



E INK HOLDINGS INC. 2012 Annual Report  
(Formerly Prime View International Co., Ltd.)



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### ■ 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/>

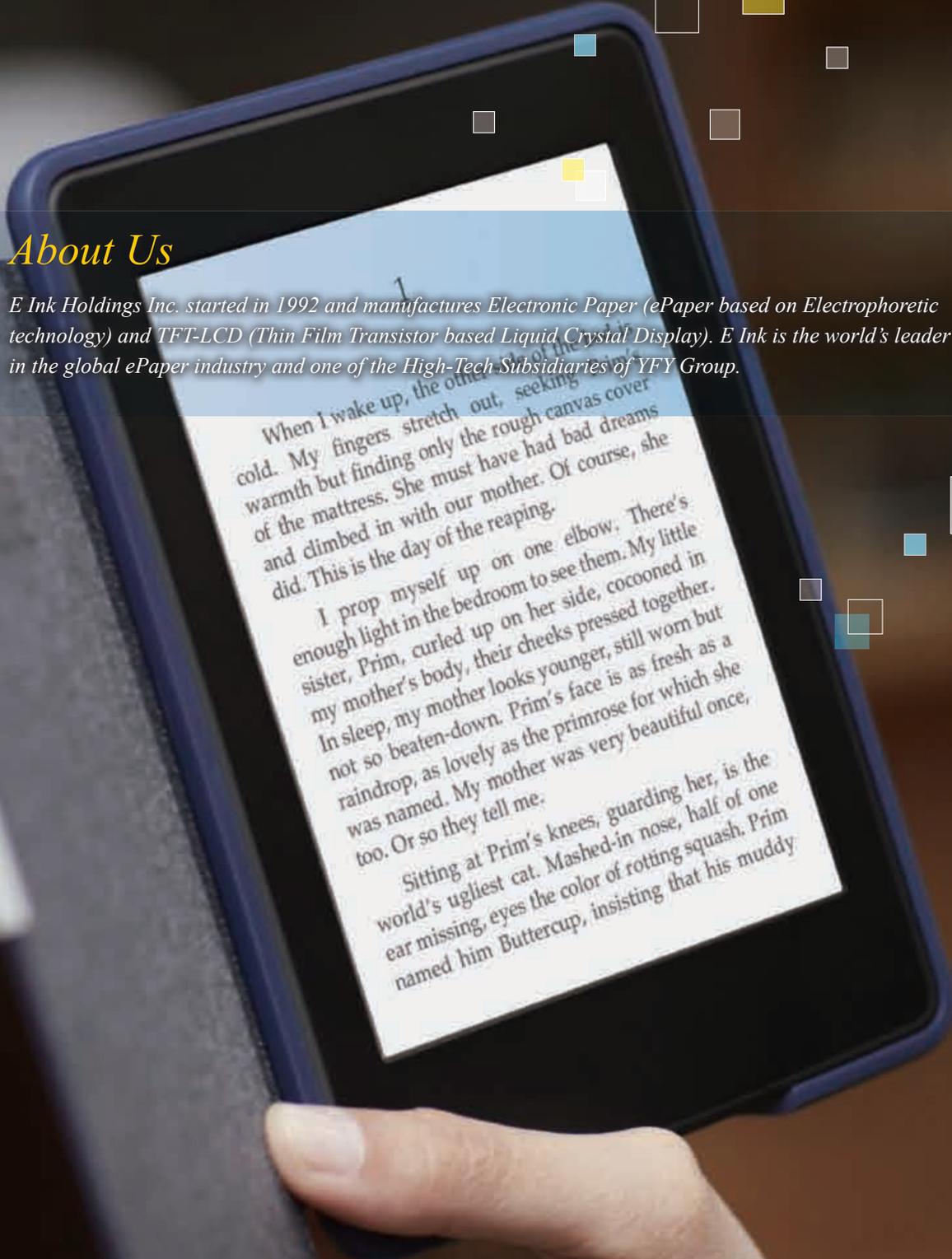
**Date of Establishment : June 16<sup>th</sup>, 1992**

### **Milestones in the Company's History:**

- Sep 2000 Monthly production capacity reached 18,000 substrates.
- Oct 2000 Securities & Futures Information Center issued authorization for public offering.
- Sep 2001 Expanded its monthly production capacity to 36,000 substrates.
- Oct 2001 Acquired ISO 9001 certification.
- Apr 2002 Taiwan's Investment Commission approved the company's plan to set up a PRC subsidiary, Transcend Optronics (Yangzhou) Co Ltd, through a third region investment entity.
- Jul 2002 Acquired 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 Listed its shares on Taiwan's Emerging Stock Market.
- Oct 2003 Applied for its shares to be listed on Taiwan's GreTai Securities Market (GTSM).
- Jan 2004 GTSM approved the company's application for its shares to be listed.
- Mar 2004 Commenced trading on the GTSM on March 30, 2004.
- Nov 2004 Taiwan's Investment Commission approved the company's application for indirect investment in Rich Optronics (Yangzhou) Co Ltd in PRC through a third region investment entity.
- May 2005 Partnered with Philips in EPD (Electronic Paper Display) business.
- May 2006 Executed the 1<sup>st</sup> treasury stock repurchase and retired 296,000 issued shares.
- Oct 2006 Established US subsidiary to expand sales network in the America.
- Nov 2007 Signed a merger memorandum with BOE Hydis Technology of South Korea.
- Jul 2008 Officially acquired share ownership of Hydis Technologies.
- Jun 2009 Signed agreement to acquire 100% share ownership of E Ink Corporation (EIC) USA.
- Sep 2009 Signed amended agreement for the 100% share transfer with EIC and shareholder representatives to obtain 100% share ownership of EIC, effective December 23<sup>rd</sup>, 2009.
- Dec 2009 Hydis Technologies signed corporate bond purchase agreement, guarantee agreement, investment agreement and cross-licensing agreement with LG Display of Korea.
- May 2010 Taiwan's Investment Commission approved 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™, won the Popular Science award for "Best of What's New 2010"
- Dec 2010 Won Printed Electronics Awards at The 4<sup>th</sup> IDTechEx, USA.
- Mar 2011 The company's Board of Directors passed a resolution for a second treasury stock repurchase to be used for employee motivation programs.
- Jun 2010 Changed 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 Partnered with Chunghwa Picture Tubes Co., 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 won 2011 Technology Innovation Award issued by Wall Street Journal, USA.
- Nov 2011 The E Ink Pearl™ EPD won 2011 Innovation Awards for Electronics issued by IET, UK.
- Nov 2011 Terminated the joint investment in Hydis with LG Display under a mutual agreement. Hydis redeemed its corporate bonds held by LG Display and relieved all the guarantee contracts related with said bonds.
- Jun 2012 The next generation E Ink high performance EPD won the Fifteenth Excellent Optical Product Prize from the Photonics Industry & Technology Association.
- Jun 2012 The high contrast E Ink Pearl™ EPD won the Eleventh Surface Display Component Product Technology Prize's Excellent Component from the Image Display Industry Advancement Office, Industrial Development Bureau of the Ministry of Economic Affairs.
- Jul 2012 E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with Sharp Corporation.
- Oct 2012 E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with AU Optronics Corp.
- Nov 2012 E Ink Holdings Inc. completed the purchase of SiPix Technology, Inc. and its wholly owned subsidiary SiPix Imaging, Inc. (USA).
- Dec 2012 E Ink Holdings Inc. and its Korean subsidiary, Hydis Technologies Co., Ltd entered patents cross-licensing agreement with Chunghwa Picture Tubes, LTD.
- Jan 2013 E Ink Holdings Inc. bought facilities and equipments from its subsidiary, SiPix Technology, Inc. at Linkou, to integrate production capacity in Taiwan and to improve assets utilization.

## 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.*

A hand is holding a blue e-reader device. The screen displays a passage of text from the novel 'Pride and Prejudice'. The text is arranged in several paragraphs, with some lines indented. The background of the page is a light blue color. The e-reader is held against a dark, blurred background.

1  
When I wake up, the other side of the bed is cold. My fingers stretch out, seeking warmth but finding only the rough canvas cover of the mattress. She must have had bad dreams and climbed in with our mother. Of course, she did. This is the day of the reaping.

I prop myself up on one elbow. There's enough light in the bedroom to see them. My little sister, Prim, curled up on her side, cocooned in my mother's body, their cheeks pressed together. In sleep, my mother looks younger, still worn but not so beaten-down. Prim's face is as fresh as a raindrop, as lovely as the primrose for which she was named. My mother was very beautiful once, too. Or so they tell me.

Sitting at Prim's knees, guarding her, is the world's ugliest cat. Mashed-in nose, half of one ear missing, eyes the color of rotting squash. Prim named him Buttercup, insisting that his muddy

## Dear Shareholders,

At E Ink Holdings Inc., we continue our development in the electronic paper industry with our advanced technologies, comprehensive patent strategies, and our new and innovative philosophies in environmental protection. After years of efforts, we have successfully transformed ourselves from a pioneer of Taiwan's TFT-LCD manufacturer to a major supplier of e-paper display with our own "E Ink" brand in the global markets. Our accomplishments in the small and medium size display industry in the past twenty years and the market needs for the FFS wide viewing angle display technologies are sure things.

### 1. Business Report for 2012

In 2012, E Ink Holdings suffered a greater loss in the first two quarters due to a great reduction of purchase orders for electronic paper displays (EPDs), lower capacity utilization, and lower gross profits for LCD products caused by the instability in the global economy and our major customer's inventory adjustments. Starting from the third quarter, however, our EPD customers returned with more purchases, and our capacity utilization quickly increased, and the amount of losses significantly decreased. Boosted by the high season effect in the fourth quarter, the combined revenues for single quarter reached NT\$10.8 billion, second highest in history, and we started to have profits thanks to the huge increase in earnings, with the earnings per share (EPS) of NT\$1.01 for the single quarter. In summary, the combined revenues for our group in 2012 are NT\$26.7 billion, the after-tax net loss is NT\$750 million, and the after-tax loss per share is NT\$0.69.

# LETTER TO THE SHAREHOLDERS

One of the main causes of the huge decrease of purchase orders due to our major EPD customers' inventory adjustments is our unbalanced reliance on single customer, single market, and single product. As such, E Ink Holdings started to finetune our operating strategies in 2012, and gradually implement the diversified development in terms of customers, markets and products, wishing to reduce the operation risks.

Also, in response to the changes in 2012 and rooted in our belief that "crisis is turning point", we purchased the shares of SiPix Technology, Inc. and integrated its "Microcup®" technologies and patents so that E Ink Holdings has a more comprehensive and complete patent strategies in the electronic paper field.

For TFT-LCD, we continued to explore other niche markets, such as automobile electronics, 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. Hydis, our Korean subsidiary, focused its production 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. Because of the growing applications of the FFS technologies in the markets, we have signed cross license agreements, for a term of 10 years, with well-known TFT-LCD manufacturers including Sharp, AU



Vice Chairman / Felix Ho

Optronics and Chungghwa Picture Tubes. Under these agreements, we are licensed to use the other parties' patented technologies in our manufacturing of TFT and LCD products subject to the obligation to pay the other parties royalties for our use of its specific patented technologies.

