisition of financial assets carried at cost	-	(50,000)
Proceeds from disposal of financial assets carried at cost	-	5,873
Proceeds from disposal of subsidiaries' shares	6,523	-
Acquisition of property, plant, and equipment	(2,661,154)	(1,325,233)
Proceeds from disposal of property, plant and equipment	122,768	4,439
Increase in intangible assets	(15,496)	(43,998)
Increase in deferred charges	(606,644)	(168,388)
Decrease (increase) in other assets	(202,539)	21,419
Net cash used in investing activities	(5,383,164)	(1,635,888)

(Continued)

	2011	2010
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(2,330,737)	(2,512,995)
Decrease in short-term bills payable	-	(199,853)
Increase in long-term liabilities	4,282,235	943,670
Decrease in payables to related parties - noncurrent	-	(90,053)
Issuance of convertible bonds	-	929,817
Redemption of convertible bonds	(540,272)	(507)
Redemption of bonds payable	(366,132)	-
Increase (decrease) in other liabilities	(113,205)	243,796
Conversion of employee stock options	60,033	104,639
Increase in minority interest	25,863	59,848
Cash paid for acquisition of treasury stock	(25,894)	-
Cash dividends	(2,868,232)	-
Net cash used in financing activities	(1,876,341)	(521,638)
CURRENCY TRANSLATION ADJUSTMENT	285,189	(704,805)
NET INCREASE (DECREASE) IN CASH	(1,313,446)	2,867,705
CASH , BEGINNING OF YEAR	5,686,773	2,819,068
CASH , END OF YEAR	\$ 4,373,327	\$ 5,686,773
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	\$ 187,664	\$ 309,734
Income tax paid	\$ 599,708	\$ 931,572
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 30,275	\$ 2,818,380
Transfer of investment accounted for by the equity method to financial assets carried at cost	\$ -	\$ 2,571,366
Conversion of convertible bonds	\$ -	\$ 386,314
Transfer of account receivable to financial assets carried at cost	\$ -	\$ 15,866
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT, AND EQUIPMENT		
Acquisition of property, plant and equipment	\$ 2,269,305	\$ 1,695,560
Decrease (increase) in payables to contractors and equipment suppliers	391,849	(370,327)
Payment in cash	\$ 2,661,154	\$ 1,325,233

(Continued)

Additional disclosure of disposal of subsidiaries' shares:

In 2011, E Ink Holdings Inc. (EIH) disposed the shares of Yangzhou Aurac-tech Co. Limited, Qingdao Effect Media Corp., Yeon Technologies (Yangzhou) Co. Ltd, Arizon RFID Technology (Yangzhou) Co. Ltd, and RFIDYD AI & Network Technology Co. Ltd. The fair values of disposed assets and liabilities were as follows:

	Yangzhou Aurac-tech Co. Limited	Qingdao Effect Media Corp.	Yeon Technologies (Yangzhou) Co. Ltd	Arizon RFID Technology (Yangzhou) Co. Ltd	RFIDYD AI & Network Technology Co. Ltd	Total
Cash	\$ 2,104	\$ 756	\$ 112	\$ 100,910	\$ 968	\$ 104,850
Accounts receivable	11,457	-	8,202	87,164	-	106,823
Inventories	17,685	-	10,448	57,033	163	85,329
Other current assets	2,937	219	3,146	22,518	1,801	30,621
Net property, plant and equipment	703	85	112	459,002	14	459,916
Other assets	203	5	77	5,969	-	6,254
Accounts payable	(18,823)	(25,697)	(16,965)	(106,611)	-	(168,096)
Accrued expenses	(285)	-	(2,477)	(6,696)	-	(9,458)
Other current liabilities	(1,023)	(2,141)	(452)	(95,079)	(426)	(99,121)
	14,958	(26,773)	2,203	524,210	2,520	517,118
Percentage of shares of disposal	70%	70%	100%	62.4%	55%	
Net equity	\$ 10,470	\$ (18,741)	\$ 2,203	\$ 327,107	\$ 1,386	322,425
Proceeds of disposal						322,345
Loss on disposal						\$ (80)

The accompanying notes are an integral part of the consolidated financial statements.

(With Deloitte & Touche audit report dated March 16, 2012)

(Concluded)



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