## **2. Business Focal Point for 2013**

In organizational respect, we gave up the traditional entity- and geography-based structure and switch to the system of business units by dividing ourselves based on our products such as e-Reader, LCD, e-tag and innovative EPD application. Each business unit is responsible to explore their own customers, products and markets to accomplish our goal of diversified developments in the EPD markets.

Despite of the impact of the abrupt drop in the number of EPD purchase orders in the first half of 2012, the e-Reader market started to get back to normal in the second half. After the rapid growth in the North American markets, the growth is slowing down. But in Europe, Japan and other emerging markets, we have seen obvious growth dynamics. Overall speaking, we believe the EPD market will continue to grow in 2013. Also, as the EPD technologies continue to apply in e-tags, mobile phones, wrist watches and electronic billboards, and the ecosystem we are developing with our business partners become more mature, we expect to see another wave of growth dynamics for EPD.

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 2013, 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 SOCs 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 fluctuations in the EPD markets in 2012, the Company will keep optimizing the manufacturing process and employees' work environment to enhance efficiency of labor force. To deal with the larger number of purchase orders we received in the second half of the year, we recruited more employees as well as bettering the work environment and living quality to improve the employees' stability. We have seen a very good result according to the relevant indexes such as the employee back-to-work rate after lunar new year holiday and recruitment rate. We have also made a lot of endeavor 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) Development of forward-looking EPD technologies**

With our long-term devotion to "development of forward-looking technologies", EIH continues to explore and develop the most critical and outstanding technologies in electronic paper and displays. We have seen breakthroughs in front light, touch, flexible and color EPDs, which have been introduced to different application markets starting from the second half of 2012. This year we will continue to move forward and actively venture into relevant application and new markets.

### **(4) Establishment of the EPD ecosystem**

While we are devoted to the development of EPD, EHI also actively form strategic alliance with e-Reader's upstream / downstream and peripheral businesses, and conduct technological cooperation with our major suppliers of parts and components to build a comprehensive e-Reader market with an effort to boost the Company's revenues and profits. EHI 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) Integrate the technologies, talents and products from SiPix to provide diversified customization services**

After taking in the technologies, talents and products from SiPix, EIH has a wider and more comprehensive plan for the technological strategies in the electronic paper field and advance more quickly in the development of new technologies and applications. In the future we expect to provide more diversified products and technological solutions for customers and customization services to boost our operational performance.

**(6) Continued promotion efforts in the FFS technology and TFT-LCD product application markets**

The FFS technology has certain competitive characteristics such as wide viewing angle, low power consumption, high contrast and high resolution, and is therefore the most suitable for consumer electronic appliances such as high-end smart phones and tablet computers among all TFT-LCD display technologies. Depending on size and type of products, EIH produces certain models on our own as well as outsourcing others to third party manufacturers to cut down costs and enhance competitiveness. Also, in view of the downward trend of the gross profits for TFT-LCD, we also carefully select our customers and application markets and stay away from the price competition for low profit products and explore into niche markets such as aviation, shipping, automobile, farming machines, industrial control, medical and entertainment.

**(7) Continued patent cross licensing to expand the TFT-LCD markets based on the FFS technologies**

After signing long-term (10 years) patent cross license agreements with well-known display manufacturers such as Sharp, AU Optronics and Chunghwa Picture Tubes, we will continue this effort on the condition of equality and reciprocity to expand our cooperation basis of other display manufacturers and work with them to develop the TFT-LCD markets based on the FFS technologies.

**3. Outlook**

2013 marks another transformation of EIH.

After integrating the talents, technologies and resources from SiPix, we have a more comprehensive strategic plan for the electronic paper market and a solid basis for the groups diversified applications and developments for EPD technologies. We have seen the future trend in Green Reading and energy saving. 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 view ability in strong light outdoors. This is why we are working hard to explore into other application markets, such as mobile phone, wrist watch and indoor / outdoor advertisement boards. We believe the new types of application will be rapidly emerging in the near future. Meanwhile, with our comprehensive global plan and the establishment of ecosystem, and our passion for innovation deeply rooted in our business, EIH will step into a new era with "fusion, innovation and diversification" as our core values!

I want to thank all our employees' long term contributions to the company. The same goes for our customers, suppliers, shareholders, and consumers for their identification with and supports to E Ink. Last year's performances were below our expectations. We are reviewing what went wrong and planning to carry out our transformation strategy with a progressive and pragmatic attitude. We shall double our efforts to return our shareholders' support and affirmation with better performances.

E Ink Holding Inc.



Felix Ho  
Vice Chairman

# Financial Highlights

## Condensed Balance Sheet from 2008 to 2012

Unit: NT\$ thousands

Item		2008	2009	2010	2011	2012
Current Assets		4,403,380	7,505,867	12,099,260	12,575,666	14,106,586
Funds and Investments		9,522,182	19,189,792	21,023,298	28,927,334	28,967,069
Fixed Assets		2,449,440	1,971,236	1,716,093	1,510,040	1,451,620
Intangible Assets		77,481	58,191	46,589	22,749	5,396
Other Assets		488,859	250,565	257,093	222,668	143,122
Total Assets		16,941,342	28,975,651	35,142,333	43,258,457	44,673,793
Current Liabilities	Before Distribution	9,428,515	8,507,024	11,185,621	10,122,741	16,235,979
	After Distribution	9,428,515	8,507,024	14,053,853	13,362,019	*
Long-term Liabilities		1,094,649	-	-	5,061,000	4,429,714
Other Liabilities		151,483	116,396	93,097	69,846	107,991
Total Liabilities	Before Distribution	10,674,647	8,623,420	11,278,718	15,253,587	*
	After Distribution	10,674,647	8,623,420	14,146,950	118,492,865	*
Capital Stock		6,784,145	9,584,660	10,775,773	10,801,778	10,809,897
Capital Surplus		251,333	11,822,662	9,764,320	9,813,894	9,830,854
Retained Earnings (Accumulated Losses)	Before Distribution	-525,882	-1,408,095	4,027,978	7,686,527	3,698,081
	After Distribution	-525,882	-1,408,095	1,159,746	4,447,249	*
Cumulative Transaction Adjustments		228,491	34,573	-662,221	70,678	-488,527
Unrealized Gain / Loss on Financial Instruments		-471,392	318,431	-42,235	-342,113	75,698
Total Equity	Before Distribution	6,266,695	20,352,231	23,863,615	28,004,870	23,900,109
	After Distribution	6,266,695	20,352,231	20,995,383	24,765,59	*

\*Pending for shareholders' meeting resolution



## *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.*



## Condensed Statement of Income from 2008 to 2012

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

Item	2008	2009	2010	2011	2012	
Net Sales	8,799,740	12,978,548	17,016,427	26,338,668	13,359,85	
Gross Profit	1,355,361	1,601,112	3,297,283	4,135,132	1,124,815	
Income from Operations	641,808	925,932	2,470,563	2,674,852	1,352	
Non-operating Income and Gains	138,102	124,534	2,004,519	4,237,756	317,230	
Non-operating Expenses and Losses	1,652,017	2,066,124	250,104	244,827	886,182	
Income from Operations of Continued Segments-before Tax	-872,107	-1,015,658	4,224,978	6,667,781	-567,600	
Cumulative Effect of Changes in Accounting Principle	0	0	0	0	0	
Net Income (Losses)	-889,107	-1,127,658	4,027,978	6,526,781	-749,168	
Basic Earnings Per Share*	Before Tax	-1.29	-1.26	4.00	6.18	-0.53
	After Tax	-1.31	-1.40	3.81	6.05	-0.69
Diluted Earnings Per Share*	Before Tax	-	-	3.97	6.15	-
	After Tax	-	-	3.78	6.02	-

\* Based on weighted average shares outstanding in each year

## Auditors' Opinions from 2008 to 2012

Year	CPA Firm	CPA	Audit Opinion
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
2012	Deloitte & Touche	Shu-Wan Lin, Cheng Hung Kuo	A Modified Unqualified Opinions

## Financial Analysis from 2008 to 2012

Item		2008	2009	2010	2011	2012
Capital Structure Analysis (%)	Debt Ratio	63.01	29.76	32.09	35.26	46.5
	Long-term Fund to Fixed Assets Ratio	283.65	985.30	1,356.68	2,189.73	1,951.60
Liquidity Analysis (%)	Current Ratio	46.70	88.23	108.17	124.23	86.88
	Quick Ratio	30.59	72.90	83.62	105.15	81.22
	Times Interest Earned	-3.43	-3.94	32.84	97.10	-5.38
Operating Performance Analysis	Average Collection Turnover	4.96	5.84	4.28	4.47	1.84
	Days Sales Outstanding	74	63	85.33	82	199
	Average Inventory Turnover	5.81	9.23	7.46	10.17	10.00
	Average Inventory Turnover Days	3.37	5.68	3.33	2.85	1.14
	Average Payment Turnover	63	40	48.91	36	37
	Fixed Assets Turnover	3.39	6.28	9.67	17.44	9.2
	Total Assets Turnover	0.52	0.45	0.48	0.61	0.3
Profitability Analysis	Return on Total Assets	-5.03	-4.26	12.88	16.79	-1.53
	Return on Equity	-12.78	-8.47	18.22	25.17	-2.89
	Operating Income to Paid-in Capital Ratio	10.38	9.67	22.93	24.76	0.01
	Pre-tax Income to Paid –in Capital Ratio	-12.86	-10.61	39.21	61.73	-5.25
	Net Margin	-10.1	-8.69	23.67	24.78	-5.61
	Basic Earnings Per Share (NT\$)	-1.31	-1.4	3.81	6.05	-0.69
	Adjusted Earnings Per Share (NT\$)	-1.31	-1.4	3.81	6.05	-0.69
	Diluted Earnings Per Share (NT\$)	-	-	3.78	6.02	-
Cash Flow (%)	Cash Flow Ratio	5.89	2.74	38.18	46.35	18.95
	Cash Flow Adequacy Ratio	146.27	160.78	335.71	216.45	176.61
	Cash Flow Reinvestment Ratio	2.32	0.82	13.18	4.43	-0.44
Leverage	Operating Leverage	1.96	1.73	1.21	1.16	217.15
	Financial Leverage	1.41	1.27	1.05	1.03	-0.01

### \*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 2012 and as of the date of this Annual Report: None

# COMPANY INTRODUCTION

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.

YFY Group includes the largest professional paper manufacturing company in Taiwan, and was the first in the Greater China region to establish an R&D center for paper manufacturing.

The founding of E Ink Holdings began with the YFY Group's rich history in paper manufacturing and the ancient Chinese history of paper inventions. In the early 1990's, Mr. SC Ho, the founder of YFY group, realized that digital publishing was an inevitable trend and that paper and printing might eventually be replaced by paperless electronic devices. He tasked his team to find new technologies to bridge the gap between the printed page and digital content and delivery methods. This led to investments by the YFY Group in LCD technology, and the continued research into future display technologies that could realize this vision.

In 1992 E Ink Holdings Inc. (formerly Prime View International) was established as the first TFT-LCD company in Taiwan, focusing on high quality small-to-medium-sized TFT-LCDs. In 2002 E Ink Holdings established Transcend Optronics in YangZhou, China in order to match the increasing demand in the TFT-LCD industry.

In 1997, E Ink Corporation was spun out of the MIT Media Lab to commercialize electronic ink and ePaper technology using TFTs from Philips Electronics. Seeing the potential of this new display medium, in 2005 E Ink Holdings acquired the ePaper business unit from Philips, and together with E Ink Corporation, launched the first EPD eBooks into the market. To increase capacity as the eReader market expanded, E Ink Holdings merged with the Korean TFT-LCD company, Hydis Technologies, in 2008. In 2009, YFY Group authorized the acquisition of E Ink Corporation by E Ink Holdings to further integrate and expand the ePaper supply chain.

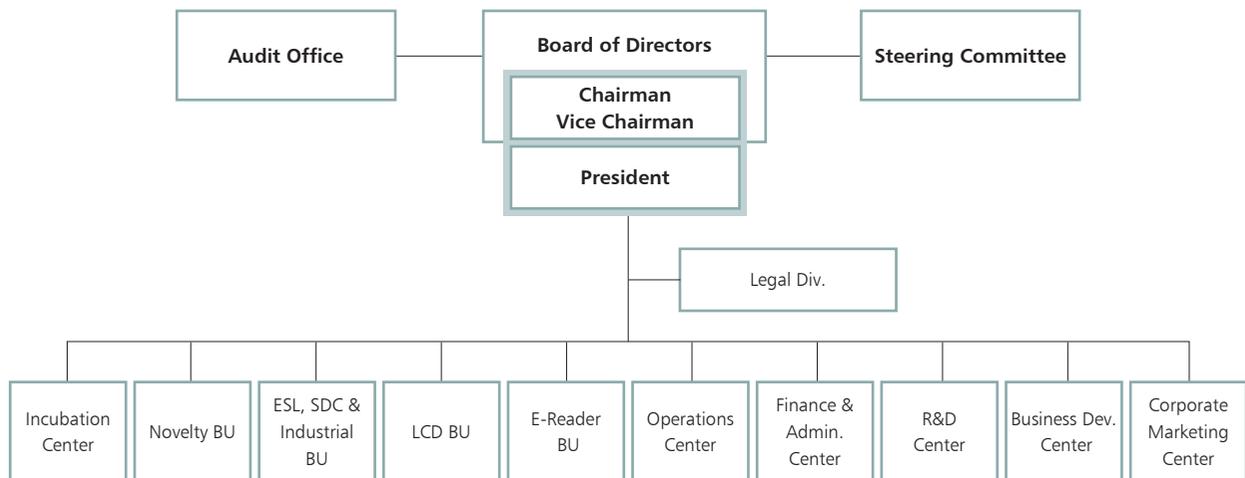
The demand for ePaper has increased dramatically thanks to the booming eBook industry. With the leading ePaper technology, high quality products and outstanding supply chain, E Ink Holdings is now the world's leader in supplying ePaper modules to global top tier eReader brand names like Amazon, Sony,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

E Ink Holdings' corporate philosophy aims to deliver revolutionary products, excellent user experiences, and environmental benefits through advanced technology development.

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







# 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.

- **Legal Div.**

Corporate legal affairs and documentation management and compliance.

- **Finance & Admin. Center**

Human resources, public affairs management and services, finance, accounting, technology system integration and management, operation management planning and execution.

- **Operations 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 integration.

- **E-Reader BU**

In charge of E Reader products' sales, customer business development and operation supervision, support customers' new product mass production verification, communicate and integrate business markets' marketing planning and execution.



## *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.*



- **R&D Center**

Patent structure planning, R&D of product technology, mass production implementation, issue feedback and analysis, improve advanced design and technology design and development of development projects, and development of EPD system products.

- **Corporate Marketing Center**

Planning, integration, and execution of corporate markets' marketing and public affairs.

- **Business Dev. Center**

Develop mid- and long-term forward looking products, create new business to improve overall company products competitiveness.

- **LCD BU**

In charge of LCD products' sales, customer business development and operation supervision, support customers' new product mass production verification and product development.

- **ESL, SDC & Industrial BU**

Development and design, manufacturing and sales of SDC and industrial products.

- **Novelty BU**

Development and design, manufacturing and sales of E Paper application products.

- **Incubation Center**

In charge of product development and design, product management and sales of new products.

## MANAGEMENT TEAM

Title / Office	Name	On-board Date (Note)
Interim CEO	Felix Ho	16-03-2012
Executive Advisor	Scott Liu	07-01-2003
President	C. C. Tsai	30-07-2010
Chief Operating Officer	C.H. Chiu	05-05-2008
Deputy Chief Business Development Officer	Johnson Lee	16-02-2006
Chief Financial Officer (Finance & Admin. Center)	Eddie Chen	01-08-2012
Vice President (R&D Center)	James Hong	15-03-2010
Vice President (R&D Center)	Yung-Sheng Chang	01-02-1996
Assistant Vice President (Novelty BU)	Wayne Huang	24-08-1998
Assistant Vice President (Operating Center)	Jui-Pin Wu	17-07-2001
Assistant Vice President (Operating Center)	Shaun Chen	16-11-2009
Assistant Vice President (Product Development Div.)	Tung-Liang Lin	25-05-1995
General Counsel (Legal Div.)	Suzanne Chou	11-10-2010
Assistant Vice President (Oversea Project)	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 BU)	Jeff Chang	07-06-2011
Lead Of Accounting (Finance & Admin. Center)	Jason CC Lin	26-03-2012

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

## DIRECTORS AND SUPERVISORS

Title	Name	Date Elected
Vice Chairman	Representatives of Cheng-Yu Co., Ltd. Felix Ho	24-06-2011
Director	Representatives of Cheng-Yu Co., Ltd. Scott Liu	24-06-2011
Director	Representatives of YFY Inc. 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 YFY Inc. Ta-Shau Shih	24-06-2011
Director	Representatives of YFY Inc. 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



1. Interim CEO / Felix Ho
2. President / CC Tsai
3. Chief Operating Officer / CH Chiu
4. Deputy Chief Business  
Development Officer / Johnson Lee
5. Chief Financial Officer  
(Finance & Admin. Center) / Eddie Chen

## BUSINESS DESCRIPTION

### Main Business

E Ink Holdings' main business is the research, development, manufacture and sale of electronic displays using thin film transistors 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 83.9% of company revenue in 2012, with TFT-LCD products accounting for 16.1% of revenue.

### Main Products

E Ink Holdings has two main product categories. One category is e-paper display products which includes applications for e-readers and segmented displays, such as watches, signage and other indicator devices. The second category is small and medium size TFT-LCD panels and modules under 12.1 inches. Main usages for TFT-LCDs 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.

## REVIEW OF OPERATIONS

### New Product Development

E Ink Holdings is focusing on four main areas of R&D:

- (1) Development of new EPD and TFT-LCD modules aimed at meeting customer requirements in existing markets and required to expand into new market applications.
- (2) Product development for special market applications such as industrial, marine, and automotive displays.
- (3) Development of new manufacturing processes and use of new materials to improve the features of 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.

E Ink Holdings will continue to supply new products to customers in the existing market, and will use integrated marketing, design and manufacturing capabilities to develop technologies to enter new markets.

E Ink Holdings is committed to provide on-site technology services in major markets, such as America, China, Japan and Europe. This enables us to provide a higher level of customer satisfaction by responding more effectively and quickly and to assist customers in developing new applications. This also allows E Ink to evaluate market requirements across regions and develop new product solutions through keen observation, innovative strategic thinking, and suitable product developments.



## *E Ink. See More.<sup>TM</sup>*

*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.*



## INDUSTRY OVERVIEW

### Electronic Paper Display (EPD) Industry

Electronic paper was developed in the early 1970s. The basic electrophoretic technology, now known as electronic ink, was established at the Massachusetts Institute of Technology in 1969 when tackling the dying particle condensation problem with “micro capsulation technology”.

E Ink Corporation was founded in 1997 to commercialize electrophoretic ink. After several years of R&D, sample development and small scale production, electronic paper technology entered mass production in 2004. Further developments in electronic paper manufacturing technologies have led to an electronic paper portfolio that includes color, flexible, large-format and high resolution displays which include writable and touchable screens. This rich feature set enables the development of products for different market applications such as e-books smart cards, electronic tags, clocks, phone button display decoration, advertising billboards and many 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 benefits of thinness (as paper), super low power consumption, wide viewing angle, and no need for backlighting, far fewer manufacturers entered this market when compared with those interested in TFT-LCD and AMOLED display technologies. In addition, E Ink Corporation had mastered the complex process for making electrophoretic ink and their technology is under IP protection, Consequently, E Ink Holdings became the world’s leading supplier of EPD products for years.

The introduction of Kindle ereader drastically changed the market and expanded EPD’s potential. Its future became even more attractive when AUO, the top leader of TFT-LCD industry, announced its entry into the EPD market with its acquisition of SiPix Technologies.

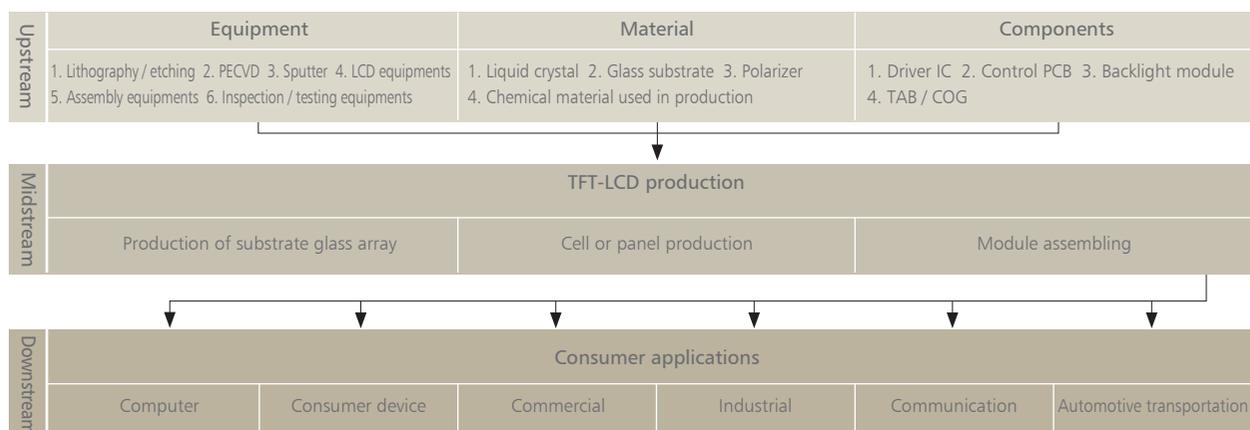
Bridgestone and Mirasol, the two leading electronic paper display suppliers decided to exit the market before bringing their product to mass production. In 2012, E ink Holdings acquired a controlling interest in SiPix maintaining its position as a leading supplier of e-paper displays and giving it the capability to expand into more markets. This also makes Taiwan the leader in global electronic paper industry.

### Small-and Medium-Sized TFT-LCD industry

Mobile phone and tablet computers comprise the lion’s share of small and medium size global TFT-LCD panel demands. Smartphones make up 34.3% of the mobile phone market. Of this, 13.2% of Smartphones have a resolution of 300 ppi or higher. Japan Display and Sharp, the top two Japanese panel suppliers, launched their Gen. 5.5 and 6.0 lines for TFT-LCD with resolution above 300ppi to meet the demands. With respect to tablets, Amazon’s 7” Kindle Fire tablets are well accepted by consumers. The launch of 7 inch range tablets in the second half of 2012 from Google and Apple will change the market’s focus from 10” to 7”. As a result, Panasonic LCD’s 8.5 Gen line (2,200mm×2,500mm) shifted to provide panels for 7” tablets.

To meet rising demands, panel suppliers are shifting their newer facilities to the production of small and medium size panels. Panel prices are sharply sliding downward, except for small panels for smartphones, which have held their position due to the higher costs of wide angle viewing displays. It is expected that prices for applications in low end smartphone and TN panels for tablets will continue to fall.

### Upstream, Midstream and Downstream Flows in the Industry



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

For electronic paper display production, E Ink Holdings relies mostly on its own TFT production facilities, but it also outsources manufacturing 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. E Ink Holdings 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, E Ink Holdings abandoned the cut-throat price competition model of TFT-LCD industry's business cycle and entered a new blue ocean market. In 2005, E Ink Holdings acquired Philips' electronic paper display business, and started mass producing electronic paper products in the third quarter of 2005. E Ink Holdings was able to draw on the joint experience of electronic paper development with Philips' and was qualified as the supplier for Sony's e-reader panels in late 2006. In 2007, this collaboration allowed for the successful launch of the Amazon Kindle e-reader and today E Ink Holdings is the world's leading provider of EPD panels to the e-reader market. To ensure stable and secure supplies of technology and component materials, and to integrate the upstream and downstream network, E Ink Holdings merged with E Ink Corporation of the USA in 2009. The successful merger allowed for the continued development in applications including electronic shelf tags, color e-book readers and flexible displays.

After merging with AUO's SiPix in 2012, E Ink Holdings continues to be the world leader in EPD technologies, patents, mass production capability and supplier of electronic paper. E Ink Holdings' position as a leader is protected by its knowledge of the technical complexities to mass produce e-paper and its strong portfolio of patents and intellectual property filings. This provides a high barrier to enter by other manufacturers who have seen significant problems progressing beyond the prototype phase or have issue during the manufacturing process, leading to very low yields.

### **2. TFT-LCD**

Marketing strategies of the global TFT-LCD panel industry are aimed at entering every available application market. Those offered by E Ink Holdings are targeted at special application markets. See below for competition and development status of these markets:

For consumer electronic products, E Ink Holdings will serve the tablet application as an OEM and keep its own capacity for meeting niche market demands from specific long term customers. Customers in the niche markets of TFT-LCD closely monitor their suppliers' capacity in product development, technical support, customization, and long term cooperation for military instrument panel, car navigation or entertainment system, ship and aviation navigation or digital display board, security and surveillance systems, medical equipment, and automotive and industrial dashboard. E Ink Holdings is entering the car display panel market with its AFS technology to maintain gross margin level by strengthening its niche market dominance and detouring the red sea markets.

## **Competition and Positioning**

In terms of EPD products, E Ink Holdings leads its competitors by 2-3 years in production technology, product yield, and new technology development (e.g. Flexible and color EPD), thanks to its early entry in this field in 2005. E Ink Holdings' technology and manufacturing expertise has allowed for a 90%+ market share in the electronic book reader market. Global leading e-reader brand names, including Amazon, Sony, B&N, and KOBO, currently employ E Ink Holdings' EPD in their e-readers. Although other panel manufacturers supply EPDs, E Ink Holdings has a very strong R&D team and patent and IP portfolio, which gives E Ink Holdings 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 will lead 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 lots and more variations. In these special application markets, E Ink Holdings 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, E Ink Holdings still maintains strong competitiveness in these special application markets with more integrated services and on-demand customization.

## RESEARCH AND DEVELOPMENT OVERVIEW

E Ink Holdings continued to invest in the research and development of electronic paper relevant products and technologies in 2012. E Ink Holdings focused not only on continuing to enhance its black and white electronic paper module products but also on launching new products in flexible, color, and touch-ready electronic paper products. E Ink Holdings also expanded capacities to maintain its leading position in the electronic paper market. Regarding the TFT-LCD products, E Ink Holdings focused on developing various touch control, FFS technologies, and high specification displays for military and automotive use. E Ink Holdings will combine displays of individual strengths with special requirements presented by its niche market customers to maintain sustainable growth in the highly competitive display industry.

### 1. Fringe Field Switching (FFS) technology

FFS LCD is now the main stream panel for smart phone screen. FFS is now applied in smart phones, tablets, and automotive electronics. With continuous improvements, it may be adopted in the industrial field.

### Electronic Ink Technology

E Ink Pearl is the current generation electronic ink product offered by E Ink Holdings. More than 90% of e-readers available today use an E Ink Pearl screen. Pearl offers a 50% improvement in contrast ratio from previous products and is considered the market standard for electronic paper products. With sharp, crisp text and images, a wide viewing angle and low power consumption, customers using a Pearl display experience paper like reading comforts with the advantages of electronic updates. E Ink's Pearl technology has been applied in e-reader and e-textbook markets, and can be used more widely to replace conventional paper or LCD screens that require back lights. E Ink Holdings' R&D team continues to work on next generation electronic ink technology for improvements in contrast and speed.

### Color Electronic Paper - E Ink Triton™

Electronic paper displays are not limited to black and white with gray scale. E Ink's Triton display merges all the benefits found in the black and white product with a color filter array to offers a color EPD product with 4096 colors and 16 levels of gray scale. Triton EPD can support the color requirements for graphs, maps, photos, comics, and advertisements. In addition, the use of touch and pen input allows color EPD products to meet consumers' needs for browsing web pages, clicking menu items, making notations, and viewing simple animations. Triton also has market applications for large area signage and industrial applications. To improve the contrast of Triton displays, E Ink Holdings also offers a front light option.

### Flexible Electronic Paper

For an end customer, a flexible display has several benefits besides the flexibility of the display itself.

Plastic-based TFTs allow the end product to be substantially lighter and thinner than products using glass-based TFTs. Glass-based TFTs can be fragile while plastic-based TFTs can result in a more rugged end product with less breakage in the electronics due to drops or stress tension.

The weight savings with plastic TFTs can make a significant difference in the end products' specs: a 10.7" LCD-based display weighs an average of 1.44 pounds; a 11.4" E Ink display with a plastic TFT and similar internal components can weigh only 17 ounces. As product designers consider utilizing larger displays for eTextbooks and eNewspapers, this weight savings can allow for larger devices to be held easily in one hand and will make a big difference in the weight of a student's backpack.

E Ink Holdings is now providing flexible electronic paper display modules to a leading brand for development of a large size electronic reader product.

### Touchable Electronic Paper Display

In addition to commonly adopted capacitive touch control technology, E Ink Holdings is actively working with other technology companies to develop e-touch for electronic paper displays. These new modules not only maintain the visual benefits of EPD but also offer many other design benefits to facilitate more possibilities in new product developments. E Ink Holdings continues to fund research and development in this area.

### **Super High Resolution EPD products**

The resolution of commercially available e-readers typically falls in the range of 150 ~ 200 ppi (pixel per inch). While this is adequate for text based leisure devices, some business settings requiring the use of complex charting and image rendering, and customers may need a resolution of 300 ppi or even higher. E Ink Holdings launched a 9.7-inch and 11.5-inch black and white electronic paper module with 300 ppi in 2011. Several customers have begun designing in these modules to their end-products, and it is expected to see some of these end-products launch in 2013.

### **Fringe Field Switching (FFS) technology**

FFS offers the widest viewing angle available currently for LCD technologies. Its high penetrating and viewing angle characteristics are made possible by rotating the electrode surface interior of 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 180 degrees of limit viewing angle. The reflection components on its array generate reinforcing effect under strong lighting. In all, the FFS is a perfect combination of low power consumption, high transmittance rate, high brightness, fast response, no color cast and high color reproduction. FFS LCD is now the main stream panel for smartphone screens. FFS is currently used in smartphones, tablets, and automotive electronics. With continuous improvements, it may be adopted in the industrial field.

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

Further to FFS technology, E Ink Holdings 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 E Ink Holdings' 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 and supply-demand Analysis**

#### **1. Electronic paper market analysis**

##### **(1) E-book reader application market**

The e-reader market continues to be strong and has come to occupy a unique segment of the consumer electronics market which is different than PCs, Smartphones or tablets. This is despite the market forecast of some market analysts. Even pessimistic forecasts estimate the market size to be at 12-15 million e-readers in 2012.

E Ink Holdings' experienced a slow early 2012, with demand rising in the second half of 2012. In the second half of 2012, several of E Ink Holdings' customers launched e-reader with new features, including a front light and a high definition display. In 2012 Barnes & Noble, the top chain book stores in America, launched Nook Simple Touch with Glowlight; Amazon.com, the global e-commerce giant, launched Kindle Paperwhite; Kobo, the Canadian E-book supplier, launched Kobo Glo and Kobo Mini; and Sony, the Japanese consumer electronic leader, launched Reader PRS-T2. These launches prove that E Ink Holdings' customers remain optimistic about e-reader markets.

In addition to continuous growth in North America's e-book reader market, leading ebook brands are entering new markets. In Japan, Lotte/Kobo and Letterpress/BookLive unveiled their own e-book reader in Japan in 2012. Seeing the growth potential in Japanese markets, Amazon launched its Japanese edition Kindle Paperwhite.

Europe is another fast growing market. In 2012 Amazon increased their content offerings in various European languages, and launched devices for the UK and Germany. In addition, Barnes & Noble launched the Nook in the UK, Txtr debuted its entry level Txtr Beagle e-book reader for Germany and Bookeen unveiled its Cybook Odyssey featuring HD and front light.

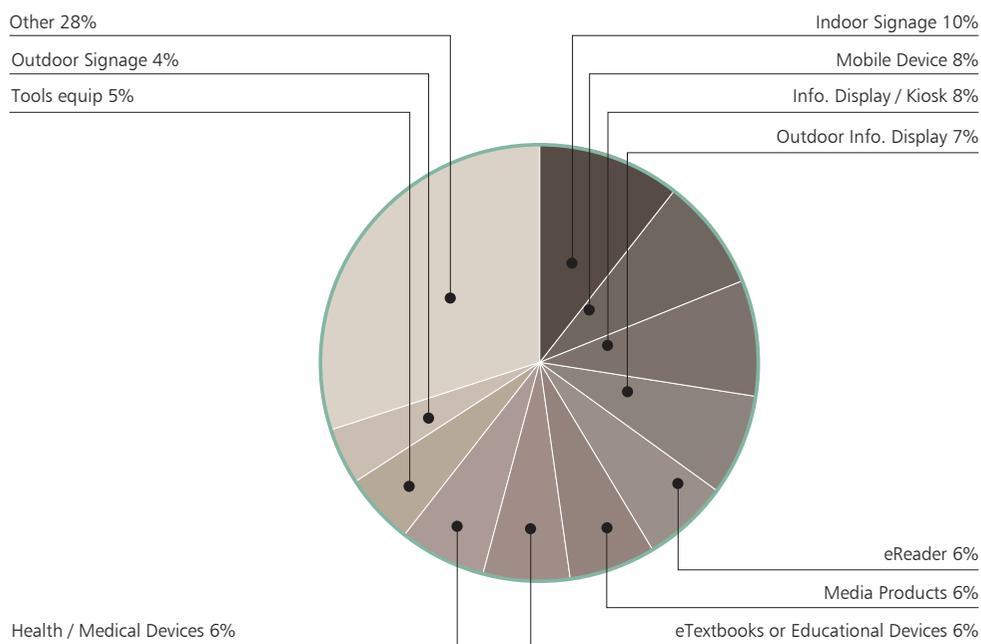
Looking into 2013, E Ink Holdings' expects to see mild e-book reader growth in North America and soaring demands in emerging markets including Japan, the EU, and Brazil.

(2) Other applications

In addition to e-book readers, E Ink Holdings is working on approximately 100 other electronic paper applications and is getting new customers adoption. In March 2012, Casla, a well known Netherland's furniture supplier, adopted E Ink Holdings' electronic paper in its popular Lynx combination chair backrest for chair numbering, leveraging EPD's low power consumption. This new design won the Red Dot Design Award in 2012.

Etón, a leading stereo device supplier in the US, launched its Rukus solar stereo system in 2012. It employs an EPD to provide simple and instant information on status of Bluetooth connection, solar power status and remaining battery level. Motorola Solutions, the world leading telecomm equipment supplier, adopted an EPD for its SB1 Smart Badge - a wireless communication device to display information for store operators', including tasks, price updates and product inventory status. InVue, a US security solution provider for retailers, launched a cabinet lock with EPD to clearly display the status of a cabinet lock, and to cut down on theft and loss of sales due to lost keys or inaccurately locked cabinets.

In 2012, based on information from E ink Holdings' customer leads, 88% of potential customers were interested in non-e-book applications and 29% of customers showed interest in signage applications for indoor and outdoor informational displays. This is an example of the applicability of E ink Holdings' technology in diverse markets.



Areas of Most Interest to Customers Source: EIH, January 2013

Based on this information, E Ink Holdings plans to expand EPDs into the electronic shelf label (ESL), signage, mobile phone, and wristwatch markets. Of these, ESL has a high potential with market survey institutes estimating that the ESL market may reach an output volume of 30 million pieces by 2016.

ESL Market Survey



Source: PDi / Databank

## 2. Analysis on medium and small size TFT-LCD

NPD DisplaySearch's 2012 Q4 global flat panel display delivery and forecast report suggests that global market for flat panel displays in 2012 may reach \$120 billion (USD), an increase of 8.1% versus \$111 billion (USD) in 2011. Most of the growth is in the market for TFT-LCDs. NPD DisplaySearch estimates that global TFT-LCD's market size in 2012 will grow 8.4% to \$107.7 billion (USD). The increase in the demand for TFT-LCDs is being driven by the display demands due to increasing LCD TV sizes, increase in demands for high resolution displays for Smartphones and tablets, ultra-thin notebook PCs, portable game devices, 4Kx2K TV displays, automotive and digital signage displays.

In terms of medium and small size TFT-LCD, the Topology's research report forecasts that delivery of medium and small size TFT-LCD will grow by 8% to 2.5 billion pieces in 2012 while output value will increase by 12% to \$31.5 billion (USD). Most of these will be used by smartphone, automotive navigation system, digital camera and tablets.

Domestic panel markets will see a moderate increase of 1.7% to 1.67 billion units in 2012 versus 1.64 billion in 2011, as reported by local panel market statistics and forecasts from PIDA. However, the market value of medium and small size panels' output value shrank by 4% in 2012 to TWD 245.3 billion compared to 2011.

The forecast by all of these market research firms is more optimistic for 2013 as the global panel supply chain is striving to enhance technologies and improve values with larger sizes, wider viewing angles, lighter and thinner footprints, and touch control functions. Regarding medium and small size panels, Topology has forecast a market size of \$34.5 billion (USD) in 2013, due to the increasing demands in mobile communication. PIDA's conservative forecast for domestic medium and small size panels is a market size of TWD 250 billion in 2013.

As Apple adopts IPS/FFS wide viewing angle technology in its high demand products, the FFS wide viewing angle technology patented by Hydis Technologies, a subsidiary of EIH, is getting attention and acceptance by the market. EIH and Hydis Technologies entered a 10 year cross-licensing agreement with leading panel brands, Japan's Sharp Corporation and Taiwan's AUO and CPT to share patent technologies for enhanced corporation. Revenue generated by patent licensing royalty out of these agreements may improve bottom line at the same time.

## **Competitive Niche**

E Ink Holdings' competitive niche lies in its patent protected technologies in EPD and TFT-LCD with wide view angle as well as its deep knowledge in niche application markets, and ability to quickly launch products for new markets.

### **1. Understanding market needs**

E Ink Holdings has been focused on the market of small-and medium-sized TFT-LCD since its founding in June 1992, and on EPDs since its acquisition of the Phillips' line in 2004. E Ink Holdings established a technology and service oriented strategy and developed new partnerships with customers for long-term relationships. Through this long-term investment and focus, and having an in-depth understanding of the industry, E Ink Holdings will use its market savvy produce new EPD and TFT-LCD designs more quickly, and which are tailored for customers' needs.

### **2. Comprehensive product lines and capabilities**

In addition to comprehensive product lines with EPD and small-and medium-sized TFT-LCD, E Ink Holdings also looks to benefit customers by projecting market trends precisely, investing in both human and material resources proactively, and by continuously developing products to meet new market demands.

### **3. Going the extra mile for Customers**

E Ink Holdings works to build strong relationships with its customers and provide guidance to customers for technical issues where they may have limited knowledge of display technology, little experiences in solving problems of interfaces between products of different parties, and inadequate capacity in PCB design.

### **4. Fast product development**

E Ink Holdings maintains an efficient production schedule by drawing on its expertise in technological development and market analysis. However, E Ink Holdings 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, E Ink Holdings 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 E Ink Holdings' highest priorities, yet E Ink Holdings still intends to develop special products to meet demand.

### **5. Minimal product development expenses**

To create competitive price advantage, E Ink Holdings exercises strict cost control throughout the product development process including the design and testing stages. Strict cost control is even more stringent in 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 has a dominant position in the world for product design. E Ink Holdings will leverage their US Holdings and introduce design services at the beginning of product development cycle. This may increase direct or indirect sales in America through the interaction with leading brand owners and ensure steady growth with enhanced dealership and service network.

Europe is the perfect location for fostering next generation electronic products with its creative environment fused with its industrial base and traditional culture. E Ink Holdings is striving to grab the benefits brought by early stage product life cycle development 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. E Ink Holdings has in depth understanding of the trends in Asia, and has established sales offices in China, Hong Kong and Korea to provide onsite and fast technology services and support. Its strength of same language and same culture also helps E Ink Holdings to earn trust and receive increased orders in Mainland China and Hong Kong.

## Factors for and against development and coping strategies

### (1) Favorable factors

- A. Aiming at securing key technologies, E Ink Holdings merged with Korea's Hydix Technologies in 2008, acquired E Ink Corporation in December 2009, and acquired a controlling interest in SiPix Technologies in 2012. These actions enabled E Ink Holdings to protect its FFS LCD and EPD display technologies with comprehensive patents and further integrate LCD's and EPD's upper and middle industry chain for cost reduction and a leadership position.
- B. To improve capacity utilization, measures include reallocating Hydix' TFT-LCD capacity and partnership with other suppliers for the production of electronic paper display and LCD with better margins to meet market demands for better profitability, improved capacity utilization and reduced costs.
- C. Focus LCD and electronic paper display business not only on established niche and leading markets of mobile phones, tablets, and e-book reader but also at developing other potential niche markets for more development projects and wider market coverage.

### (2) Unfavorable factors and coping strategies

- A. All panel suppliers are striving to enter the medium and small size LCD markets. With ever increasing supplies, E Ink Holdings is subject to increasing price pressure.

Solution: E Ink Holdings has established strategic partnerships to acquire partners' flexible capacity and maintain market competitiveness.

- B. Margin of e-book reader is getting squeezed by sliding price of tablets, which in turn puts pressure on E Ink Holdings' deliveries and margins.

Solution: Working together with customers in different E Ink Holdings' application segments to introduce electronic paper displays in more applications and expand the electronic paper display markets.



Display More.

### *E Ink Holdings Inc.'s Vision*

*Our goal is to deliver revolutionary products, user experiences, and environmental benefits through advanced technology development. This vision has led to continuous investments and improvements in the field of electronic paper displays.*



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# E INK HOLDINGS INC.

Financial Statements for the Years Ended  
December 31, 2012 and 2011 and Independent Auditors' Report

# 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, 2012 and 2011, 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, 2012 and 2011, the investments in which the Corporation had equity-method investments by Yuen Yu Investment Co., Ltd. The investments amounted to NT\$188,713 thousand and NT\$176,378 thousand as of December 31, 2012 and 2011, respectively, which accounted for about 0.4% for both years of the Corporation's total assets. The Corporation's equity of NT\$19,399 and NT\$8,972 thousand in their net income in 2012 and 2011 were about 3.4% and 0.1%, respectively, of the Corporation's net loss and net income before income tax. The investee's 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 the investee, 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, 2012 and 2011, 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 years ended December 31, 2012 and 2011, and have expressed a modified unqualified opinion on those statements in our report dated March 20, 2013.

March 20, 2013

## 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.*

## E INK HOLDINGS INC.

## BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

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

ASSETS	2012		2011	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 3)	\$ 3,255,645	7	\$ 2,140,525	5
Accounts receivable, net of allowance for doubtful accounts of \$10,600 thousand (Notes 2 and 3)	412,437	1	448,217	1
Receivables from related parties (Notes 2 and 17)	7,446,498	17	6,204,429	14
Other receivables - related parties (Note 17)	2,028,376	5	1,186,480	3
Inventories (Notes 2 and 5)	682,359	2	1,765,059	4
Prepayments (Note 17)	74,855	-	695,209	2
Deferred income tax assets (Notes 2 and 14)	162,571	-	102,923	-
Other current assets (Notes 2 and 4)	43,845	-	32,824	-
Total current assets	14,106,586	32	12,575,666	29
<b>INVESTMENTS</b>				
Investments accounted for by the equity method (Notes 2 and 6)	25,958,154	58	26,183,148	61
Financial assets at fair value through profit or loss (Notes 2 and 4)	1,431,150	3	1,411,950	3
Available-for-sale financial assets (Note 2)	614,444	2	331,247	1
Financial assets carried at cost (Note 2)	77,601	-	77,601	-
Bond investments with no active market (Notes 2 and 7)	885,720	2	923,388	2
Total investments	28,967,069	65	28,927,334	67
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2 and 8)</b>				
Cost				
Buildings	2,050,124	5	2,050,203	5
Machinery and equipment	6,185,362	14	6,142,924	14
Other equipment	1,065,957	2	1,048,346	2
Total cost	9,301,443	21	9,241,473	21
Less: Accumulated depreciation	7,927,015	18	7,769,442	18
	1,374,428	3	1,472,031	3
Construction in progress and prepayments for equipment	77,192	-	38,009	-
Property, plant and equipment, net	1,451,620	3	1,510,040	3
INTANGIBLE ASSETS (Note 2)	5,396	-	22,749	-
<b>OTHER ASSETS</b>				
Deferred charges (Note 2)	124,586	-	168,142	1
Deferred income tax assets (Notes 2 and 14)	7,164	-	37,074	-
Other assets, net of accumulated depreciation of \$246,191 thousand in 2012 and \$241,632 thousand in 2011 (Notes 2 and 11)	11,372	-	17,452	-
Total other assets	143,122	-	222,668	1
<b>TOTAL</b>	<b>\$ 44,673,793</b>	<b>100</b>	<b>\$ 43,258,457</b>	<b>100</b>

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

(With Deloitte &amp; Touche audit report dated March 20, 2013)

LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term bank loans (Note 9)	\$ 1,390,000	3	\$ -	-
Accounts payable	2,476,402	6	822,580	2
Payables to related parties (Note 17)	9,855,565	22	8,341,365	19
Income tax payable (Notes 2 and 14)	187,504	-	142,682	-
Accrued expenses	343,333	1	643,069	2
Payables to contractors and equipment suppliers	20,978	-	40,847	-
Current portion of long-term bank loans (Note 10)	1,771,886	4	-	-
Other current liabilities (Note 17)	190,311	-	132,198	-
<b>Total current liabilities</b>	<b>16,235,979</b>	<b>36</b>	<b>10,122,741</b>	<b>23</b>
<b>LONG-TERM BANK LOANS (Note 10)</b>	<b>4,429,714</b>	<b>10</b>	<b>5,061,000</b>	<b>12</b>
<b>OTHER LIABILITIES</b>				
Deferred credits (Notes 2 and 17)	-	-	69,718	-
Others (Notes 2, 6 and 17)	107,991	-	128	-
<b>Total other liabilities</b>	<b>107,991</b>	<b>-</b>	<b>69,846</b>	<b>-</b>
<b>Total liabilities</b>	<b>20,773,684</b>	<b>46</b>	<b>15,253,587</b>	<b>35</b>
<b>CAPITAL STOCK</b>				
Common stock at par value of NT\$10				
Authorized: 2,000,000 thousand shares;				
Issued and outstanding:				
- 2012: 1,080,990 thousand shares				
- 2011: 1,080,173 thousand shares	10,809,897	24	10,801,728	25
Advance receipts for common stock	-	-	50	-
<b>Total capital stock</b>	<b>10,809,897</b>	<b>24</b>	<b>10,801,778</b>	<b>25</b>
<b>CAPITAL SURPLUS</b>				
Additional paid-in capital from share issuance in excess of par value - common stock	9,113,639	21	9,102,776	21
Additional paid-in capital from share issuance in excess of par value - bond conversion	525,200	1	525,200	1
From long-term investments	144,154	-	144,173	1
Employee stock options	47,861	-	41,745	-
<b>Total capital surplus</b>	<b>9,830,854</b>	<b>22</b>	<b>9,813,894</b>	<b>23</b>
<b>RETAINED EARNINGS</b>				
Legal reserve	1,055,476	3	402,798	1
Special reserve	271,435	1	704,456	2
Unappropriated earnings	2,371,170	5	6,579,273	15
<b>Total retained earnings</b>	<b>3,698,081</b>	<b>9</b>	<b>7,686,527</b>	<b>18</b>
<b>OTHER EQUITY</b>				
Cumulative translation adjustments	(488,527)	(1)	70,678	-
Unrealized gain (loss) on financial instruments	75,698	-	(342,113)	(1)
Treasury stock - 522 thousand shares	(25,894)	-	(25,894)	-
<b>Total other equity</b>	<b>(438,723)</b>	<b>(1)</b>	<b>(297,329)</b>	<b>(1)</b>
<b>Total shareholders' equity</b>	<b>23,900,109</b>	<b>54</b>	<b>28,004,870</b>	<b>65</b>
<b>TOTAL</b>	<b>\$ 44,673,793</b>	<b>100</b>	<b>\$ 43,258,457</b>	<b>100</b>

## E INK HOLDINGS INC.

## STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 17)	\$ 13,740,659	103	\$ 26,948,046	102
SALES RETURNS AND ALLOWANCES	380,804	3	609,378	2
NET SALES	13,359,855	100	26,338,668	100
COST OF SALES (Notes 5, 16 and 17)	12,235,040	92	22,203,536	84
GROSS PROFIT	1,124,815	8	4,135,132	16
OPERATING EXPENSES (Note 16)				
Selling expenses	122,889	1	290,307	1
General and administrative expenses	530,522	4	619,653	3
Research and development expenses	470,052	3	550,320	2
Total operating expenses	1,123,463	8	1,460,280	6
OPERATING INCOME	1,352	-	2,674,852	10
NONOPERATING INCOME AND GAINS				
Interest income (Note 17)	58,223	1	32,742	-
Investment income recognized under the equity method (Note 6)	-	-	3,898,704	15
Dividend income	11,574	-	4,274	-
Gain on disposal of property, plant and equipment (Note 17)	69,718	1	23,312	-
Exchange gain, net	11,938	-	202,981	1
Rental revenue	9,937	-	53,052	-
Royalty income (Note 17)	48,634	-	-	-
Others	107,206	1	22,691	-
Total nonoperating income and gains	317,230	3	4,237,756	16
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Note 8)	93,328	1	65,354	-
Investment loss recognized under the equity method (Note 6)	772,945	6	-	-
Financial expense	-	-	40,427	-
Depreciation of assets leased to others	-	-	42,884	-
Valuation loss on financial assets	18,706	-	71,470	1
Others	1,203	-	24,692	-
Total nonoperating expenses and losses	886,182	7	244,827	1
INCOME (LOSS) BEFORE INCOME TAX	\$ (567,600)	(4)	\$ 6,667,781	25
INCOME TAX EXPENSE (Notes 2 and 14)	\$ (181,568)	(2)	\$ (141,000)	-
NET INCOME (LOSS)	\$ (749,168)	(6)	\$ 6,526,781	25

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 15)				
Basic earnings (loss) per share	\$ (0.53)	\$ (0.69)	\$ 6.18	\$ 6.05
Diluted earnings per share			\$ 6.15	\$ 6.02

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

(Concluded)

(With Deloitte &amp; Touche audit report dated March 20, 2013)

## E INK HOLDINGS INC.

## STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	Issued and Outstanding Capital Stock (Note 12)		Advance Receipts for Common Stock (Notes 2 and 12)	Capital Surplus (Notes 2 and 12)	Retained Earnings (Notes 2 and 12)			Other Equity (Notes 2, 12 and 13)			Total Shareholders' Equity
					Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock	
	Shares (Thousands)	Amount									
BALANCE, JANUARY 1, 2011	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
Change in unrealized gain (loss) on available-for sale financial assets	-	-	-	-	-	-	-	-	(95,492)	-	(95,492)
Adjustment due to change in equity in investee	-	-	-	15,546	-	-	-	-	(204,386)	-	(188,840)
Cumulative 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
Reversal of special reserve	-	-	-	-	-	(433,021)	433,021	-	-	-	-
Appropriations of 2011 earnings											
Legal reserve	-	-	-	-	652,678	-	(652,678)	-	-	-	-
Cash dividends - \$3 per share	-	-	-	-	-	-	(3,239,278)	-	-	-	(3,239,278)
Conversion of employee stock options	817	8,169	(50)	8,789	-	-	-	-	-	-	16,908
Net loss in 2012	-	-	-	-	-	-	(749,168)	-	-	-	(749,168)
Change in unrealized gain (loss) on available-for sale financial assets	-	-	-	-	-	-	-	-	147,710	-	147,710
Adjustment due to change in equity in investee	-	-	-	8,171	-	-	-	-	270,101	-	278,272
Cumulative translation adjustments	-	-	-	-	-	-	-	(559,205)	-	-	(559,205)
BALANCE, DECEMBER 31, 2012	1,080,990	\$ 10,809,897	\$ -	\$ 9,830,854	\$ 1,055,476	\$ 271,435	\$ 2,371,170	\$ (488,527)	\$ 75,698	\$ (25,894)	\$ 23,900,109

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

(With Deloitte &amp; Touche audit report dated March 20, 2013)

## E INK HOLDINGS INC.

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (749,168)	\$ 6,526,781
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	182,055	351,436
Amortization	110,186	127,996
Impairment loss	-	15,866
Valuation loss on financial instruments, net	18,468	88,050
Provision for loss on inventories	100,000	307,000
Cash dividends received from equity method investees	8,496	-
Investment loss (income) recognized under the equity method	772,945	(3,898,704)
Gain on disposal of property, plant and equipment	(69,718)	(23,312)
Deferred income taxes	(29,738)	(10,500)
Net Changes in operating assets and liabilities:		
Financial instruments at fair value through profit or loss	238	(12,387)
Accounts receivable	35,780	61,975
Receivables from related parties	(1,242,069)	(1,578,157)
Other receivables - related parties	-	(372,807)
Inventories	982,700	529,015
Prepaid expenses	57,166	(275,875)
Other current assets	(11,259)	(5,136)
Accounts payable	1,653,822	91,648
Payables to related parties	1,514,200	2,656,067
Income tax payable	44,822	77,805
Accrued expenses	(299,736)	57,634
Other current liabilities	(2,011)	65,797
Net cash provided by operating activities	<u>3,077,179</u>	<u>4,780,192</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Financial assets at fair value through profit or loss	-	(1,500,000)
Decrease (increase) in other receivables - related parties	474,515	(124,380)
Acquisition of available-for-sale financial assets	(135,487)	(298,292)
Acquisition of investments accounted for by the equity method	(1,493,608)	(1,210,086)
Proceeds from investment company capital reduction	-	250,000
Acquisition of bond investment with no active market	-	(923,388)
Proceeds from disposal of property, plant and equipment	-	1,888
Acquisition of property, plant, and equipment	(138,945)	(164,725)
Increase in intangible assets	(73)	(2,514)
Increase in deferred charges	(52,339)	(143,412)
Decrease in other assets	1,521	1,389
Net cash used in investing activities	<u>(1,344,416)</u>	<u>(4,113,520)</u>

(Continued)

	2012	2011
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term bank loans	\$ 1,390,000	\$ (2,005,582)
Increase in long-term bank loans	1,140,600	3,157,970
Conversion of employee stock options	16,908	60,033
Increase (decrease) in other liabilities	74,127	(4)
Cash dividends	(3,239,278)	(2,868,232)
Cash paid for acquisition of treasury stock	-	(25,894)
Net cash used in financing activities	<u>(617,643)</u>	<u>(1,681,709)</u>
<b>NET INCREASE (DECREASE) IN CASH</b>	1,115,120	(1,015,037)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,140,525</u>	<u>3,155,562</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,255,645</u>	<u>\$ 2,140,525</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid (excluding capitalized interest)	<u>\$ 88,167</u>	<u>\$ 69,342</u>
Income tax paid	<u>\$ 166,484</u>	<u>\$ 73,695</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term bank loans	<u>\$ 1,771,886</u>	<u>\$ -</u>
Dividends receivable	<u>\$ 760,000</u>	<u>\$ -</u>
Reclassification from credit balance of investments accounted for by the equity method to other liabilities	<u>\$ 33,736</u>	<u>\$ -</u>
Other receivable-proceeds from investment company capital reduction	<u>\$ -</u>	<u>\$ 21,085</u>
<b>CASH PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT</b>		
Acquisition of property, plant and equipment	\$ 119,076	\$ 79,247
Decrease in payables to contractors and equipment suppliers	<u>19,869</u>	<u>85,478</u>
Payment in cash	<u>\$ 138,945</u>	<u>\$ 164,725</u>

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

(Concluded)

(With Deloitte & Touche audit report dated March 20, 2013)

# E INK HOLDINGS INC. AND SUBSIDIARIES

Consolidated Financial Statements for the Years Ended  
December 31, 2012 and 2011 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, 2012 and 2011, 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, 2012 and 2011, the investments in which the Corporation had equity-method investments. The investments amounted to NT\$188,713 thousand and NT\$176,378 thousand as of December 31, 2012 and 2011, respectively, which accounted for about 0.4% for both years of the consolidated assets. The Corporation's equity of NT\$19,399 thousand and NT\$8,972 thousand in their net income in 2012 and 2011 were about 3% and 0.1%, respectively, of the consolidated net loss and net income before income tax. The investee's 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 the investee, 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, 2012 and 2011, 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 20, 2013

### 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.*

# E INK HOLDINGS INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2012 AND 2011

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

ASSETS	2012		2011	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 3)	\$ 6,939,114	15	\$ 4,373,327	10
Financial assets at fair value through profit or loss (Notes 2 and 4)	168,260	-	238	-
Notes and accounts receivable, net of allowance for doubtful accounts of \$60,872 thousand in 2012 and \$86,403 thousand in 2011 (Notes 2 and 5)	6,875,112	15	9,432,609	20
Receivables from related parties (Notes 2 and 19)	43,454	-	272,372	1
Other financial assets	200,958	1	46,640	-
Inventories (Notes 2 and 6)	3,399,110	7	5,773,028	13
Prepayments (Note 19)	606,134	1	593,030	1
Deferred income tax assets (Notes 2 and 16)	392,036	1	426,018	1
Other current assets (Notes 2 and 20)	291,548	1	161,641	-
<b>Total current assets</b>	<b>18,915,726</b>	<b>41</b>	<b>21,078,903</b>	<b>46</b>
<b>INVESTMENTS</b>				
Investments accounted for by the equity method (Notes 2 and 7)	271,748	1	282,542	-
Financial assets at fair value through profit or loss (Notes 2 and 4)	1,682,655	4	1,672,015	4
Available-for-sale financial assets (Note 2)	1,539,466	3	985,957	2
Financial assets carried at cost (Notes 2 and 8)	2,730,367	6	2,635,442	6
<b>Total investments</b>	<b>6,224,236</b>	<b>14</b>	<b>5,575,956</b>	<b>12</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 9, 12 and 20)</b>				
<b>Cost</b>				
Buildings	8,562,011	19	7,739,860	17
Machinery and equipment	22,296,238	48	20,834,707	45
Other equipment	3,803,821	8	3,487,376	8
<b>Total cost</b>	<b>34,662,070</b>	<b>75</b>	<b>32,061,943</b>	<b>70</b>
Less: Accumulated depreciation	25,293,677	55	23,374,508	51
Accumulated impairment	455,374	1	372,961	1
	8,913,019	19	8,314,474	18
Construction in progress and prepayments for equipment	859,684	2	974,303	2
<b>Property, plant and equipment, net</b>	<b>9,772,703</b>	<b>21</b>	<b>9,288,777</b>	<b>20</b>
<b>INTANGIBLE ASSETS (Notes 2 and 10)</b>				
Patent	3,379,359	7	2,898,717	6
Goodwill	6,732,067	15	6,062,358	13
Others	111,480	-	236,256	1
<b>Total intangible assets</b>	<b>10,222,906</b>	<b>22</b>	<b>9,197,331</b>	<b>20</b>
<b>OTHER ASSETS</b>				
Deferred charges (Note 2)	506,527	1	653,593	1
Deferred income tax assets (Notes 2 and 16)	66,441	-	41,252	-
Others (Notes 2, 13 and 20)	206,820	1	348,518	1
<b>Total other assets</b>	<b>779,788</b>	<b>2</b>	<b>1,043,363</b>	<b>2</b>
<b>TOTAL</b>	<b>\$ 45,915,359</b>	<b>100</b>	<b>\$ 46,184,330</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 20, 2013)

LIABILITIES AND SHAREHOLDERS' EQUITY	2012		2011	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term bank loans (Note 11)	\$ 3,878,689	9	\$ 909,069	2
Accounts payable	5,176,708	11	5,533,246	12
Payables to related parties (Note 19)	23,928	-	33,896	-
Income tax payable (Notes 2 and 16)	188,907	-	159,470	-
Accrued expenses	1,240,007	3	1,508,046	3
Payables to contractors and equipment suppliers	402,215	1	346,905	1
Receipts in advance	656,469	1	189,226	1
Current portion of long-term liabilities (Notes 12 and 20)	3,116,320	7	30,275	-
Other current liabilities	262,042	1	262,479	1
<b>Total current liabilities</b>	<b>14,945,285</b>	<b>33</b>	<b>8,972,612</b>	<b>20</b>
<b>LONG-TERM LIABILITIES (Notes 12 and 20)</b>	<b>6,135,908</b>	<b>13</b>	<b>8,027,052</b>	<b>17</b>
<b>OTHER LIABILITIES</b>				
Accrued pension liabilities (Notes 2 and 13)	766,059	2	683,612	1
Other liabilities	208,314	-	311,654	1
<b>Total other liabilities</b>	<b>974,373</b>	<b>2</b>	<b>995,266</b>	<b>2</b>
<b>Total liabilities</b>	<b>22,055,566</b>	<b>48</b>	<b>17,994,930</b>	<b>39</b>
<b>EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT</b>				
<b>Capital stock</b>				
Common stock at par value of NT\$10;				
Authorized: 2,000,000 thousand shares;				
Issued and outstanding:				
- 2012: 1,080,990 thousand shares				
- 2011: 1,080,173 thousand shares	10,809,897	24	10,801,728	24
Advance receipts for common stock	-	-	50	-
<b>Total capital stock</b>	<b>10,809,897</b>	<b>24</b>	<b>10,801,778</b>	<b>24</b>
<b>Capital surplus</b>				
Additional paid-in capital from share issuance in excess of par value - common stock	9,113,639	20	9,102,776	20
Additional paid-in capital from share issuance in excess of par value - bond conversion	525,200	1	525,200	1
From long-term investments	144,154	-	144,173	-
Employee stock options	47,861	-	41,745	-
<b>Total capital surplus</b>	<b>9,830,854</b>	<b>21</b>	<b>9,813,894</b>	<b>21</b>
<b>Retained earnings</b>				
Legal reserve	1,055,476	2	402,798	1
Special reserve	271,435	1	704,456	2
Unappropriated earnings	2,371,170	5	6,579,273	14
<b>Total retained earnings</b>	<b>3,698,081</b>	<b>8</b>	<b>7,686,527</b>	<b>17</b>
<b>Other equity</b>				
Cumulative translation adjustments	(488,527)	(1)	70,678	-
Unrealized gain (loss) on financial instruments	75,698	-	(342,113)	(1)
Treasury stock - 522 thousand shares	(25,894)	-	(25,894)	-
<b>Total other equity</b>	<b>(438,723)</b>	<b>(1)</b>	<b>(297,329)</b>	<b>(1)</b>
<b>Total equity attributable to shareholders of the parent</b>	<b>23,900,109</b>	<b>52</b>	<b>28,004,870</b>	<b>61</b>
<b>MINORITY INTEREST</b>	<b>(43,316)</b>	<b>-</b>	<b>184,530</b>	<b>-</b>
<b>Total shareholders' equity</b>	<b>23,856,793</b>	<b>52</b>	<b>28,189,400</b>	<b>61</b>
<b>TOTAL</b>	<b>\$ 45,912,359</b>	<b>100</b>	<b>\$ 46,184,330</b>	<b>100</b>

# E INK HOLDINGS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	2012		2011	
	Amount	%	Amount	%
GROSS SALES (Notes 2 and 19)	\$ 27,182,260	102	\$ 39,066,525	102
SALES RETURNS AND ALLOWANCES	477,478	2	638,404	2
NET SALES	26,704,782	100	38,428,121	100
COST OF SALES (Notes 6, 18 and 19)	23,848,381	89	26,400,577	69
GROSS PROFIT	2,856,401	11	12,027,544	31
OPERATING EXPENSES (Notes 18 and 19)				
Selling expenses	419,716	2	811,363	2
General and administrative expenses	2,192,830	8	2,448,479	6
Research and development expenses	1,693,493	6	1,762,273	5
Total operating expenses	4,306,039	16	5,022,115	13
OPERATING INCOME (LOSS)	(1,449,638)	(5)	7,005,429	18
NONOPERATING INCOME AND GAINS				
Interest income	157,154	-	44,206	-
Dividend income	31,301	-	14,424	-
Exchange gain, net	257,408	1	273,356	1
Rental revenue (Note 19)	26,735	-	68,715	-
Valuation gain on financial assets	21,310	-	-	-
Royalty income	491,229	2	243,078	1
Others (Note 19)	222,389	1	136,352	-
Total nonoperating income and gains	1,207,526	4	780,131	2
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 9 and 19)	195,965	1	200,701	1
Loss on disposal of properties	18,470	-	108,229	-
Financial expense	-	-	40,427	-
Depreciation of assets leased to others	-	-	42,884	-
Impairment loss (Notes 2, 8, 9 and 10)	144,528	-	353,065	1
Valuation loss on financial assets	-	-	68,515	-
Others (Note 19)	35,152	-	80,732	-
Total nonoperating expenses and losses	394,115	1	894,553	2
INCOME (LOSS) BEFORE INCOME TAX	(636,227)	(2)	6,891,007	18
INCOME TAX EXPENSE (Notes 2 and 16)	\$ 447,410	2	\$ 559,957	2
CONSOLIDATED NET INCOME (LOSS)	\$ (1,083,637)	(4)	\$ 6,331,050	16
ATTRIBUTABLE TO:				
Shareholders of the parent	\$ (749,168)	(3)	\$ 6,526,781	17
Minority interest	(334,469)	(1)	(195,731)	(1)
	\$ (1,083,637)	(4)	\$ 6,331,050	16

	2012		2011	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS (LOSS) PER SHARE (Note 17)				
Basic earnings (loss) per share	\$ (0.53)	\$ (0.69)	\$ 6.18	\$ 6.05
Diluted earnings per share			\$ 6.15	\$ 6.02

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

(Concluded)

(With Deloitte & Touche audit report dated March 20, 2013)

E INK HOLDINGS INC. AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CHANGES IN  
 SHAREHOLDERS' EQUITY**

YEARS ENDED DECEMBER 31, 2012 AND 2011

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

	Issued and Outstanding Capital Stock (Note 14)		Advance Receipts for Common Stock (Notes 2 and 14)	Capital Surplus (Notes 2 and 14)	Retained Earnings (Notes 2 and 14)			Other Equity (Notes 2, 14 and 15)				Total Shareholders' Equity	
	Shares (Thousands)	Amount			Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain (Loss) on Financial Instruments	Treasury Stock	Equity Attributable to Shareholders of the Parent		Minority Interest
BALANCE, JANUARY 1, 2011	1,077,560	\$ 10,775,602	\$ 171	\$ 9,764,320	\$ -	\$ -	4,027,978	\$ (42,235)	\$ (662,221)	\$ -	\$ 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
Change in unrealized gain (loss) on available-for sale financial assets	-	-	-	-	-	-	-	(95,492)	-	-	(95,492)	-	(95,492)
Adjustment due to change in equity in investee	-	-	-	15,546	-	-	-	(204,386)	-	-	(188,840)	-	(188,840)
Cumulative 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	1,080,173	10,801,728	50	9,813,894	402,798	704,456	6,579,273	(342,113)	70,678	(25,894)	28,004,870	184,530	28,189,400
Reversal of special reserve	-	-	-	-	-	(433,021)	433,021	-	-	-	-	-	-
Appropriation of 2011 earnings													
Legal reserve	-	-	-	-	652,678	-	(652,678)	-	-	-	-	-	-
Cash dividends - \$3 per share	-	-	-	-	-	-	(3,239,278)	-	-	-	(3,239,278)	-	(3,239,278)
Conversion of employee stock options	817	8,169	(50)	8,789	-	-	-	-	-	-	16,908	-	16,908
Consolidated net loss in 2012	-	-	-	-	-	-	(749,168)	-	-	-	(749,168)	(334,469)	(1,083,637)
Change in unrealized gain (loss) on available-for sale financial assets	-	-	-	-	-	-	-	147,710	-	-	147,710	-	147,710
Adjustment due to change in equity in investee	-	-	-	8,171	-	-	-	270,101	-	-	278,272	-	278,272
Cumulative translation adjustments	-	-	-	-	-	-	-	-	(559,205)	-	(559,205)	-	(559,205)
Change in minority interest	-	-	-	-	-	-	-	-	-	-	-	106,623	106,623
BALANCE, DECEMBER 31, 2012	1,080,990	\$ 10,809,897	\$ -	\$ 9,830,854	\$ 1,055,476	\$ 271,435	\$ 2,371,170	\$ 75,698	\$ (488,527)	\$ (25,894)	\$ 23,900,109	\$ (43,316)	\$ 23,856,793

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

(With Deloitte & Touche audit report dated March 20, 2013)

# E INK HOLDINGS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2012 AND 2011

(In Thousands of New Taiwan Dollars)

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income (loss)	\$ (1,083,637)	\$ 6,331,050
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation	1,428,342	1,574,623
Amortization	621,614	687,957
Impairment loss	144,528	353,065
Valuation loss (gain) on financial instruments, net	(21,548)	85,402
Provision for loss on inventories	566,863	1,119,199
Gain on sale of investments, net	-	(1,552)
Investment loss (gain) recognized under the equity method	(7,063)	5,383
Loss on disposal of properties	18,470	108,229
Discount amortization of convertible bonds	-	18,907
Compensation cost of employee stock options	8,190	22,173
Deferred income taxes	(3,426)	(6,019)
Net changes in operating assets and liabilities:		
Financial instruments at fair value through profit or loss	(167,762)	(11,999)
Notes and accounts receivable	2,343,202	(5,815,910)
Receivables from related parties	347,285	(27,207)
Other financial assets	(159,441)	266,798
Inventories	1,652,564	(261,457)
Prepayments	(45,076)	475,600
Other current assets	169,605	(28,419)
Accounts payable	(308,806)	513,516
Payables to related parties	(10,593)	(70,381)
Income tax payable	29,437	93,033
Accrued expenses	(267,811)	61,033
Receipts in advance	500,121	(173,212)
Other current liabilities	(359,746)	240,838
Accrued pension liabilities	54,144	185,622
Net cash provided by operating activities	<u>5,449,456</u>	<u>5,746,272</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in financial assets at fair value through profit or loss	-	(1,757,417)
Acquisition of available-for-sale financial assets	(135,697)	(439,579)
Proceeds from disposal of available-for-sale financial assets	-	81,844
Proceeds from disposal of subsidiaries' shares	-	6,523
Acquisition of property, plant, and equipment	(1,427,062)	(2,661,154)
Proceeds from disposal of property, plant and equipment	57,361	122,768
Increase in intangible assets	(8,744)	(15,496)
Increase in deferred charges	(79,287)	(606,644)
Acquisition of subsidiaries' shares	(1,269,527)	-
Increase (decrease) in other assets	142,646	(202,539)
Net cash used in investing activities	<u>(2,720,310)</u>	<u>(5,471,694)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term bank loans	2,175,396	(2,330,737)
Increase in long-term liabilities	1,294,012	4,282,235
Redemption of convertible bonds	-	(540,272)
Redemption of bonds payable	-	(366,132)
Decrease in other liabilities	(113,647)	(113,205)
Conversion of employee stock options	16,908	60,033
Change in minority interest	103,830	25,863
Cash paid for acquisition of treasury stock	-	(25,894)
Cash dividends	(3,239,278)	(2,868,232)
Net cash provided by (used in) financing activities	<u>237,221</u>	<u>(1,876,341)</u>
EFFECT OF CHANGE IN CONSOLIDATED ENTITIES	<u>21,335</u>	<u>-</u>
CURRENCY TRANSLATION ADJUSTMENT	<u>(424,915)</u>	<u>288,317</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>2,562,787</u>	<u>(1,313,446)</u>

(Continued)

	2012	2011
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,373,327	5,686,773
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 6,936,114</u>	<u>\$ 4,373,327</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 167,830</u>	<u>\$ 187,664</u>
Income tax paid	<u>\$ 397,317</u>	<u>\$ 599,708</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 3,116,320</u>	<u>\$ 30,275</u>
CASH PAID FOR ACQUISITION OF PROPERTY, PLANT, AND EQUIPMENT		
Acquisition of property, plant and equipment	\$ 1,484,939	\$ 2,269,305
Decrease (increase) in payables to contractors and equipment suppliers	<u>(57,877)</u>	<u>391,849</u>
Payment in cash	<u>\$ 1,427,062</u>	<u>\$ 2,661,154</u>

Additional disclosure of acquisition of subsidiaries' shares:

In 2012, E Ink Holdings Inc. (EIH) acquired 98.48% of the shares of Sipix Technology Inc. and its subsidiaries Sipix Imaging, Inc.. The fair value of acquired assets and liabilities were as follows:

	Sipix Technology, Inc.		Sipix Imaging, Inc.		Total
Cash	\$ 61,026	\$ 8,513	\$ 69,539		69,539
Accounts receivable	31	120,020	120,051		120,051
Inventories	8,718	-	8,718		8,718
Other current assets	257,332	2,538	259,870		259,870
Property, plant and equipment, net	757,250	10,104	767,354		767,354
Other assets	8,990	9,293	18,283		18,283
Short-term bank loans	(837,547)	-	(837,547)		(837,547)
Accounts payable	(47,867)	(4,036)	(51,903)		(51,903)
Accrued expenses	(48,072)	-	(48,072)		(48,072)
Current portion of long-term liabilities	(67,800)	-	(67,800)		(67,800)
Other current liabilities	(175,757)	(31,928)	(207,685)		(207,685)
Long-term liabilities	<u>(90,150)</u>	<u>-</u>	<u>(90,150)</u>		<u>(90,150)</u>
Subtotal	<u>\$ (173,846)</u>	<u>\$ 114,504</u>	<u>(59,342)</u>		<u>(59,342)</u>
Percentage of acquired shares			<u>98.48%</u>		
Net equity			<u>(58,440)</u>		
Payment for acquisition			<u>1,409,102</u>		
Goodwill and intangible assets			<u>\$ 1,467,542</u>		

Additional disclosure of disposal of subsidiaries' shares:

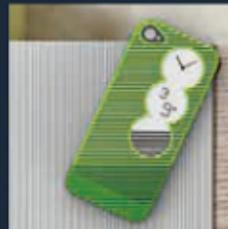
In 2011, E Ink Holdings Inc. (EIH) disposed the shares of Yangzhou Aurac-tech Co. Limited, Qingdao Effect Media Corp., Yeon Technologies (Yangzhou) Co. Ltd., Arizon RFID Technology (Yangzhou) Co. Ltd., and RFIDYD AI & Network Technology Co. Ltd.. The fair value of disposed assets and liabilities were 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
Property, plant and equipment, net	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	<u>(1,023)</u>	<u>(2,141)</u>	<u>(452)</u>	<u>(95,079)</u>	<u>(426)</u>	<u>(99,121)</u>
Subtotal	14,958	(26,773)	2,203	524,210	2,520	517,118
Percentage of disposed shares	<u>70%</u>	<u>70%</u>	<u>100%</u>	<u>62.4%</u>	<u>55%</u>	
Net equity	<u>\$ 10,470</u>	<u>\$ (18,741)</u>	<u>\$ 2,203</u>	<u>\$ 327,107</u>	<u>\$ 1,386</u>	322,425
Proceeds of disposal						<u>322,345</u>
Loss on disposal					<u>\$ (80)</u>	

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

(With Deloitte & Touche audit report dated March 20, 2013)

(Concluded)



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